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CONCURRENT RESOLUTION ON THE BUDGET FISCAL YEAR 2018

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

FEBRUARY 1, 2017—CBO'S BUDGET AND ECONOMIC OUTLOOK

MAY 3, 2017—THE ECONOMY AND PRIVATE SECTOR GROWTH

MAY 10, 2017—GROWTH POLICIES FOR THE NEW ADMINISTRATION

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JUNE 13, 2017—THE PRESIDENT'S FISCAL YEAR 2018 BUDGET AND REVENUE PROPOSALS

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CBO'S BUDGET AND ECONOMIC OUTLOOK: FISCAL YEARS 2017–2027

WEDNESDAY, FEBRUARY 1, 2017

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 10:31 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, chairman of the committee, presiding.

Present: Senators Enzi, Crapo, Toomey, Perdue, Gardner, Boozman, Sanders, Stabenow, Whitehouse, King, Van Hollen, and Harris.

Staff present: Dan Kowalski, Republican deputy staff director; Becky Cole, Republican budget analyst; Warren Gunnels, minority staff director; Mike Jones, minority deputy staff director; and Joshua Smith, minority budget policy director.

OPENING STATEMENT OF CHAIRMAN MICHAEL B. ENZI

Chairman ENZI. Good morning. I will call to order the Senate Budget Committee. Good morning and welcome to our hearing on the Congressional Budget Office (CBO) budget and economic outlook for fiscal years 2017 through 2027.

First, let me say thank you for this report. Speaking for all members of the committee, I appreciate the dedication with which CBO carries out its responsibilities to Congress under the Budget Act, but the contents of this report are concerning. After 8 years of failed fiscal policies and wasteful and unaccountable spending, America is faced with a mammoth national debt that totals almost $20 trillion and a sluggish economy that is holding it back.

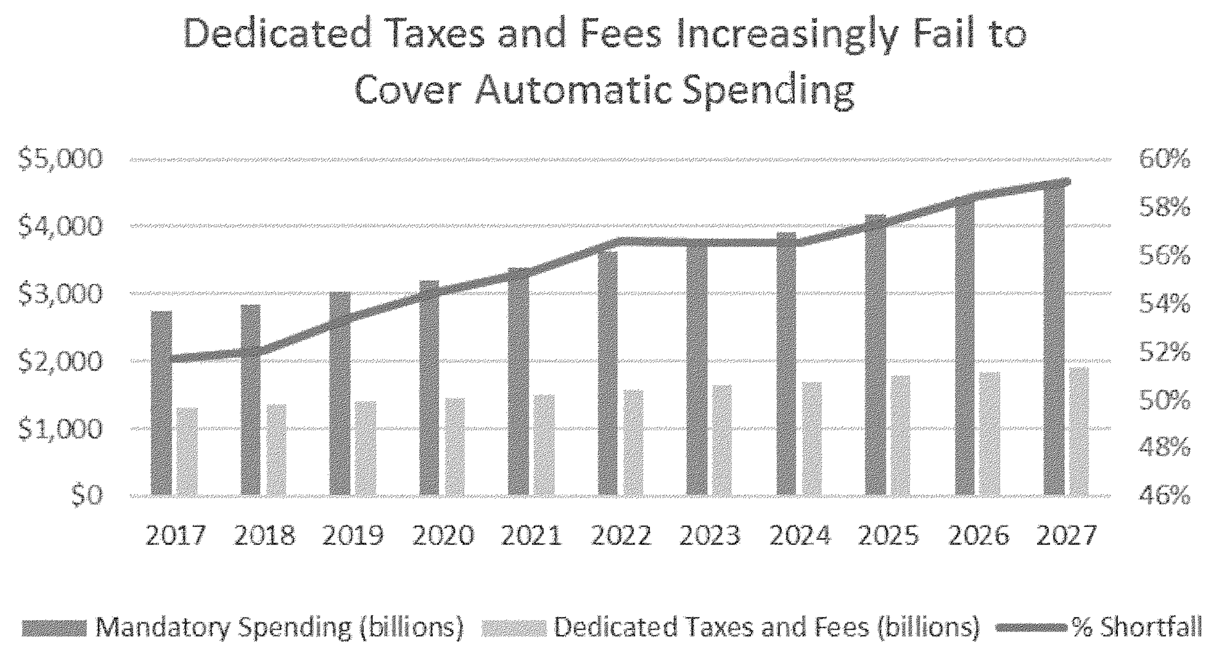
This year alone, overspending is projected to be $559 billion and will continue to grow over the next 10 years to $1,408 billion—that would be $1.4 trillion—in 2027. It is a $9,426 billion budget hole over the next 10 years. Gross national debt will hit $30 trillion in 10 years, outpacing our projected economic growth. As Congress considers our country's budget over the next decade, we must look beyond the annual appropriations process. Almost 70 percent of Federal spending is already on autopilot, and that portion is growing rapidly.

CBO's report states that 70 percent of the total increase in outlays over the next 10 years is from Social Security, Medicare, and net interest on America's debt. Social Security taxes will stop paying for benefits by 2019, which will result in a $1.06 trillion deficit for 2027. Medicare will be in the red by 2010. In less than 20 years, automatic spending will consume all the taxes and revenues the Federal Government collects.

While many entitlement programs have dedicated revenues to pay for benefits, the dollars coming in cannot keep pace with the tsunami of baby-boom retirements that are just now beginning. About 10,000 boomers reach 65 each day.

Mandatory spending used to mean that there was a dedicated stream of money sufficient to cover the cost of the program without dipping into the general fund. I have a chart up there that shows how we are doing on that score. The blue bars on the chart are the upward climb of the mandatory spending. The yellow bars show the slow growth of the dedicated taxes and fees. And the red line shows the shortfall between the two.

[The referenced chart follows:]



Source: CBO and Senate Budget Committee

Chairman ENZI. Dedicated taxes and fees currently are paying for less than half of total mandatory spending. As more of our workforce becomes eligible to retire, the shortfall for benefits paid by dedicated revenue will only increase.

Where does the growing difference come from? It either has to be stolen from the future or taken from the present, which means that even less can be done under the regular budget.

The problem is that Congress is not regularly reviewing automatic spending programs like Social Security and Medicare. Our Government makes promises to pay for these programs without identifying a source of revenue that will ensure their sustainability.

Congress is also not successfully providing oversight over the 30 percent of Government spending controlled through the annual appropriations process. We have only completed appropriations on time four times in the past 40 years. Continuing resolutions and omnibus funding bills have become too commonplace, and they ignore Congress' constitutional duty to carefully consider how taxpayer dollars are spent, and spent timely.

Last month, CBO provided another example of spending without oversight as it released its annual report on unauthorized and expired programs. By the end of fiscal year 2017, there could be 73 authorizations that will have expired, but will likely continue being funded regardless. This adds up to $649 billion for 1 year. We need to get to work and review these programs before allocating additional dollars.

Over the past 8 years, little has been done to relieve the pressure of our debt on America's economy and a good deal more to make it worse. We are left today with enormous debt and little evidence that we are prepared at all for the troubling future CBO has been warning against for decades and does again in this publication. I look forward to our conversation today about the true drivers of overspending and your thoughts, Dr. Hall, on what actions Congress could take to foster a stronger U.S. economy.

Senator Sanders.

OPENING STATEMENT OF SENATOR BERNARD SANDERS

Senator SANDERS. Thank you very much, Mr. Chairman, and thanks for calling the hearing. And, Dr. Hall, thanks very much for being with us.

Memories are sometimes short, and Senator Enzi talked about the deficit and the debt, which clearly are very serious problems, but neglected to mention one of the key—some of the key reasons as to why we have the deficit and neglected to mention, in fact, that the deficit now—what is it, one-third of what it was when President Bush left office? Dr. Hall, is that about right?

Chairman ENZI. Deficit or debt?

Senator SANDERS. The deficit is now about one-third of what it was when President Obama first came in, I believe, roughly correct?

Dr. HALL. It may have gone down a little bit.

Senator SANDERS. Yeah, maybe. It is a rough estimate. So, in other words, we have made significant progress. But when we talk about the debt, we might want to remember that we went into a war in Iraq that some of us voted against, some of us voted for;

that we gave huge tax breaks to the wealthiest people in this country that added to the debt; and that we passed a Medicare Part D prescription drug program, but we forgot to tell the pharmaceutical industry that we wanted to negotiate prices with them. All of those factors helped raise the deficit and the accumulated national debt.

What is always interesting about hearings like this, it is kind of like somebody saying that the operation was a success but the patient died. We talk about the budget in the abstract without talking about the reality of life in America today.

So what do we forget about? We forget about that during the last 30 years, there has been a massive transfer of wealth—and, Dr. Hall, if I am saying anything you disagree with, please jump in—that what we have seen is trillions of dollars flowing from the hands of the middle class into the top 1 percent; that we now have more income and wealth inequality than any other major country on Earth.

So we talk about the deficit without talking about the fact that we are today the richest country in the history of the world. The richest country. We are not a poor country. We are the richest country. The problem is the top one-tenth of 1 percent now owns almost as much wealth as the bottom 90 percent. How is that, Dr. Hall? Is that a fair—thank you. All right.

So my friends are not concerned about that issue. The very, very rich are getting richer; the middle class is shrinking; 43 million people living in poverty. Not an issue. It is only the debt and the deficit, and we do not even talk about how we got there.

Second of all, if you listen clearly to what my friend Chairman Enzi says—and he is a friend; he is an honest man. If you read between the lines, what he is saying basically is we have got to cut Social Security, we have got to cut Medicare, we have got to cut Medicaid.

Now, No. 1, I would hope that my Republican colleagues would respect the words of President Trump when he ran for office when he said exactly the opposite. You did not campaign on that. I understand that. But he did. And maybe we might want to have our President keep his campaign promises to the American people.

But, second of all, is cutting Social Security, whether it is raising the retirement age, cutting back benefits, is that the only solution to the Social Security crisis?

Dr. Hall, I introduced legislation, which got verified by the Social Security administration, which said that if you lift the cap—that in the midst of massive income and wealth inequality, if you lift the cap on taxable income from people making $250,000 a year or more, if you do that, in fact, you can extend the life of Social Security for 50 years. Nobody but the top 2 percent would pay a nickel more in taxes, and you can expand benefits.

I know you do not have those numbers in front of you, Dr. Hall. Does that sound consistent?

Dr. HALL. Yes, it does.

Senator SANDERS. All right. So you have got an alternative. And the question is: Do we have the guts to tell the billionaire class who are doing phenomenally well that they are going to have to pay more in taxes so that we can extend and expand Social Security? Or do we do what many of my Republican friends want to do, and that is cut Social Security benefits, benefits for the disabled, benefits for disabled veterans? So I think there is a lot of need to broaden the discussion we are currently having.

Thank you very much, Mr. Chairman.

Chairman ENZI. Thank you, and I hope that you did not interpret my remarks as saying that we ought to cut things.

Senator SANDERS. I did interpret it——

Chairman ENZI. I left the option of everything out there, which would include——

Senator SANDERS. Well, I did interpret it that way.

Chairman ENZI. Which would include what you suggested.

Senator SANDERS. Well, then I will tell you I would—and I say this sincerely. If the chairman now wants to say that he believes we should not cut Social Security, I would love to hear him say that, not cut Social Security benefits.

Chairman ENZI. I have tried to keep from cutting Social Security benefits since I first got here.

Senator SANDERS. Well, then you have an ally in me. I would hope that we can do that. But it is important for you and others to say we will not cut Social Security benefits. I would hope you can say that.

Chairman ENZI. And the longer we wait, the less likely we are to be able to make that promise.

Senator SANDERS. I have just introduced an idea that Dr. Hall has confirmed is accurate, and that if we go the approach that I suggested, you do not have to cut Social Security benefits.

Chairman ENZI. I appreciate that. Thank you for your remarks.

Our witness this morning is Dr. Keith Hall, the ninth Director of the Congressional Budget Office. The CBO serves an instrumental role for the Budget Committees. The agency provides necessary information important to assessing the budget impact of proposals from both the administration and Congress. As well, CBO continually examines the state of the economy and the budget to keep us apprised of the fiscal context in which we operate.

Dr. Hall has served as Director of CBO since April 2015. He has over 25 years of experience in various Government positions, including serving as the Chief Economist and Director of Economics at the International Trade Commission, Chief Economist for the White House Council of Economic Advisers, and Chief Economist for the Department of Commerce. Dr. Hall has also served in academia with George Mason University and the University of Arkansas. This morning, Dr. Hall will be talking with us about CBO's latest baseline, which is their outlook on the economy and the Federal budget over the next 10 years as it sits now.

We look forward to receiving your testimony, Dr. Hall. We all want to understand the reasons for ballooning deficits and the implications to our standard of living on a national debt that is expected to grow by almost $10 trillion over the next 10 years.

Welcome, Dr. Hall. Please begin.

STATEMENT OF THE HONORABLE KEITH HALL, PH.D., DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Dr. HALL. Thank you. Chairman Enzi, Ranking Member Sanders, and members of the committee, thank you for inviting me to testify about the Congressional Budget Office's most recent analysis of the outlook for the budget and the economy. I will discuss a few highlights of our updated budget and economic projections which were released last week. After my brief remarks, I will be happy to take your questions.

The economic forecast that underlies CBO's budget projections indicates that, in real terms, gross domestic product (GDP) will expand at an average annual pace of 2.1 percent over the next 2 years if current laws generally remain unchanged, after rising last year at an annual rate of 1.8 percent. We expect that growth to boost employment, virtually eliminate the remaining slack in the economy, and drop the unemployment rate to 4.4 percent by the end of 2018.

Further ahead, according to CBO's projections, GDP will expand at an average annual rate of 1.9 percent over the second half of the coming decade. That growth rate remains a significant slowdown from the average over the 1980s, 1990s, and the early 2000s mainly because of the slower growth projected for the Nation's supply of labor, which largely results from the ongoing retirement of baby boomers and the relative stability in the labor force participation rate among working-age women.

As slack diminishes over the next 2 years, we expect the rate of inflation to rise to the Federal Reserve's goal of 2 percent and to stay there, on average. We also anticipate that the Federal Reserve will steadily raise the target for the Federal funds rate and that interest rates over the next few years will be significantly higher than they are now.

CBO's current economic projections differ a bit from those it published in August 2016. The agency now expects GDP in 2016 to be modestly lower than it projected last summer. It also expects lower interest rates in the next 5 years but projects a higher rate of labor force participation throughout the next decade than it projected in August.

In fiscal year 2016, for the first time since 2009, the Federal budget deficit increased in relation to GDP. CBO projects that over the next 10 years, if current laws remain generally unchanged, budget deficits will eventually follow an upward trajectory, the result of three main trends: first, strong growth in spending for retirement and health care programs targeted to older people, especially Social Security and Medicare; second, rising interest payments on the Government's debt; and, third, modest growth in revenue collections.

By the end of the period, the accumulating deficits would drive up debt held by the public from its already high level. Moreover, three decades from now, if current laws remain in place, that debt would be nearly twice as high as it is now, and it would reach a higher percentage of GDP than any previously recorded. Such high and rising debt would have serious negative consequences for the budget and the Nation, including an increased risk of a financial crisis.

Our estimate of the deficit for 2017 is lower than our August estimate, primarily because we now expect lower mandatory spending. The current projection of the cumulative deficit for the 2017–26 period, however, is about the same as we published in August.

I am often asked specifically about our projections for Medicaid and Federal subsidies for health insurance purchased through the marketplaces established by the Affordable Care Act (ACA). We describe these estimates in this report. They were prepared before the new administration took office and do not incorporate any effects of Executive orders or other actions taken by that administration.

By CBO estimates, an average of 12 million people under age 65 will have health insurance in any given month in 2017 as a result of the expansion of Medicaid under the ACA. In addition, CBO and the staff of the Joint Committee on Taxation (JCT) estimate this year 9 million people per month on average will receive subsidies for the non-group coverage purchased through the marketplaces. An additional 1 million people are projected to be covered by unsubsidized insurance purchases through the marketplace. We estimate that 27 million people under age 65 will be uninsured on average in 2017.

CBO and JCT currently estimate that in 2017 Federal spending for people made eligible for Medicaid coverage by the ACA will be $70 billion and that net Federal subsidies for coverage obtained through marketplaces will be $45 billion. For the 2018 to 2027 period, if current laws remain in place, those two types of costs would total $1.9 trillion.

It is important to note that CBO's baseline is not intended to be a forecast of what will happen; rather, it is meant to provide a neutral benchmark that policymakers can use to assess potential effects of policy decisions. CBO's budget and economic projections are predicated on the assumption that the laws that currently govern Federal taxes and spending generally remain in place for the entire projection period. Even if that occurred and there are no changes in laws before the end of that period, it would still not be possible to predict budgetary and economic outcomes precisely because many other factors are uncertain. Our goal is to construct budget and economic projections that fall in the middle of the distribution of possible outcomes, given both the fiscal policy embodied in current law and the availability of economic and other data.

I would be happy to answer your questions.

[The prepared statement of Dr. Hall follows:]

Congressional Budget Office

Testimony

The Budget and Economic Outlook: 2017 to 2027

Keith Hall
Director

Before the
Committee on the Budget
United States Senate

February 1, 2017

This document is embargoed until it is delivered at 10:30 a.m. (EST) on Wednesday, February 1, 2017. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

Chairman Enzi, Ranking Member Sanders, and Members of the Committee, thank you for inviting me to testify about the Congressional Budget Office's most recent analysis of the outlook for the budget and the economy. My statement summarizes CBO's new baseline budget projections and economic forecast, which the agency released last week.[1]

In fiscal year 2016, for the first time since 2009, the federal budget deficit increased in relation to the nation's economic output. CBO projects that over the next decade, if current laws remained generally unchanged, budget deficits would eventually follow an upward trajectory—the result of strong growth in spending for retirement and health care programs targeted to older people and rising interest payments on the government's debt, accompanied by only modest growth in revenue collections. Those accumulating deficits would drive debt held by the public from its already high level up to its highest percentage of gross domestic product (GDP) since shortly after World War II.

CBO's estimate of the deficit for 2017 has decreased since August 2016, when the agency issued its previous estimates, primarily because mandatory spending is expected to be lower than earlier anticipated.[2] However, the current projection for the cumulative deficit for the 2017–2026 period is about the same as that reported in August.

CBO's economic forecast—which underlies its budget projections—indicates that under current law, economic growth over the next two years would remain close to the modest rate observed since the end of the recession in 2009. Nevertheless, economic growth would continue to outpace growth in potential (maximum sustainable) GDP and thus continue to reduce the amount of underused resources, or slack, in the economy. The result would be increases in hiring, employment, and wages, along with upward pressure on inflation and interest rates. In the later part of the 10-year projection period, output growth would be constrained by a relatively slow increase in the nation's supply of labor.

1. Congressional Budget Office, *The Budget and Economic Outlook: 2017 to 2027* (January 2017), www.cbo.gov/publication/52370.

2. See Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2016 to 2026* (August 2016), www.cbo.gov/publication/51908.

CBO's current economic projections differ from those it published in August because of revisions involving several factors that determine potential output. The agency now expects real (inflation-adjusted) GDP and real potential GDP in 2026 to be modestly lower than projected in August. It also expects interest rates to be lower in the first half of the projection period, but it projects a higher rate of labor force participation throughout the period than it reported in August.

CBO's budget and economic projections are predicated on the assumption that current laws generally remain in place. Budgetary and economic outcomes are difficult to project, however, and thus rather uncertain—even if there are no changes to the laws that govern federal taxes and spending. The agency strives to construct 10-year budget and economic projections that fall in the middle of the distribution of possible outcomes, given both the fiscal policy embodied in current law and the availability of economic and other data.

The Budget Deficit for 2017 Is Projected to Be Similar to Last Year's

CBO's baseline estimate of the 2017 deficit is $559 billion, or 2.9 percent of GDP—less than the $587 billion deficit posted in 2016 (see Table 1). Both totals, however, are affected by shifts in the timing of some payments. Outlays in 2016—and thus the deficit—were boosted by $41 billion because certain payments that were to be made on October 1, 2016 (the first day of fiscal year 2017), were instead made in fiscal year 2016 because October 1 fell on a weekend.[3]

For 2017, the net effect of those timing shifts and similar shifts in spending from fiscal year 2018 into fiscal year 2017 is to increase outlays by $4 billion. If not for those shifts, the deficit in 2016 would have been $546 billion (3.0 percent of GDP), and the deficit projected for 2017 would be $555 billion (2.9 percent of GDP).

If there are no further legislative changes, both revenues and outlays (adjusted to eliminate the timing shifts) are

3. October 1 will fall on a weekend again in 2017, 2022, and 2023. In such cases, certain payments due on October 1 are made at the end of September and thus are recorded in the previous fiscal year. Those shifts noticeably boosted projected spending and deficits in fiscal year 2016 and, in CBO's projections, increase them in 2022; the timing shifts reduce federal spending and deficits in fiscal years 2018 and 2024.

Table 1.

CBO's Baseline Budget Projections

	Actual, 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total 2018-2022	Total 2018-2027
							In Billions of Dollars							
Revenues	3,267	3,404	3,604	3,733	3,878	4,019	4,176	4,346	4,527	4,724	4,931	5,140	19,410	43,078
Outlays	3,854	3,963	4,091	4,334	4,562	4,816	5,135	5,346	5,554	5,890	6,228	6,548	22,938	52,504
Deficit	-587	-559	-487	-601	-684	-797	-959	-1,000	-1,027	-1,165	-1,297	-1,408	-3,528	-9,426
Debt Held by the Public at the End of the Year	14,168	14,838	15,416	16,092	16,845	17,704	18,721	19,776	20,858	22,078	23,430	24,893	n.a.	n.a.
							As a Percentage of Gross Domestic Product							
Revenues	17.8	17.8	18.1	18.1	18.1	18.1	18.1	18.1	18.2	18.2	18.3	18.4	18.1	18.2
Outlays	20.9	20.7	20.5	21.0	21.3	21.7	22.3	22.3	22.3	22.8	23.1	23.4	21.4	22.2
Deficit	-3.2	-2.9	-2.4	-2.9	-3.2	-3.6	-4.2	-4.2	-4.1	-4.5	-4.8	-5.0	-3.3	-4.0
Debt Held by the Public at the End of the Year	77.0	77.5	77.4	77.9	78.8	79.9	81.3	82.6	83.8	85.3	87.0	88.9	n.a.	n.a.

Source: Congressional Budget Office.

n.a. = not applicable.

projected to rise by about 4 percent this year. Higher receipts from individual income taxes would be responsible for much of the projected revenue increase, and net interest payments would be the fastest-growing component of the increase in spending.

Outlays (if not for the timing shifts) and revenues would both rise at about the same rate as GDP, CBO estimates, so they would be roughly the same relative to the size of the economy in 2016 and 2017: 20.7 percent for outlays and 17.8 percent for revenues. Debt held by the public is projected to rise slightly relative to GDP.

Growing Deficits Through 2027 Are Projected to Drive Up Federal Debt

In CBO's baseline projections, budget deficits remain below 3.0 percent of GDP through 2019. But subsequently, continued growth in spending—particularly for Social Security, Medicare, and net interest—would outstrip growth in revenues, resulting in larger deficits and increasing debt. By 2027, the deficit would reach 5.0 percent of GDP—$1.4 trillion.

Revenues

If current laws generally remained unchanged, revenues would rise from 17.8 percent of GDP in 2017 to 18.4 percent by 2027. They have averaged 17.4 percent of GDP over the past 50 years.

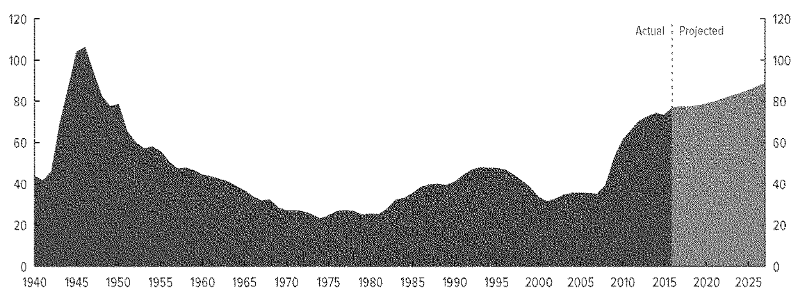
Only revenues from individual income taxes would grow faster than the economy over the course of the decade. CBO's baseline includes the following projections:

- Receipts from individual income taxes increase by a total of 1.1 percentage points of GDP over the 10-year period as a result of several factors, including real bracket creep (the process by which, as income rises faster than prices, an ever-larger proportion of income becomes subject to higher tax rates), rising distributions from tax-deferred retirement accounts, and an increase in the share of wages and salaries earned by higher-income taxpayers.
- Remittances from the Federal Reserve, which have been unusually high since 2010, drop by 0.2 percentage points of GDP to return to more typical amounts.
- Payroll tax receipts decline by 0.1 percentage point of GDP, primarily because of the expected increase in the share of wages going to higher-income taxpayers.
- Corporate income tax receipts as a share of GDP also fall by 0.1 percentage point between 2017 and 2027.

Figure 1.

Federal Debt Held by the Public

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

Outlays

In CBO's projections, outlays remain near 21 percent of GDP for the next few years, which is higher than their average of 20.3 percent over the past 50 years. Later in the coming decade, the growth in outlays would exceed growth in the economy, and, by 2027, outlays would rise to 23.4 percent of GDP. That increase reflects significant growth in mandatory spending and interest payments, which is offset somewhat by a decline in discretionary spending as a share of GDP. More specifically, CBO's baseline includes the following projections:

- Outlays for mandatory programs increase as a share of GDP by 2.4 percentage points from 2017 to 2027—mainly because of the aging of the population and rising per capita health care costs. Social Security and Medicare account for nearly all of that increase.
- Because of rising interest rates and, to a lesser extent, growing federal debt held by the public, the government's interest payments on that debt rise sharply over the next 10 years—nearly tripling in nominal terms and almost doubling relative to GDP.
- Discretionary spending drops from 6.3 percent of GDP in 2017 to 5.3 percent in 2027—a smaller percentage relative to the size of the economy than in any year since 1962 (the first year for which comparable data are available).

Debt Held by the Public

As deficits accumulate in CBO's baseline, debt held by the public rises from 77 percent of GDP ($15 trillion) at the end of 2017 to 89 percent of GDP ($25 trillion) by 2027. At that level, debt held by the public would be the largest since 1947 and more than twice the average over the past five decades in relation to GDP (see Figure 1).

Beyond the 10-year period, if current laws remained in place, the pressures that contributed to rising deficits during the baseline period would accelerate and push debt up even more sharply. Three decades from now, for instance, debt held by the public is projected to be nearly twice as high, relative to GDP, as it is this year—and a higher percentage than any previously recorded.

Such high and rising debt would have serious negative consequences for the budget and the nation:

- Federal spending on interest payments would increase substantially as a result of increases in interest rates, such as those projected to occur over the next few years.
- Because federal borrowing reduces total saving in the economy over time, the nation's capital stock would ultimately be smaller, and productivity and total wages would be lower.

- Lawmakers would have less flexibility to use tax and spending policies to respond to unexpected challenges.
- The likelihood of a fiscal crisis in the United States would increase. There would be a greater risk that investors would become unwilling to finance the government's borrowing unless they were compensated with very high interest rates; if that happened, interest rates on federal debt would rise suddenly and sharply.

The Projected Deficit for 2017 Is Smaller Than CBO's August 2016 Estimate, but the Cumulative Deficit Is Largely Unchanged

The deficit that CBO now projects for 2017 is $35 billion less than the amount the agency estimated in August. Revenues and outlays alike are expected to be lower: revenues by $17 billion, mostly as a result of lower receipts from individual income taxes, and outlays by $52 billion, mostly because of reductions in mandatory spending.

For the 2017–2026 period, CBO now projects a cumulative deficit that is just $6 billion (or less than 0.1 percent) larger than it projected in August, and the total remains at $8.6 trillion for that period. By 2026, debt held by the public is projected to total $23 trillion, about the same as in the August projections.

CBO Expects Moderate Economic Growth to Continue

According to CBO's current baseline projections, continued economic expansion over the next two years will virtually eliminate slack in the economy, thus putting upward pressure on inflation and interest rates. After that, the economy is expected to grow a bit more slowly. The projections for later years do not reflect predictions about business-cycle fluctuations or possible changes in fiscal policy; rather, they are based primarily on projected trends of underlying factors, such as productivity, growth in the labor force and in the number of hours worked, inflation, and interest rates.

Economic Growth

CBO estimates that, in real terms, GDP will expand at an average annual pace of 2.1 percent from the fourth quarter of 2016 to the fourth quarter of 2018, after having risen at an annual rate of 1.8 percent last year (see Figure 2). Most of the growth in output during the coming years will be driven by consumer spending, business investment, and residential construction, CBO anticipates.

According to CBO's projections, actual and potential GDP alike will expand at an average annual rate of 1.9 percent during the second half of the 10-year period. CBO estimates that the growth of potential output over that period will be faster than it has been since the 2007–2009 recession, mainly because the productivity of the labor force is projected to rise, returning closer to its average of the preceding two decades. However, that rate of output growth represents a significant slowdown from the average over the 1980s, 1990s, and early 2000s, mainly because of the slower growth projected for the nation's supply of labor, which is largely attributable to the ongoing retirement of baby boomers and the relatively stable labor force participation rate among working-age women. (The labor force participation rate is the percentage of people in the civilian noninstitutionalized population who are at least 16 years old and are either working or seeking work.)

The Labor Market

The shortfall between actual and potential employment, CBO's primary measure of slack in the labor market, was about 1.6 million people at the end of 2016.[4] That shortfall is projected to disappear in 2018 as the result of two developments. First, the strengthening economy is expected to slow the downward trend in the rate of labor force participation as the increase in employers' demand for labor continues to draw workers back into the labor force. Second, increases in hiring will lower the unemployment rate, which is projected to reach 4.4 percent by the end of 2018. As slack in the labor market dissipates over the next two years, hourly wages are expected to rise.

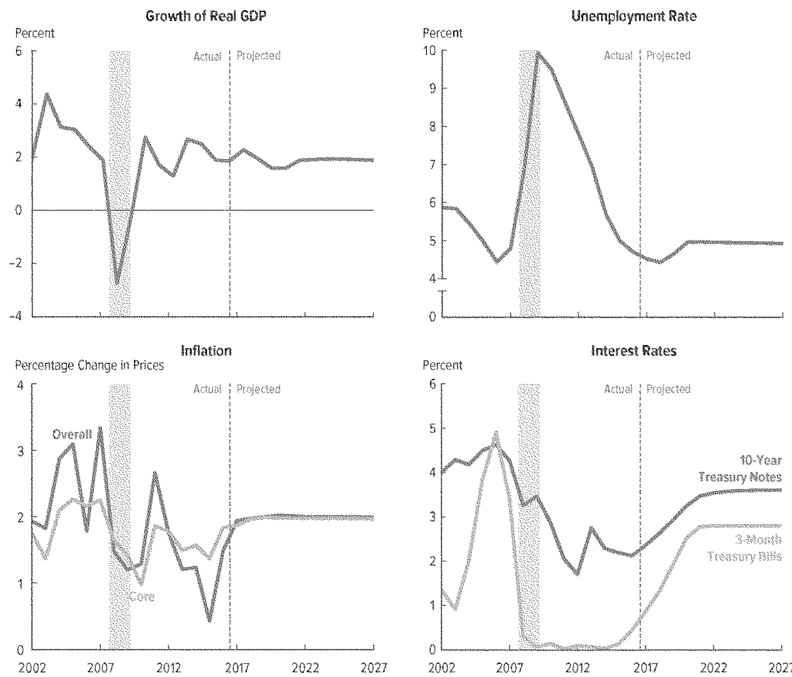
Over the next five years, the monthly increase in nonfarm payroll employment, which is estimated to average 160,000 jobs in the first half of 2017, is projected to settle down to an average of 64,000 jobs. That slower pace of job growth primarily reflects relatively slow growth in the labor force, which is affected by the ongoing retirement of the baby boomers. In CBO's projections, the

4. Potential employment is the number of people employed when unemployment is at its natural rate—the rate that arises from all sources except fluctuations in aggregate demand—and when labor force participation is at its potential rate. (Aggregate demand is the overall demand for goods and services in the economy.)

Figure 2.

Actual Values and CBO's Projections of Key Economic Indicators

CBO projects that economic activity will expand at a pace this year and next that will lower the unemployment rate and place upward pressure on inflation and interest rates.



Source: Congressional Budget Office, using data from the Bureau of Economic Analysis, the Bureau of Labor Statistics, and the Federal Reserve.

Real GDP is the output of the economy adjusted to remove the effects of inflation. The unemployment rate is a measure of the number of jobless people who are available for work and are actively seeking jobs, expressed as a percentage of the labor force. The overall inflation rate is based on the price index for personal consumption expenditures; the core rate excludes prices for food and energy.

For real GDP growth and inflation, percentage changes are measured from the fourth quarter of one calendar year to the fourth quarter of the next. For the unemployment and interest rates, data are fourth-quarter values.

GDP = gross domestic product.

unemployment rate averages 4.9 percent over the later part of the projection period.

Inflation

CBO expects prices to rise at a modest pace over the next few years. The agency anticipates that the diminishing slack in the economy and higher oil prices will put upward pressure on prices for goods and services. That pressure will be somewhat alleviated by the effects of a strong dollar in relation to other currencies, which will reduce the cost of imported goods. In CBO's projections, the rate of inflation, as measured by the price index for personal consumption expenditures, rises to 1.9 percent in 2017 and to 2.0 percent in 2018. It remains, on average, at the Federal Reserve's longer-run goal of 2 percent throughout the rest of the coming decade.

Interest Rates

As the slack in the economy continues to diminish, the Federal Reserve will continue to reduce its support of economic growth, in CBO's view. Thus, the federal funds rate—the interest rate that financial institutions charge one another for overnight loans of their monetary reserves—is expected to rise gradually over the next few years, reaching 1.1 percent in the fourth quarter of 2017, 1.6 percent in the fourth quarter of 2018, and 3.1 percent in the later part of the projection period. Interest rates on short-term Treasury securities are expected to follow a similar pattern.

A projected rise in longer-term rates reflects the anticipated increase in short-term rates and an expected increase in the term premium from historically low levels. (The term premium is paid to bondholders as compensation for the extra risk associated with longer-term securities.) In CBO's estimation, the term premium has remained low because of heightened concern about global economic growth and increased demand for longer-term Treasury securities as a hedge against possible economic adversity. CBO projects that the interest rate on 10-year Treasury notes will rise from 2.1 percent in the fourth quarter of 2016 to 3.6 percent in the later part of the projection period.

Although CBO projects that interest rates will rise above those currently in effect, they are projected to remain low by historical standards, for several reasons: slower growth in the labor force, slightly slower growth in productivity, and only partial dissipation of the factors that have increased the demand for Treasury securities and held down the term premium.

Real GDP Is Projected to Be Modestly Lower Than CBO Estimated in August

CBO's current economic projections differ somewhat from those the agency made in August 2016. Most significantly, potential and actual real GDP are expected to grow more slowly. As a result, those measures are 0.8 percent lower than CBO previously projected for 2026 (the last year in the previous projection period). CBO's projection of economic output is lower because of improvements in the agency's analytical methods and because of data that became available between early July and early December 2016. Nominal GDP is expected to be a little lower, on average, over the decade.

Other changes are relatively small. CBO now estimates that over the next decade, more people will be working than it estimated in August. That change results from an upward revision to the projected labor force participation rate, which is partially offset by a downward revision in the projected size of the population. Also, interest rates are expected to be lower in the first half of the decade than they were in the August projections. The slower rise in interest rates that CBO now projects stems partly from an anticipated slowing in the pace of rate increases by the Federal Reserve.

This testimony reiterates the summary of *The Budget and Economic Outlook: 2017 to 2027*, which is one in a series of reports on the state of the budget and the economy that CBO issues each year. The report satisfies the requirement of section 202(e) of the Congressional Budget Act of 1974 for CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget. In accordance with CBO's mandate to provide objective, impartial analysis, neither that report nor this testimony makes any recommendations. Both publications are available on CBO's website, at www.cbo.gov/publication/52370 and www.cbo.gov/publication/52839, respectively.

Keith Hall
Director

Chairman ENZI. Thank you, Dr. Hall.

Now we will turn to questions, and let me take a minute to explain the process for the committee members before we start. Each member has 5 minutes for questions, beginning with myself and then Senator Sanders. Following the two of us, I will alternate questions between the Republicans and the minority. All members who were in attendance when the hearing began will be recognized in order of seniority. For those who arrived after the hearing, it will be in the order that they arrived.

I want to thank you for your testimony. I do have a few questions. CBO projects 50 percent of the growth in outlays over the next decade will be from Social Security and Medicare. In the past, Congress has balanced a budget using a surplus in these programs. Now we will need to do it while paying for the deficits. Congress has had many opportunities to reform mandatory spending. CBO has been telling us for decades that the demographic shift will make these programs no longer sustainable.

I have proposed a Concepts Commission to work on these matters and propose solutions to Congress, but our annual budget does not allow Congress to address Social Security under the budget. So the tools to balance a unified budget are limited, especially as more of the growth is automatic.

Does it make sense to you that the budget continues to be balanced as one pot?

Dr. HALL. Well, I think the last Concept Commission from 1967 emphasized that all Federal spending and receipts should be included in the budget, and I think the quote is something like, "Different and competing budgets confuse the public and congressional understanding and impede decisionmaking." So I think we certainly support the idea of a Budget Concepts Commission, and we certainly support the idea of producing estimates like we do as if it is a unified budget for you.

Chairman ENZI. All right. I appreciate that because I have looked at some of the revenues coming in and find that with Social Security we are about 18 percent short on what we are paying out each month. And under Medicare, it looks like we are about 46 percent short. So we will have to look at those things evidently under a commission concept since we are limited on what we can do under budget unless we make some reform changes, and I think we have talked about that in committee in a bipartisan way.

Now, I have proposed including long-term debt-to-GDP targets in the Federal budget process, as have several members of the committee, which would provide goals for the budgets of both Congress and the President. If baseline projections do not comply with the targets, the administration would need to submit a plan to bring current law projections back into compliance. In 30 years, CBO projects our debt-to-GDP will be almost 150 percent. Taking into account the impact of our aging population, what is a realistic target for long-term debt-to-GDP? How much deficit reduction is necessary to maintain our debt-to-GDP ratio currently?

Dr. HALL. Well, we have certainly been consistently saying and we are still saying that the path of the debt hitting 150 percent in 30 years and, maybe as importantly, it is rising, so if we extend it from 30 years to 35 years, it gets larger; to 40 years, it gets larger. So it is on an unsustainable path, and we believe that.

One of the difficulties for us is the idea that how much is too much is very difficult to define. We do know that as the debt grows—and it is already at a very high level—it increases the risk to the financial markets and a risk to the economy. It is hard to pick a number, however. Because in some respects it is like any other organization that puts up debt, it is hard to say how much debt is too much. The United States is somewhat unique in its ability to sustain debt, but certainly we are on a path that is very, very difficult.

We certainly would support the idea of helping you use a target and certainly support you in what sort of changes you would need to hit that target.

Chairman ENZI. Thanks. I think that will be helpful, and we will do some research to see what other countries do in order to have some kind of a constraint on what they do, either in spending or revenues.

Some in Congress have argued against deficit reduction in a weak period of economic growth. I think we need to weigh these concerns against the negative consequences laid out by your report if we continue to allow high and rising debt. One of those consequences is that lawmakers would have less flexibility to use tax and spending policies to respond to unexpected challenges. What types of policies can Congress implement that would improve our deficit and our GDP growth simultaneously?

Dr. HALL. Sure. I think that is actually an important question. Right now we see the economy, although it is modestly growing, and we think it will be modestly growing over the next 2 years, that will eliminate all of the slack in the economy. So in terms of stimulus, stimulus might help us speed that along, but what would really help in terms of the long-run deficit would be things that focus on the supply side of the economy, focus on things that affect the labor supply, affect productivity, affect innovation, things like that. It is sort of—almost any sort of increase in spending or decline in taxes gives you some demand stimulus. But I think the important thing is the longer-run impacts on the supply side of the economy.

Chairman ENZI. Thank you. My time has expired.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. And, Dr. Hall, it is great to see you, and I just want to echo the comments of the chairman, thanking you and your team at CBO for your great work.

We talked a little bit about economic growth and the impact on deficits. There are some practical things we could do to both increase economic growth as well as reduce the deficit.

There has been a lot of talk lately about reducing immigration to the United States, and I think it is important to remind our colleagues that CBO did an analysis of the bipartisan immigration reform bill that passed the Senate a couple of years back. Isn't that right?

Dr. HALL. That is correct.

Senator VAN HOLLEN. And if I have got my facts right, the economic impact report that you did in June 2013 indicated that that immigration reform bill would increase economic growth in 2023 by 3.3 percent beyond what would be otherwise anticipated. Is that right?

Dr. HALL. That is correct.

Senator VAN HOLLEN. And it would continue to grow in 2033. It would be 5.4 percent greater in that year than otherwise anticipated.

Dr. HALL. Yes.

Senator VAN HOLLEN. And I remind my colleagues that that was a piece of legislation that also dramatically increased border security. In fact, almost $20 billion was invested. In a letter you sent to Senator Leahy July 3, 2013, you indicated that the net impact after you take the money for additional border security, because of the economic growth, you would actually reduce the deficit over that period of time by $135 billion. Do you recall that finding?

Dr. HALL. I do not, but that sounds right.

Senator VAN HOLLEN. Right, more economic growth, more reduction in the deficit. In addition to the fact, you found that it would improve the long-term solvency of Social Security. Do you recall that as well?

Dr. HALL. I do not, but that sounds——

Senator VAN HOLLEN. More people, right?

Dr. HALL. Yes.

Senator VAN HOLLEN. So I hope that in this, a lot of the heated rhetoric around immigration, this was a bipartisan bill which would increase economic growth, reduce the deficit, improve the solvency of Social Security.

Dr. Hall, just a couple questions with respect to the Affordable Care Act, because CBO recently issued a report, January 17th, about the impact of repealing portions of the Affordable Care Act, and you looked at the 2015 reconciliation bill that passed the Congress and went to the President. Do you recall that?

Dr. HALL. I do.

Senator VAN HOLLEN. All right. One of the findings in that report, as I understand it, is that the number of people who are uninsured would increase by 18 million in the first year of the new plan if we adopted that reconciliation bill. Is that right?

Dr. HALL. That is correct.

Senator VAN HOLLEN. And that the premiums in the non-group market, the individual market, on policies purchased would increase by 20 percent to 25 percent in the first year relative to current law. Is that right?

Dr. HALL. That is correct.

Senator VAN HOLLEN. All right. So just to translate, that means if you were to adopt the bill, the reconciliation bill, the Republican repeal of the Affordable Care Act that went to President Obama, which he vetoed, we would immediately see premiums go up even further, significantly further, 20 to 25 percent in the individual market, and you would see 18 million people becoming uninsured in the first year of the plan.

So we have heard over the years it is going to be repeal and replace. We are all still waiting for the replace, a replace that would at least make sure those 18 million continued to have access to affordable care, and that they do not see their premiums go up even more than they have.

Just in my last minute, I wanted to ask you a question about tax expenditures and other mandatory programs, because the chairman referred to mandatory expenditures. I do not see it in the material here, but I believe when you released your budget to the press recently, your analysis, you indicated that tax expenditures were, in fact, the greatest category of mandatory spending, higher than what we spend on Social Security on an annual basis, higher than what we spend on Medicare. Is that right?

Dr. HALL. That is true.

Senator VAN HOLLEN. All right. So that means that, according to CBO, all those tax credits and tax deductions and tax breaks, when you add them all up in the Tax Code, that amount exceeds the amount we spend on an annual basis on Social Security, right?

Dr. HALL. That is correct.

Senator VAN HOLLEN. All right. And so one of the things that Senator Sanders has been pointing out is that we can actually do a lot when it comes to trying to improve the solvency of Social Security through reducing some of those tax expenditures and his proposal to raise the cap. And I would just say I also believe that CBO recently found in your options report that if you apply the same payroll tax to income over $250,000 that we currently apply to income below $127,200, that that would also increase the solvency of Social Security until around 2041. Is that right?

Dr. HALL. That sounds about right.

Senator VAN HOLLEN. So, I mean, just when we are considering options, Mr. Chairman, there are options that we can apply that do not require cutting Social Security benefits, and that is a very practical one that has been put into the mix. So I thank you, Dr. Hall. Thank you, Mr. Chairman. And I look forward to working with you.

Chairman ENZI. Thank you.

Senator Perdue.

Senator PERDUE. Dr. Hall, thank you. Here we are again, 2 years in, nothing has changed. But I want to correct the record about a couple things, Mr. Chairman. You know, we hear these superficial conversations about growth. You know, there are two ways, Dr. Hall, to grow GDP, right? You can grow your population, or you can grow your productivity. That is it.

Dr. HALL. Yes.

Senator PERDUE. So, of course, if you say, OK, you know, in a world of flat innovation and flat technology growth or whatever, OK, we can grow our population. So the answer is, of course, more immigration. Well, we are immigrating more people now, twice— a little more than two and a half times, frankly, than our 100-year average. And yet in the last 8 years, this economy has grown on a per capita compound basis 0.61 percent in the last 8 years. It is the weakest recovery in history. That is the lowest economic growth of any President in U.S. history.

My concern, Mr. Chairman, is that we are not talking about the real issues, and I applaud you for having this hearing, and I applaud the CBO for what you are doing to remind us again what you reminded us of last year, that this is not sustainable. And we know that the two 800-pound gorillas in the room are Social Security and Medicare. And I want to set the record straight, Mr. Chairman and Dr. Hall. I for one have never called for cutting Social Security. You do not have to cut Social Security benefits for people on Social Security to solve this. But every year that goes by, the solution gets harder and more difficult and more painful for people 50 to 100 years from now.

To oversimplify this, I want to get at a couple things. Dr. Hall, in Social Security there are only a few levers—some people say four, some people say five, but basically you can change the age, you can look at means testing, you can look at the inflator that is embedded in there that is incorrect, and you can also talk about the revenue formula. Beyond that, if we were to, for example, on the debt that we have—and I like to look at the public debt because I happen to think that the debt that we owe Social Security and Medicare trust funds is real debt and that we will eventually have to pay the piper there. And you talk about the interest rate going up. I think the assumption is it would be at the higher level, about 2.5 or 3 percent, during the life of this.

Dr. HALL. That is right.

Senator PERDUE. And so what would happen, Dr. Hall, if interest rates were to go to their 30-year average of about 5.5 percent on the full—both public debt and the debt owed to mainly the Social Security trust fund?

Dr. HALL. Well, higher interest rates would have a really significant effect on our forecast, and it would actually pretty significantly raise our estimate of the budget deficit. Because we have such a large and growing debt, raising that interest rate has a really big impact on the net interest payments.

Senator PERDUE. So the last few years, we have seen the annual deficit—not the debt, the annual deficit—decline I would actually say fairly significantly. But the budget that we are operating under right now under the past 3 or 4 years, that performance projected out over the next 10 years, as I look at this, we move right back to $1 trillion annual deficits within a very short period of time. Is that correct?

Dr. HALL. That is correct.

Senator PERDUE. And that the total here is—I have not totaled it up. Somewhere we are going to add—if we do not do anything from our baseline budget, which is what we are talking about at CBO, we will add another $9.5 to $10 trillion to the current $20 trillion of total debt. Is that fair?

Dr. HALL. Yes.

Senator PERDUE. So when I look at the solution, can we grow our way out of it? Because if that is all we did, hold everything else constant and all we did was grow the economy, can we solve that $30 trillion problem?

Dr. HALL. I think the short answer is no.

Senator PERDUE. No. Second, if we were to tax the top 3 percent of our earners in this country, the ones demonized by certain Members on the other side of the aisle, if we were to take the entire income of those people over the next 20 to 30 years, would that solve the debt crisis?

Dr. HALL. I would have to look at that, but I——

Senator PERDUE. We have run the numbers. Directionally, I am correct. It would not.

Dr. HALL. No.

Senator PERDUE. So a single-faceted attempt to solve Social Security and to solve the debt crisis is really very naive, in my opinion, as a business guy. And when I look at this, we have got several areas of opportunity. The one thing I think we all agree is there are opportunities, but let us get at talking about the opportunities. The budget process is broken. We know that. I am not going to have time to lay out all the problems with that. But I will say this: In the last 42 years, since the 1974 Budget—and, by the way, it took that commission 7 years to write the Budget Act, and that Budget Act has only worked four times in 42 years. And over those 42 years, we have only appropriated—and I want everybody to listen to this. We have only appropriated an average of two and a half appropriation bills per year. This is a fraud on the American people, and it has been perpetrated for 42 years, and it is time we deal with it. That is just one area that we can use to help arrest this runaway Government spending. $2.4 trillion is what we spent in 2000. We spent $3.8 trillion last year. And that is constant dollars. We have got to look at redundant spending. We have got to grow the economy. I think we have got to save Social Security and Medicare over the long term, and that makes it viable for our kids and grandkids. And, last, we have got to get at the spiraling driver for health care cost inflation.

I am running out of time, Mr. Chairman, but I will hold the other questions for a second round. Thank you.

Chairman ENZI. Thank you.

Senator King.

Senator KING. Thank you, Mr. Chairman. Welcome, Dr. Hall. Nice to have you here.

Dr. HALL. Thank you.

Senator KING. I appreciate your comments, Senator Perdue. Senator Perdue, in Maine, we have a saying that summarizes exactly what you were talking about. There is rarely a silver bullet. There is often silver buckshot. It takes multiple approaches to solve a problem of these magnitudes, and there is no single solution.

Dr. Hall, in listening to your testimony and reading it, it seems to me that underlying a lot of your assumptions is demographics in a couple of ways: the demographics of baby boomers retiring, which is a big bulge in the population; demographics of more people going on to Medicare, I believe something like 10,000 people a day are now signing up for Medicare; and the demographics of not replacing those people in the workforce, which you note on page 4 is the significant drag on the growth of the economy, which is labor supply. Is that all correct?

Dr. HALL. That is all correct.

Senator KING. And where I would disagree with Senator Perdue, if the demographics—Congress can repeal a lot of things, but one of them we cannot repeal is the law of demographics. And if we are at replacement or below—and in Maine, for example, we are below replacement now in terms of our birth rate. The only solution is immigration, isn't it? The people have to come from somewhere.

Dr. HALL. Well, I do not know what—I do not know if that is the only solution, but clearly, increasing the labor supply does have an impact on revenues. There are other sorts of impacts which one should probably consider, depending on what kind of immigration that you have.

Senator KING. Of course, and I am not saying unlimited, open the borders, or anything else.

Dr. HALL. Right, right.

Senator KING. But to say we can close our borders and stop having people come to this country and maintain continued economic growth just does not square with economic principles.

Dr. HALL. Well, certainly we do need to have a continuing growth in the labor force, and that is sort of the really simple recipe. You have to have your labor force growing, you have to have productivity growing.

Senator KING. I can tell you, as I talk to businesses in Maine now, as I travel throughout the State, which I do every weekend, the No. 1 problem they are telling me is finding qualified workers.

Now, the important word is "qualified" because that speaks to education, training, improved job training. I think that is a big part of this. But that is the problem that we are seeing.

A couple of comments about where the budget has been going. What we are seeing basically is the entire discretionary budget being crowded out by entitlement growth and tax expenditure growth. Tax expenditures back in the 1960s were about 4.5 percent of GDP; now they are 8 percent. Defense spending, for example, in 1967 was 8.5; it was 5.2 in 1991; it was, I think, 4.7 in 2010; and it is 3.2 today. In other words, a steady decline, and even a significant decline, almost 25 percent, since 2010. And also since 2010, we have had China's buildup of its military, North Korea's nuclear weapons, ISIS, Syria, Ukraine, Crimea, all of those have occurred. And yet we are still on this steady downward trend in terms of defense spending. Do those figures sound consistent with what you are seeing?

Dr. HALL. Yes, I think they do.

Senator KING. And, of course, domestic spending is going in exactly the same way, from over 4 percent back in 1967, 3.5 percent in 1991, and down to 3.3. Both defense and non-defense discretionary, as I understand it, are at the low point for the last 70 years. So that is—what bothers me is a lot of the debate about the budget around here is about Head Start slots and aircraft when the real growth is basically in health care costs, which is driving Medicare, Medicaid, and those expenditures, and I think that is something we need to be talking about.

Let me ask a more general economic question. A lot of people have been talking about 4 percent GDP growth. Is that realistic in a mature economy? A developing economy can have those very high growth rates, and 4 percent was what we had. But do you see any combination of policies that would get us to 4 percent GDP growth?

Dr. HALL. Well, if we are talking about the short term, just basic stimulus, we could accelerate the elimination of the output gap over the next 2 years. We could accelerate that. But for having anything lasting, we need to worry about the supply side of things.

To give you some idea of how——

Senator KING. When you say the supply side of things, you are not talking about supply side Arthur Laffer; you are talking about the supply side of like labor force and productivity.

Dr. HALL. That is right, the labor force, the capital stock, innovation, those sorts of things.

Senator KING. Right.

Dr. HALL. But I wanted to couch this a little bit, and right now over the next 10 years, we are seeing the labor force grow at about half a percentage point a year, and we are seeing labor force productivity grow at about 1.3 percent a year. That adds up to about 1.8 percent GDP. That is our forecast for potential GDP. So if you want to get potential GDP up, you have got to raise——

Senator KING. One of those two items.

Dr. HALL. One of those two things, or both. That is right.

Senator KING. I am out of time, but I think hopefully, Mr. Chairman, we will have additional time for questions.

Chairman ENZI. Certainly. We do not want to pass up an opportunity like this with an expert.

Along the same lines that Senator King was asking about, do you have any projections on what our unemployment is and what our actual unemployment is? Senator Sanders usually puts this in his speech.

Dr. HALL. I do not have that handy, but in some respects, the unemployment rate is being a little bit misleading because the unemployment rate is already below what we think is the potential full employment. And the reason it is below is because there are so many people still out of the labor force. We still think there are a good million and a half people who are not even in the labor force that we need to find jobs for to hit that full employment.

So if you wanted to do some sort of calculation, I suppose you could take the current unemployment rate and add in about a million and a half people into the unemployment, and it gives you some number that maybe gives you some idea of how short we are of full employment.

Chairman ENZI. Yes, which goes back to Senator King's comment that his employers were having trouble finding qualified employees. And from my time in business, that was always a problem. And I go to a lot of businesses in Wyoming when I am there on the weekend and ask them what kind of decisions they have to make, how long in advance they have to make them, and what some of their biggest problems are. And the biggest one there is qualified employees, too. We have got some training programs, and we need to take a look at those and see if they are actually effective.

We had a question earlier about increase in interest payments, and I think the largest percent increase in spending is a projected tripling of the interest payments in your document, almost doubling relative to GDP. And that is with the interest rates remaining low. Do you have an effect on CBO's projections if the interest rates move up further, perhaps to the historic average?

Dr. HALL. Yeah, we have some good rules of thumb to give you some idea. If interest rates, say, are 1 percentage point higher per year for the next 10 years, then that adds something like $1.6 trillion to the deficit. So that almost doubles it. So it is a really significant increase going forward. And on something related, at the end of 10 years we anticipate just the net interest payments are going to hit something like 2.7 percent of GDP. That is a really high number. And, again, it is because the debt is so high, and you raise that, you really raise our forecast, I think.

Chairman ENZI. I went to one of our bond sales and was surprised at how fast they got snapped up and found out that some people are actually bidding a negative interest rate at the moment because they have so much confidence in our Government that they will get their money back, even though they had to pay a little bit for us to keep that secure. The interest rate depends a lot on how much people think we are secure, I assume, and how much debt we have got per person. We are a lot worse off than Greece.

Dr. HALL. That is right, and one of the things that we anticipate would happen if the deficit continues to grow is it is going to put pressure on that interest rate and increase that interest rate and raise the cost of our already existing debt, let alone new debt.

Chairman ENZI. Thank you.

Changing a little bit, in the last Congress CBO and the Joint Committee on Tax produced dynamic cost estimates for major legislation, including the tax proposals. How would comprehensive tax reform affect GDP growth? How can we make our tax system more efficient so growth is not impeded by our Tax Code?

Dr. HALL. Well, any sort of estimate, of course—I want to tip my hat to the Joint Committee on Taxation. They would be doing the scoring on that. But there are certainly things in the Tax Code that we could do that would impact the efficiency of taxes and would maybe impact productivity going forward if it helps eliminate some misallocation of resources that are sort of created by the Tax Code now. That certainly is one of those sources of policy choices that would impact potentially long-run growth in the economy.

Chairman ENZI. Tell me a little bit more about misallocation of resources.

Dr. HALL. Right, well, you know, a lot of it is the impact on capital, capital investment. For example, doing something like reducing taxes on the capital stock would potentially help productivity and help long-term growth. Doing something to increase the tax base, you know, right now there are lots of things that sort of cause the tax base to decline over time, like offshoring sort of behavior, that sort of thing. Those would all potentially impact productivity and help the long-run growth.

Chairman ENZI. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Again, Dr. Hall, thank you for your testimony.

Just when we talk about the aging of the population and the immutable law of demographics, we have talked about immigration, I just think when we are talking about this within the budget context, it is important that we remember that no matter what we do in the budget, those costs are going to grow in aggregate for the country and for the people. In other words, health care costs will grow. The costs of long-term health care will grow. And so really the debate here is how much of that cost should be shouldered by the average American and how much should be shouldered by trying to shore up things like Social Security, Medicare, and other things. Isn't that one way to look at it?

Dr. HALL. Yes.

Senator VAN HOLLEN. So someone is paying for this at the end of the day, and the question is how we as a society decide to allocate those costs and whether or not we should ask folks at the very high income scale to, for example, pay more payroll taxes because if they do not, the costs are going to go up to seniors who are on retirement, on Social Security. And it is not that there are not other things we can do, but that has to be a major part of this conversation.

In terms of productivity, we talked about different levers, and obviously there are productivity gains through the private sector. We have talked, you and I in the past, about the different kinds of Federal investments, and some Federal investments can make a greater impact on innovation and potentially productivity than others.

If you were looking at the set of discretionary spending options and investments, have you done any analysis at CBO as to which could most impact in a positive way on productivity?

Dr. HALL. We do not have a lot on that because, frankly, the literature is very thin on the impact of different kinds of investment. One of the things that is really clear is different kinds of Federal investment have really different effects, but we just do not know that much about how the different kinds differ on things.

Senator VAN HOLLEN. Is that something that could be determined through analysis, do you think? Is that something that CBO—for example, investing in education, which we believe increases productivity if you have a more educated workforce. Is there a way for CBO to do that kind of analysis? After all, a lot of the research and development investment that helped innovation—DARPA and the Internet—a lot of those things began at least with Federal investment, not that the private sector does not quickly come in with a lot of its own. Is that something that CBO could undertake as a guide to the Congress with respect to investments that we might want to look at?

Dr. HALL. I am happy to get that question out because we have, in fact, been doing some work on that, and we are very close, for example, to putting out a little blog post talking about what we see in the evidence on the effects of something like education on productivity and some of those good things. And it is generally pretty positive. One of the issues, of course, with education is how much lag there is before it has an effect. But we do talk about the evidence in there, and we have something coming out actually very soon on that.

Senator VAN HOLLEN. Good. I look forward to seeing it. Thank you.

Thank you, Mr. Chairman.

Chairman ENZI. Senator King.

Senator KING. Thank you. A couple of different questions.

I think I remember there was a report several years ago that the overall analysis—and I think it was by the CBO—of the deficit impact of the Affordable Care Act was positive, that it would reduce the deficit over a 10-year period something like $1 trillion. Have you done any recent analysis of what the repeal, what a full repeal—which included repeal of all the taxes and fees that support the subsidies—what a full repeal would mean in terms of its economic effect on the——

Dr. HALL. Yeah, we, in fact, did that last in—to be honest, I cannot remember if it was June of last year or June 2015. I think it was maybe 2015. We did do an estimate of the full repeal, and we did have the dynamic analysis as part of that.

Senator KING. Could you give us a summary of what you found? Was it a net or a—was it a negative or a positive?

Dr. HALL. It was a positive. So the exercise was if you eliminate the ACA, it would actually have a negative impact and make the deficit worse on the whole.

Senator KING. OK. That is important. If you eliminate the ACA, it would make the deficit grow. Is that correct?

Dr. HALL. That is right.

Senator KING. OK. If you could supply that study, I would appreciate it.

Dr. HALL. Absolutely.

Senator KING. No. 2, with regard to investments, I have always thought, looking historically, that the GI bill is probably the best single investment that the U.S. Government ever made in terms of economic growth after World War II, and that may be a model for us.

Vice President Cheney once famously said, "Reagan proved deficits do not matter." Do deficits matter?

Dr. HALL. We think they do, and I think our deficit is at a high level, and the debt is at a high level, and I think it is already having an effect. It does create a drag on the economy and a drag on growth.

Senator KING. I agree with you. My problem is deficits around here seem to matter sometimes and then not others, and it seems to me if we could establish a consensus that deficits are a problem, are a drag on the economy, and do ultimately have to be paid back, we could then start to move toward solutions. I think they do matter, and I hope we can establish that kind of consensus.

We have got two levels of debt: the so-called public debt and then, as Senator Perdue mentioned, the Social Security debt that we owe. Why aren't they the same? I mean, I think, frankly, the picture is worse than it looks because we do not count Social Security as part of public debt. Most people want checks in the mail, not IOUs.

Dr. HALL. Actually, in our numbers we do include all the debt together. So our debt held by the public does include that, and that is sort of why we focus on that because we think that is the important number for the economy.

Senator KING. And the other issue is: How do we—again, to get back to my silver buckshot image, there is no single solution. We have to have economic growth. That would help considerably. We also have to have control of spending in a variety of areas. But there may be a question, again, because of the demographics. We are in a moment of a huge increase in demand on our Social Security and Medicare. Maybe we have to talk about where revenues are. Revenues historically for 50 years have been 17.4 percent of

GDP. But for 50 years, we did not have 10,000 people a day signing up for Medicare. Do you see what I mean?

Dr. HALL. Yes.

Senator KING. That there needs to be an adjustment in our thinking about revenues to adjust to the reality of the demographic tidal wave that we are facing. Would you agree?

Dr. HALL. Well, that is right, although I do want to say the growth in revenues is already historically at a high level.

Senator KING. By about four-tenths of a percent.

Dr. HALL. Right, and they are projected to grow. So we are already starting from a high level on revenues. We are at an even higher level on spending. So it is sort of this race really of both things, and spending is just outpacing revenue.

Senator KING. But the spending growth is in the Social Security and Medicare, not in discretionary, defense, and Pell grants and those areas. I think it should be clear.

Dr. HALL. Right.

Senator KING. We need to make it clear that those are actually declining.

Dr. HALL. That is right, they are. As a share of GDP, they are declining.

Senator KING. Finally, do you know of any economic studies or evidence that tax cuts stimulate economic growth? Because that is a kind of theological position around here, and I in my own research have not been able to find the data to support it. The evidence from the Bush tax cuts did not seem to stimulate—significant tax cuts in the middle of the last decade and in the State of Kansas where they have gone through this kind of giant economic experience, it does not seem to be working. You do not have to answer now, but if there is economic data on that, I would like to see it.

Dr. HALL. There is research on that, and we do think that tax cuts generally do, in fact, stimulate the economy, do increase growth. One of the big questions sort of is how much. You know——

Senator KING. Well, I can see a tax cut from President Kennedy when it was 90 percent down to 35. The question I would have is: Does going from 35 to 28 or 31, a kind of marginal change, does that have the kind of effect that, frankly, many people represent?

Dr. HALL. Well, we do think it has an effect, and I would be happy to give you some of the literature that we have written up about it, and we would actually be happy to come by and talk about it and talk our way through what we think the evidence is on it.

Senator KING. Because I think that is important, because that is a principle that drives a lot of the debate around here, and I think we ought to try to get to the data that underlies it. Thank you. I appreciate it.

Dr. HALL. Sure.

Senator VAN HOLLEN. Mr. Chairman, could I just ask the Director for clarification? Just on the revenue level, I think you mean in aggregate terms the absolute dollar amount. But as a percent of GDP, we are still like in the early 2000s, 2001, where it was 20 percent, 19 percent of GDP. So it is not higher as a percent of GDP today, right?

Dr. HALL. Well, it is higher than the average over the last 50 years.

Senator VAN HOLLEN. Right.

Dr. HALL. But it has been higher before.

Senator VAN HOLLEN. Thank you. I just wanted that clarification.

Chairman ENZI. Senator Boozman.

Senator BOOZMAN. Thank you, Mr. Chairman. I apologize for sneaking out. We have an Environment and Public Works hearing going on at the same time.

Thank you for being here. As you know, Congress has become increasingly reliant on short-term continuing resolutions (CRs) to fund the Government. Can you talk briefly about the impact that the CRs have on the debt long term, and then, also, just on the efficiency of Government in general with the agencies?

Dr. HALL. Sure, sure. I suppose in my mind one of the things with the CRs constantly is there is sort of no plan there. There is no effort to sort of plan on what you are going to do over the next 10 years or something like that. So it winds up being perhaps very short-run thinking.

With respect to affecting the Government, I can draw back on my experience. I run an agency——

Senator BOOZMAN. So it affects your agency.

Dr. HALL. Well, it affects our agency, and I spent some time heading the Bureau of Labor Statistics, and I know what it is like for an agency not to know what their budget is going to be. And maybe more importantly at some point getting halfway through the fiscal year before you know if you have got any money to finish the year out, that makes it hard to have as efficient a Government as we should have.

Senator BOOZMAN. Right. Very good. In 2027, discretionary spending will be at the lowest level as a percentage of GDP that it has been since 1962. Despite this, both deficits and the overall debt are expected to increase dramatically. Is it correct then to say that Congress' current approach to reducing the deficit—that is, only reducing discretionary spending—is sustainable in the long term?

Dr. HALL. That will be very difficult, and I can give you a good example. Right now, in 10 years we forecast that the deficit is going to be about $1.4 trillion. Total discretionary spending in 10 years will be about $1.5 trillion. So it is essentially—if you did it all with discretionary spending, both defense and non-defense, you would wipe out all the discretionary spending to balance the budget.

Senator BOOZMAN. One final thing. Is there a risk of inflation rising past the 2 percent target set by the Federal Reserve? If that happens, you know—and, again, you can evaluate the risk. If so, what impact would it have on the national debt? And then, also, that triggering interest rate rise, you know, what impact would that have on the national debt?

Dr. HALL. Sure. Well, we already anticipate that the Fed is going to raise the Federal funds rate to try to keep inflation under control, and that is a big part of our forecast that interest rates are going to rise.

Senator BOOZMAN. So what does a 1 percent, half percent rise cost?

Dr. HALL. About a 1 percent rise in interest rates over the 10-year period, it comes out to be something like $1.6 trillion, which is a really big number. So that interest rate is one of the more important things on the debt.

Senator BOOZMAN. And, traditionally, the service of the debt is so much higher than it is—what is it today, 2 percent, something like that?

Dr. HALL. Yeah, it is pretty low.

Senator BOOZMAN. So, historically, I think it is 5, 6 percent. So, you know, that is not an imaginary scenario. That is something that has a very real chance, you know, of coming back up where we are going to increase 2 or 3 percent, which would cause what kind of troubles?

Dr. HALL. Well, it is certainly going to raise the debt service, the net interest, and we are going to start seeing the net interest payment being a really big chunk of the Federal budget. It is going to do a lot of things not only sort of restricting your flexibility to do things with the budget, but also those rising interest rates affect the economy. It probably crowds out some private investment. We probably do not get as much capital stock, and we probably do not have the productivity growth that we would like to have in terms of long-run growth.

Senator BOOZMAN. All right. Thank you, Mr. Chairman. Thank you.

Chairman ENZI. Senator Whitehouse.

Senator WHITEHOUSE. Thank you, chairman. Welcome back, Director. Good to see you.

Dr. HALL. Thank you.

Senator WHITEHOUSE. With a new Congress and a new administration, I wanted to just briefly review the bidding with you on some of the issues that we have talked about in the past. The first is whether you still believe that tax expenditures remain a form of Federal spending.

Dr. HALL. Well, I do not want to make a judgment on that, but tax expenditures are a very large number, and they do dwarf a lot of categories of Federal spending.

Senator WHITEHOUSE. And a tax expenditure of $1 has the same effect on the debt and the deficit as direct spending of a $1.

Dr. HALL. Right, right. And this is, you know—well——

Senator WHITEHOUSE. All other things being equal, obviously, being the understood——

Dr. HALL. Yes.

Senator WHITEHOUSE. Second, do you continue to believe that reform of the delivery system in health care has promise to reduce health care costs on a going-forward basis?

Dr. HALL. We certainly think that about some of the reforms that have happened as part of the ACA. We still—it is very hard to forecast. We still see the health care costs continuing to grow faster than GDP does, so it is going to start taking—continue to take a bigger and bigger share of the pie, and that is——

Senator WHITEHOUSE. Adjusted for the demographic change or incorporating the demographic change?

Dr. HALL. Yeah, even adjusted for the demographic change, we still see expenditure per person or per patient being one of the growing parts of the budget.

Senator WHITEHOUSE. Well, I think it is a great place for us to continue to work on, because I am seeing primary care provider groups in Rhode Island that have declared themselves accountable care organizations within the program that the ACA set up who are changing the way they do business and changing the way they are paid by different payers, and the result has been happier customers, better-served patients, and a lower cost per capita of their patient network. And there have been very significant shared savings between the Federal Government and these practices, and I think this is really just the leading edge, because they are kind of cutting-edge providers who have worked terribly hard to do this. But the fact that they are already seeing significant results, big numbers by Rhode Island standards, I think gives us some confidence.

Last September, I asked you what CBO was doing to study how the ACA has affected Federal health spending, and you replied that, "We are going to be getting data and looking at real data." Since September to now, give us an update on where you are on that project.

Dr. HALL. Sure. We are getting—obviously, we are getting data. We are getting—obtaining it to adjust our estimates of the spending. I think right now our current estimate is that spending on the Medicare expansion is about $70 billion, and I think on the subsidies it is about $56 billion. So we are—we have actually been pretty accurate in our forecasts on those things.

Senator WHITEHOUSE. I think we were talking more about this graph, which I think is yours, that shows the adjusted forecast Federal spending, and CBO has repeatedly dropped the forecast since the ACA was passed. And the question was: To what extent has that reduced forecast of Federal spending in the out-years been connected to programs contained within the Affordable Care Act?

Dr. HALL. Yeah, I see——

Senator WHITEHOUSE. But it shows $3.3 trillion in net savings just in the 2018–2027 window vis-à-vis the 2010 projection. So if I could make a question for the record to get an update on where you are in terms of evaluating that connection, that would be helpful.

Dr. HALL. OK.

Senator WHITEHOUSE. And the last question is that climate change portends out-year costs for the Federal Government that ought to be budgeted, does it not?

Dr. HALL. Well, we have certainly just recently put out a report on the likely impact of climate change on hurricane frequency and sea levels and what that means for the Federal budget with some recommendations about what you all can look at to impact that.

One of the issues, of course, is that it is looking 30 years ahead, and a lot of the impact is perhaps beyond 30 years. But we do have some estimates of that. I do not have them handy.

Senator WHITEHOUSE. Mr. Chairman, we just got the updated report from the National Oceanic and Atmospheric Administration (NOAA) on the anticipated sea level rise for Rhode Island by the end of this century, and they have raised it from 6 feet to 9 feet. And while it makes a shorter drive to the beach for somebody in Wyoming, it is a very deadly serious matter for Rhode Island. And I hope that we can look forward to a day when we can have a sober and sensible discussion about that here in Congress.

Thank you, sir.

Chairman ENZI. We have a little bit of room yet in Wyoming for a few additional people if they want to move to higher ground.

Senator WHITEHOUSE. Well, interestingly, the Majority Leader's home State did a study that showed that Kentucky might actually expect an influx of population from people fleeing battered coasts as a result of climate change. So even Kentucky sees it coming. They just see it in a different light.

Chairman ENZI. In light of climate change, Wyoming has been completely underwater three times.

Senator WHITEHOUSE. So you sympathize with what I see coming.

Chairman ENZI. Absolutely, yes. It can be easier to get sailing lessons there. I have been there, done that.

I am going to change the topic pretty dramatically here in my questions, because we are dealing with some pension deficits in the private sector that are huge, and we have required the private sector to do some substantial investment so that they could keep ahead of that. But that prompted me to worry a little bit about how States are handling their pensions, and that led me to worrying about how the Federal Government is handling its pensions.

What kind of resources do we have set aside to handle the pensions? At the last hearing that we had, I was shocked to hear—and I do not know whether it is an accurate figure, but I imagine it is pretty close—that one-third of our Federal work force will retire by 2020. What kind of assets do we have set aside to be able to fund our pension plans?

Dr. HALL. You know, I do not have that information in front of me, but we have actually been doing some work on sort of forecasting looking at that. So we can follow-up and see what we can get you on that.

Chairman ENZI. OK. Do you have any idea where that pension money comes from now?

Dr. HALL. Why, I presume it is part of spending.

Chairman ENZI. Part of the general fund?

Dr. HALL. Yes.

Chairman ENZI. We have no money set aside for——

Dr. HALL. Oh, I am sorry. I see where you are going. That is right. We do not have any money set aside. That is right.

Chairman ENZI. So part of the deficit problem that we have will be when one-third of the Federal work force retires and expects their pensions.

Dr. HALL. That is right.

Chairman ENZI. And that is probably another pension crisis that we better be figuring on.

Did you have some more questions, Senator King?

Senator KING. Just one more. I would be interested—and maybe this has to be done for the record—in what your estimates are or what your assumptions are that are built into these projections of health care inflation? I noticed, for example, that Medicare, adjusted for October 1st, was about a 5 percent increase last year, and the general economy was—inflation was 1.5 percent. What I am interested in is a sensitivity in the projections to various estimates of health care inflation. My impression is that, of all these things we are talking about, one of the most important factors in growth of the Federal deficit is health care inflation, and if that could be held, for example, to half of 5 percent through a variety of changes, that would be a significant—that would improve these numbers considerably. Isn't that so?

Dr. HALL. Yeah, I think that would have certainly a noticeable effect, and I would be happy to follow-up and see what we can tell you about what our forecast is and give you some idea.

Senator KING. What I would like to see is, you know, a range.

Dr. HALL. Sure.

Senator KING. Starting with your similar interest rate assumption to 5, 6, or whatever you are using. I think it points to an underlying issue that we really need to be talking about. With all the debate of the Affordable Care Act and the issues surrounding it, we are not really talking about the underlying cost of health care, which is going to be a driver of our economic stress, both in our Federal budget and in our household budgets, regardless of who is paying, of what the insurance mechanism is. And I am concerned that we have not really focused sufficient attention on that, and delivery mechanisms and how the system can be made—because we are, as you know, paying about twice per capita for health care as any other developed country in the world. And that is an underlying problem that it seems to me we need to address.

Dr. HALL. Sure. Like I say, we would be happy to follow-up.

Senator KING. Thank you.

Thank you, Mr. Chairman.

Chairman ENZI. Senator Boozman, do you have any additional questions?

Senator BOOZMAN. No, sir. Thank you, though.

Chairman ENZI. I have one additional one that I see here, and that is, it is often said that the longer we wait to reform Social Security, the more difficult it will be. In 2015, Congress had an opportunity to reform the disability program. Instead, we punted and transferred money from the retirement program and postponed reform. The latest CBO estimates show the disability trust fund will be exhausted in 2023. Can you give us a sense of how much more difficult it will be to reform Social Security if we wait until 2023?

Dr. HALL. It would be a lot harder, and this is one of the recurring themes, I think, of our entire report. It is Social Security, it is disability. These are problems that we have seen coming for decades, and they are getting closer now. And absolutely the quicker we do something, the better. If we look at achieving, say, a 75-year solvency for the Social Security trust funds, just right now that would require a 33 percent reduction in benefits. And if we wait 6 years, something like that, that goes up to 38 percent. So it goes up about 5 percentage points every 6 years, something like that.

So there is a real cost to waiting, because the longer we wait the bigger the cut in benefits or the increase in taxes that we need.

Chairman ENZI. Thank you. In conjunction with Senator Sanders, we will have some additional questions on the levers on Social Security. I invite Senator Boozman and Senator King to be a part of that, too, because I think it is some information that we really need to gather quickly.

Thank you very much for——

Dr. HALL. Thank you.

Chairman ENZI [continuing]. Being willing to do this and for your answers and for the conciseness of your answers.

Now, if anybody has additional questions, those are due by 6 p.m. today, with a hard copy delivered to the committee in 624, and we would ask that you respond to those as quickly as possible.

So with no further business, this meeting is adjourned.

Dr. HALL. Thank you.

[Whereupon, at 11:45 a.m., the committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

Congressional Budget Office

APRIL 6, 2017

Answers to Questions for the Record Following a Hearing on the Budget and Economic Outlook for 2017 to 2027 Conducted by the Senate Committee on the Budget

On February 1, 2017, the Senate Committee on the Budget convened a hearing at which Keith Hall, Director of the Congressional Budget Office, testified about CBO's report The Budget and Economic Outlook: 2017 to 2027 *(www.cbo.gov/publication/52370). After the hearing, Chairman Enzi, Ranking Member Sanders, and other Members of the Committee submitted questions for the record. This document provides CBO's answers.*

Chairman Enzi

Question. The budgetary impact of repealing the Affordable Care Act was briefly discussed during the hearing, but not with respect to any specific legislative proposal. As you are aware, CBO has prepared a number of estimates of the budgetary effects of H.R. 3762, the Restoring Americans' Healthcare Freedom Reconciliation Act of 2015. In CBO's most recent cost estimate of that legislation (released on January 4, 2016), what was the estimated impact of that legislation on the federal deficit? Please clarify what CBO's conclusions were regarding the budgetary impact of H.R. 3762 with and without macroeconomic feedback effects.

Answer. On January 4, 2016, CBO released an estimate of the budgetary effects of H.R. 3762, the Restoring Americans' Healthcare Freedom Reconciliation Act.[1] That estimate included two components—one that did not include the effects of any feedback to the budget from economic changes brought about by the bill (that is, the economic variables underlying the estimate were held constant) and another that incorporated such macroeconomic feedback.

Before accounting for macroeconomic feedback, CBO and the staff of the Joint Committee on Taxation (JCT) estimated that enacting H.R. 3762 would have reduced deficits by about $318 billion over the 2016–2025 period. That estimate reflects a $1.4 trillion reduction in outlays partially offset by a $1.1 trillion decrease in revenues.

After accounting for the effects of macroeconomic feedhack on revenues and spending, CBO and JCT estimated that the legislation would have reduced federal deficits by a total

1. Congressional Budget Office, cost estimate for H.R. 3762, the Restoring Americans' Healthcare Freedom Reconciliation Act, as passed by the Senate on December 3, 2015, and following enactment of the Consolidated Appropriations Act, 2016 (January 4, 2016), www.cbo.gov/publication/51107.

of $516 billion over the 2016–2025 period. The largest estimated change stemming from macroeconomic feedback was an increase in revenues arising from an increased supply of labor and capital, which in turn would have boosted employment and taxable income.

Question. The longer we wait to reform Social Security, the more difficult it will be. In order for Congress to make sure benefits remain available over the long-term, we need to discuss all reform options, with everything on the table. What levers are available to Congress to shore up the solvency of the Social Security trust fund?

Answer. To improve the financial status of the Social Security trust funds, the Congress would have to increase income to the trust funds, reduce outlays, or do both. Additional income could be generated for the funds by, for example, increasing the Social Security payroll tax rate, the amount of earnings subject to the payroll tax, or the amount of Social Security benefits that are subject to the income tax. Options to reduce scheduled benefits typically fall under one of three general approaches: change the benefit formula, increase the full retirement age, or reduce the cost-of-living adjustments. In December 2015, CBO analyzed 36 policy options frequently proposed by policymakers and analysts, most of which would improve Social Security's long-term finances.[2]

Although CBO has not updated its analysis of those options, the agency expects that updated estimates of the options' long-term effects would be broadly similar to those reported in 2015. For example, CBO reported that gradually increasing the payroll tax rate by 3 percentage points over 60 years would improve the 75-year actuarial balance, measured as a share of gross domestic product (GDP), by 0.5 percentage points, as would gradually reducing benefits by 15 percent for newly eligible beneficiaries over 10 years, starting in 2023.[3] Each of those options would eliminate about one-third of the shortfall in the program's finances.

By itself, no individual option that CBO examined would create long-term stability for the Social Security program. Some options would affect all workers or beneficiaries similarly; others would have widely disparate effects, depending on a beneficiary's year of birth or lifetime earnings. The effects of many of the options could be changed if they were implemented on a larger or smaller scale or phased in more slowly or quickly, although the resulting effects would not necessarily be proportional to the results presented in the report. If the goal was to address Social Security's long-term imbalance, it would be necessary to combine several of the options that CBO analyzed. However, the effects of several policy changes implemented together are not always equal to the sum of the individual effects of those policy changes.

Question. According to the recently released January 2017 CBO baseline, the Government is expected to spend nearly one trillion dollars ($997 billion) over the budget window (FY 18–FY 27) in order to meet obligations of the Federal Civil Service Retirement and Disability Fund (CSRDF), the trust fund that accounts for obligations to make annuity payments to retired federal civilian workers.

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2. See Congressional Budget Office, *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011.

3. The actuarial balance is the sum of the present value of projected tax revenues and the current trust fund balance minus the sum of the present value of projected outlays and a year's worth of benefits at the end of a given period. A present value is a single number that expresses a flow of future income or payments in terms of an equivalent lump sum received or paid at a specific time.

Is it the case that the CSRDF resembles the Social Security trust funds, in that it holds no actual financial assets—except for Treasury IOUs—with which to pay this trillion dollars?

Although taxpayers fund the majority of the cost of federal employees' annuities, the employees themselves pay a share of the cost (which is spent each year by the Government). How much does CBO expect federal employees to pay the Treasury from FY 18–FY 27, as their contribution toward the cost of their future annuities?

If Congress were to increase that federal employee contribution rate on a forward-looking basis only—with the increase only applicable to new hires—would the resulting deficit reduction achieved be much smaller in the ten-year budget window than it would be in subsequent decades?

Answer. Most assets in the Civil Service Retirement and Disability Fund—like all assets in the Social Security trust funds—are invested in special-issue U.S. Treasury securities. Inflows to the CSRDF come from contributions from federal employees and their employing agencies as well as transfers from the general fund of the Treasury. Annuity payments to beneficiaries account for almost all of the outflows from the fund.

All told, those inflows to and outflows from the fund are projected to balance out over the long term—that is, unlike the Social Security trust funds, the CSRDF is not in danger of being exhausted. But a significant part of the fund's annual income comes from the general fund in the form of interest payments and an annual payment to cover the unfunded liability of the Civil Service Retirement System. (The current Federal Employees' Retirement System is required by law to be fully funded.) The cash to make the benefit payments that are not covered by annual contributions from employees and their employing agencies has to be generated each year through taxes, income from other government sources, or borrowing from the public.

From 2018 through 2027, federal employees will pay $52 billion to the CSRDF for retirement benefits, CBO estimates. Their contributions to the fund are counted as revenues to the federal government, whereas federal agencies' contributions are intragovernmental transfers—not revenues—and thus have no effect on the government's budget deficit.

The Middle Class Tax Relief and Job Creation Act of 2012 increased the contribution rate from 0.8 percent to 3.1 percent for most employees hired after December 31, 2012, and the Bipartisan Budget Act of 2013 further increased the contribution rate to 4.4 percent for most employees hired after December 31, 2013. As a result, employees' annual contributions as a percentage of the fund's annual outlays are, under current law, projected to increase over time—and to continue increasing beyond the 10-year budget window—as the number of employees paying at the higher rate increases.

If the Congress raised the employee contribution rate for new hires, the associated increase in revenues—like those associated with previous contribution changes—would grow over time, so the increase from 2018 to 2027 would be smaller than the increase over future periods of the same length. However, all else being equal, that growth would slow down and eventually stop as current employees (who contribute at the lower rate) left the federal workforce and were replaced by new employees (who would contribute at the higher rate), but that would not occur for several decades.

Ranking Member Sanders

Question. In January 2017, CBO estimated that repealing portions of the Affordable Care Act—specifically, repealing the mandate penalties and subsidies of the Act while leaving the popular market reforms in place, as has been proposed by Republicans for the FY 2017 Budget Reconciliation bill—would rip health coverage away from 32 million Americans and cause health insurance premiums in the individual market to double by 2026.

It is my understanding that if the Affordable Care Act is repealed, the change in law will be reflected in CBO's baseline budget projections as well as projections of health insurance coverage in the population and the cost of health insurance premiums. Measured against such a baseline, where millions of Americans have been stripped of coverage and premiums have skyrocketed, so-called plans to "replace" the Affordable Care Act may appear to increase the number of insured individuals and decrease health insurance premiums.

These estimates could significantly misrepresent the true net effect of repealing and replacing the Affordable Care Act, which is that fewer people would have health coverage and health insurance would become more costly than under current law. Opponents of the Affordable Care Act, including the President, have said their replacement plans will result in greater numbers of insured with lower costs for consumers compared to the Affordable Care Act. It is important that everyday Americans as well as Members of Congress are able to see a comparison of these replacement plans against the Affordable Care Act made by the independent, nonpartisan Congressional Budget Office.

If the Affordable Care Act is repealed, will CBO work with interested parties to compare the effects of any replacement plans on Americans' health care coverage and costs relative to what Americans had when the Affordable Care Act was law and what they would have had if the law was still in effect?

Answer. Yes. If requested to do so, CBO would, to the extent practicable, prepare such an analysis.

Question. The non-partisan Tax Policy Center (TPC) has estimated that the House Republicans' "Better Way" tax reform plan would reduce revenue by $3.1 trillion over a decade. TPC also found that even when using so-called "dynamic scoring," the plan would still increase the national debt by at least $3 trillion over a decade.

The House GOP claims its tax plan to be deficit-neutral, apparently based on estimates from the conservative Tax Foundation, which believes the plan would have far more dramatic macroeconomic effects.

But Congress relies on estimates from the Joint Committee on Taxation (JCT) which typically produces macroeconomic analyses that are much closer to those of the Tax Policy Center than the Tax Foundation.

Do you believe JCT's macroeconomic analysis of tax bills (which is incorporated into CBO's analysis) is the most accurate available? Do you believe Congress and the public should rely on JCT's estimates of the impacts of tax reform proposals, or do you think Congress should ignore JCT and look instead to an outside group like the Tax Foundation?

Answer. For many years, CBO has worked closely with the staff of the Joint Committee on Taxation and has found their analysis to be well-researched, thoughtful, and objective.

Question. Over the next decade, CBO projects that we will collect tax revenue equal to 18.2 percent of GDP. Federal outlays have exceeded that level in all but five years in the past five decades. This includes every year of the Reagan administration, every year of the George H.W. Bush administration, and all but one year of the George W. Bush administration.

In your opinion is it feasible for Congress to balance the budget without raising taxes at all, given that spending would have to come down to levels that are all but unprecedented in the past 50 years to achieve that?

Answer. Balancing the federal budget by the end of 2027 without raising taxes is possible, but it would require policymakers to reduce spending significantly. For example, all else being equal, if the Congress reduced noninterest spending by about 2.1 percent in 2018 and by an additional 2.1 percent in each subsequent year (so that noninterest spending was 4.2 percent lower than the baseline amount in 2019, 6.3 percent lower than the baseline amount in 2020, and so on), the budget would be balanced by the end of 2027. The reductions in noninterest spending would total about $5.9 trillion over the 2018–2027 period (growing from $80 billion in 2018 to about $1.2 trillion in 2027). That reduction in spending would lower federal borrowing and thus reduce interest payments over the period by about $600 billion. Under that illustrative scenario, total spending in 2027 would equal about 18.3 percent of GDP—lower than the 50-year average of 20.3 percent and lower than it has been since 2001.

In general, to balance the budget, lawmakers would have to significantly change tax policies to increase revenues above what they would be under current law, substantially alter spending policies to reduce outlays for large benefit programs below the projected amounts, or adopt some combination of those approaches.

Question. CBO projects that after 2020 federal revenue stemming from the corporate income tax will decline as a share of GDP. Your report explains that there are many reasons for this, but part of the explanation is schemes like corporate inversions that are used by American corporations to avoid paying U.S. taxes.

Especially in light of your remarks during today's hearing, in which you referred to the erosion of our tax base by parking profits offshore, should Congress try to raise revenue by closing the loopholes that allow this corporate tax avoidance?

A 2016 GAO study produced at my request found that the share of large, profitable corporations in the U.S. paying nothing in federal income taxes was 19.5 percent in 2012 and 24.1 percent in 2011. That GAO study also found that the *effective* rate paid by large, profitable U.S. corporations from 2008 through 2012 was 14 percent.

In light of this, do you believe we are overly burdening our corporations with taxes?

Answer. In keeping with the agency's mandate to provide objective, impartial analysis, CBO does not make recommendations. Therefore, it takes no position on whether the Congress should attempt to raise additional revenues by closing loopholes in the corporate tax code or whether the corporate income tax burden is too high or too low.

In *The Budget and Economic Outlook: 2017 to 2027,* CBO projected that under current law, corporate income tax receipts would rise from 1.7 percent of GDP in 2017 to 1.8 percent in 2020 and then gradually decline to 1.6 percent of GDP by 2027. That pattern over the next decade is the net effect of a number of factors, including an expected increase in the use of certain strategies that many businesses and investors employ to reduce their tax liabilities. One such strategy is for firms to organize their business activity in a way that reduces income that is subject to the corporate income tax. For example, a business may split its business activity so that less of its income is subject to the corporate income tax, or a new business may choose to organize as an entity that is subject only to the individual income tax. Another strategy is to increase the amount of corporate income that is shifted out of the United States through a combination of methods such as setting more aggressive transfer prices, increasing the use of intercompany loans, or undertaking corporate inversions.

Even though corporations remit the tax payments, the burden of corporate income taxes is ultimately borne by households. In its analyses of the distribution of household income and federal taxes, CBO allocates 75 percent of corporate income taxes to households in proportion to their share of capital income (that is, income from interest, dividends, adjusted capital gains, and rents) and the remaining 25 percent to households in proportion to their share of labor income. In its most recent report on the subject, CBO estimated that households in the top 20 percent of the before-tax income distribution bore almost 80 percent of corporate income taxes.[4] Even within that group, the burden is distributed disproportionately: Households in the top 1 percent of the income distribution bore 47 percent of the corporate tax burden.

Question. Last week, Congressman Mulvaney—the President's nominee for OMB Director—told this Committee that he doubted what climate scientists have now almost universally concluded, which is that humans are contributing to climate change. He also expressed doubt in how, or even if, climate change impacts the federal budget.

GAO began looking into the budgetary effects of climate change several years ago, and CBO has started doing the same.

The reason for this is simple: Climate change has a huge impact on the federal budget. It affects our national security infrastructure, especially military installations close to shorelines, our transportation infrastructure, the cost of flood insurance, of crop insurance, and of our response to natural disasters.

Director Hall, can you outline some of the ways climate change impacts the federal budget?

Moreover, as information pertaining to climate change has disappeared from the websites of the White House and the EPA, can you commit that reports on the subject will remain available at cbo.gov?

Answer. Climate change may affect the federal budget in several ways—not only through mandatory spending programs (such as federal crop insurance and the National Flood Insurance Program) and discretionary spending programs (such as postdisaster relief for

4. See Congressional Budget Office, *The Distribution of Household Income and Federal Taxes, 2013* (July 2016), www.cbo.gov/publication/51361.

hurricanes and wildfires) but also by changing the nation's economic output, which in turn affects federal spending and tax receipts.

Under the rules governing baseline projections, some of the potential budgetary effects of climate change can be reflected in the baseline, but some cannot. Some of the programs most affected by weather-related disasters, such as federal crop insurance and flood insurance, are mandatory spending programs. For those programs, CBO attempts to incorporate into its projections all factors that might affect spending under current law—including land use and crop yields, which may be affected by climate change.

For discretionary spending that is affected by weather-related disasters, such as spending by the Disaster Relief Fund operated by the Federal Emergency Management Agency, CBO is required to apply a different treatment. As specified by law, CBO's 10-year baseline projections reflect the assumption that the amount of discretionary funding appropriated for a particular program or activity will grow from the amount provided in the current year at the rate of inflation. (The baseline also incorporates the assumption that total discretionary appropriations are constrained by the caps imposed by the Budget Control Act of 2011, as amended.)

The Congress has typically responded to large-scale weather-related disasters, such as Hurricanes Katrina and Sandy, by enacting legislation to increase spending—providing emergency supplemental appropriations for disaster relief, for example. If climate change led to more severe or more frequent weather-related disasters in the future, lawmakers might spend more on such appropriations than would otherwise be the case. For example, damage from storm surges might lead the Congress to pass additional emergency supplemental appropriations for disaster relief or to provide funding to protect vulnerable infrastructure. Alternatively, the Congress might amend existing laws in order to limit federal spending on weather-related disasters—for instance, by increasing the share of postdisaster assistance for which states and localities are responsible. However, in accordance with the rules that govern such projections, CBO's baseline projections reflect the assumption that current laws will remain in place, so they cannot account for legislative changes that might increase or decrease such spending in the future.

Climate change may also affect the nation's economic output and, consequently, federal tax revenues. However, researchers estimate that those effects will probably be very small in the near future. For example, one recent study found that over the 2020–2039 period, the effect of climate change on outdoor workers' productivity would probably be between an increase of 0.03 percent and a decline of 0.38 percent. (Such estimates are very uncertain.) In addition, CBO has concluded that changes in the frequency of major hurricanes could have persistent negative effects on economic output, but only if climate change made such storms frequent enough that the economy was unable to fully recover from one catastrophic storm before it was hit by another. In contrast, CBO has concluded that, over the long run, a single hurricane would have no significant impact on the nation's GDP. That conclusion reflects the fact that, in the long run, GDP is determined by the size of the capital stock (which is determined by capital across the country, national saving, and capital inflows, none of which are likely to be permanently affected by one hurricane) and by the labor supply and technological progress (which are also unlikely to be permanently affected).

After publishing a report about hurricane damage and the federal budget last year, CBO is currently examining the fiscal viability of the National Flood Insurance Program.[5] That analysis draws upon the most recent estimates of flood risk under current conditions. CBO is also currently assessing the federal crop insurance program by qualitatively analyzing factors—such as weather and the long-term implications of climate change—that affect the government's budgetary costs. When CBO completes those reports, it will make them publicly available on the agency's website; CBO's past reports will remain available on the website.

Question. According to CBO's January 2017 baseline, the Federal Student Loan Program continues to make a profit off of student loan borrowers. Excluding administration costs, the student loan program is projected to generate more than $110 billion in profits for the federal government over the next ten years, an increase of more than $30 billion from CBO's January 2016 baseline.

Last Congress, I introduced legislation that would lower student loan interest rates for new borrowers and allow existing borrowers to refinance their loans to those lower rates. The bill also helps end the shameful practice of the federal government generating a profit off of student loan borrowers.

In part, my bill lowers student loan interest rates by basing student loan interest rates on the 91-Day Treasury Bill instead of the Ten-Year Treasury Note—a practice that was in place under Presidents Clinton and George W. Bush. According to your testimony and CBO projections, the 91-Day Treasury Bill is projected to have lower interest rates over the next decade than the Ten-Year Treasury Note.

If Congress were to tie student loan interest rates to the 91-Day Treasury Bill instead of the Ten-Year Treasury Note and made no other changes to the student loan program, would student loan interest rates be lower for students next year? How about over the next ten years?

Would moving to the 91-Day Treasury Bill decrease the profits the federal government currently generates from the student loan program?

Answer. Under current law, the interest rates paid by borrowers on federal student loans disbursed between fiscal years 2017 and 2027 are based on the 10-year Treasury note and fixed for the term of the loan. If instead interest rates were based on the 3-month Treasury bill but were still fixed for the term of the loan, rates on loans originated in each of the next 10 years would, in CBO's estimation, be lower than they would be under current law. Such a change would increase budget deficits because the government would receive less in interest payments from borrowers than it would receive under current law.

In every year of the next decade, the interest rate on 10-year Treasury notes is projected to exceed the rate on 3-month Treasury bills. In January 2017, CBO projected that the 10-year rate would grow from an average of 2.2 percent in fiscal year 2017 to 3.6 percent in fiscal year 2027. Over that same period, the agency estimated, the 3-month rate would grow from 0.6 percent to 2.8 percent.

5. See Congressional Budget Office, *Potential Increases in Hurricane Damage in the United States: Implications for the Federal Budget* (June 2016), www.cbo.gov/publication/51518.

To project the costs of the federal student loan programs, CBO uses the procedures established in the Federal Credit Reform Act of 1990 (FCRA). Those procedures require that the lifetime cost of a federal loan be expressed as the present value of the loan on the date that it is disbursed. A present value is a single number that expresses current and future cash flows in terms of an equivalent lump sum received or paid at a specific time. The present value of a given set of cash flows depends on the rate of interest—known as the discount rate—that is used to translate those flows into current dollars. Under the rules specified in FCRA, the expected future cash flows related to loans administered under federal programs—including the amounts disbursed, all projected payments of principal and interest, and the projected losses resulting from defaults—are discounted using the rates on Treasury securities with similar terms to maturity. Using those procedures, CBO estimates that from 2017 to 2027, the federal student loan programs will yield a net *gain* to the government of $73 billion.

The House and Senate budget resolutions also require CBO to provide supplemental estimates of the cost of federal credit programs on a fair-value basis, in which present-value estimates of cost are based on market values. Fair-value estimates differ from FCRA estimates in that they include the cost of the loans' market risk.[6] In practice, CBO accounts for the cost of market risk in its fair-value estimates by discounting expected future cash flows using market-based rates, which are generally higher than the Treasury rates used in FCRA. Using fair-value procedures, CBO estimates that from 2017 to 2027, the federal student loan programs will have a net *cost* of $173 billion.

Although the projected cost of the student loan programs would increase regardless of the method used to calculate it if interest rates for student loans were based on the 3-month Treasury bill instead of the 10-year Treasury note, CBO expects that the reduction in the net gain projected under FCRA would be slightly smaller than the increase in the net cost projected using the fair-value method because of the difference in discounting.

Senator Corker

Question. A steady progression of CBO directors has appeared before the Senate Budget Committee to warn members of the dangers associated with our failure to remedy the structural imbalance between revenues and expenditures in the federal budget. CBO's outlook reveals that the danger has not receded. Under current law, CBO predicts trillion dollar deficits will return—and stay—driven by unchecked spending on entitlements and tax expenditures. As a consequence, our debt burden will grow by nearly $10 trillion over the next decade. The net result is a mountain of debt that must be repaid, not by our generation, but by our children and grandchildren. This fact pattern is both unsustainable and immoral.

6. Market risk is the component of financial risk that remains even after investors have diversified their portfolios as much as possible. It arises because macroeconomic conditions (such as productivity and employment), as well as expectations about future macroeconomic conditions, change over time. Most credit programs expose the government to market risk because any losses incurred on its loans or loan guarantees would probably be concentrated in periods when the economy was weak and borrowers were unable to repay their loans. Incorporating the cost of the market risk associated with federal programs in estimates of the programs' costs aligns the government's valuation of the cost of the risk it bears with the market value of the cost of a similar risk borne in the private sector. For additional discussion, see Congressional Budget Office, *Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024* (May 2014), www.cbo.gov/publication/45383.

a. Can we avoid harming future generations by balancing the federal budget and not adding to our debt, or is it necessary to go further—to run surpluses and actually pay down our debt?

b. CBO often refers to our growing debt burden as "unsustainable." What actually happens when a nation's debt load reaches the tipping point and is no longer sustainable? Please describe the chain of events we can expect if we take no action to reduce our debt.

c. Is it possible to stabilize our debt without addressing the growth in entitlement spending?

Answer. CBO has written frequently about the potential long-term consequences—both for the economy and for the federal budget—of high and rising debt.[7] It is up to lawmakers to decide on an appropriate target for the amount of federal debt, but it is clear that the ratio of debt to the size of the U.S. economy (debt as a percentage of GDP) cannot rise forever.

CBO has also studied how waiting to resolve the long-term fiscal imbalance would affect various generations of the U.S. population. In 2010, the agency compared economic outcomes under two policies: one that would stabilize the debt-to-GDP ratio starting in a particular year and another that would wait 10 years to do so.[8] That analysis suggested that generations born after the earlier implementation date would he worse off if the stabilization was delayed by 10 years. People born more than 25 years before that earlier implementation date, however, would be better off with delayed action—largely because they would avoid the effects of some or all of the policy changes needed to stabilize the debt. The cohort born between those two groups could either gain or lose from delayed action, depending on the details of the policy changes.

A large and continuously growing federal debt would increase the chance of a fiscal crisis in the United States. Specifically, investors might become less willing to finance federal borrowing unless they were compensated with high returns. If so, interest rates on federal debt would rise abruptly, dramatically increasing the cost of government borrowing.[9] That increase would reduce the market value of outstanding government securities, and investors could lose money. The resulting losses for mutual funds, pension funds, insurance companies, banks, and other holders of government debt might be large enough to cause some financial institutions to fail, creating a fiscal crisis. An additional result would be a higher cost for private-sector borrowing because uncertainty about the government's responses could reduce confidence in the viability of private-sector enterprises.

It is impossible for anyone to accurately predict whether or when such a fiscal crisis might occur in the United States. In particular, the debt-to-GDP ratio has no identifiable tipping point to indicate that a crisis is likely or imminent. All else being equal, however, the larger a government's debt, the greater the risk of a fiscal crisis.

7. See, for example, Congressional Budget Office, *The 2017 Long-Term Budget Outlook* (March 2017), www.cbo.gov/publication/52480.

8. See Congressional Budget Office, *Economic Impacts of Waiting to Resolve the Long-Term Budget Imbalance* (December 2010), www.cbo.gov/publication/21959.

9. For more information, see Congressional Budget Office, *Federal Debt and the Risk of a Fiscal Crisis* (July 2010), www.cbo.gov/publication/21625. That report points out, for example, that during past fiscal crises, Argentina, Ireland, and Greece were forced to make difficult choices in the face of sharp increases in interest rates on government debt.

The likelihood of such a crisis also depends on conditions in the economy. If investors expect continued growth, they are generally less concerned about the government's debt burden. Conversely, substantial debt can reinforce more generalized concern about an economy. Thus, fiscal crises around the world often have begun during recessions and, in turn, have exacerbated them.

If a fiscal crisis occurred in the United States, policymakers would have only limited—and unattractive—options for responding. The government would need to undertake some combination of three approaches: restructure the debt (that is, seek to modify the contractual terms of existing obligations), use monetary policy to raise inflation above expectations, or adopt large and abrupt spending cuts or tax increases.

It may be possible to stabilize the debt—or at least to put it on a more sustainable path—without reducing spending for large benefit programs below the amounts projected in CBO's baseline; however, it would be difficult. If current laws generally remained the same, CBO projects, federal spending would grow from 20.7 percent of GDP this year to 23.4 percent in 2027; federal revenues would grow more slowly over that period—from 17.8 percent of GDP to 18.4 percent. About 70 percent of the growth in outlays over the next 10 years is attributable to just three sources: Social Security, Medicare, and net interest on federal debt. To avoid the negative consequences of high and rising federal debt and to put debt on a sustainable path, lawmakers would have to significantly change tax policies to increase revenues above what they are projected to be under current law, substantially amend spending policies to reduce outlays for large benefit programs below the projected amounts, or adopt some combination of those approaches.

Question. As Congress ponders a way to repeal and replace Obamacare, one idea is to repeal most of the payfors immediately (the tax increases) but maintain spending on the Obamacare premium subsidies, tax credits, and the expanded Medicaid program during a "transition period." Under this plan, the transition could last as long as three years.

a. How much would the deficit increase during a 3-year transition period?

b. If Congress needed to extend Obamacare spending one year at a time after a 3-year transition period (an "ACA fix"), what would the estimated cost be for a one-year extension without offsets?

Answer. CBO's analytical resources have been dedicated to analyzing legislation for committees with jurisdiction over health care. Answering your questions would require substantial analysis, and the agency would be happy to turn to them at a later time. Although CBO has not analyzed a proposal with provisions identical to those you have asked about, the agency has prepared a cost estimate for a similar proposal to repeal portions of the Affordable Care Act (ACA) that included a two-year transition period.

During the 114th Congress, CBO and JCT estimated the budgetary effects of H.R. 3762, the Restoring Americans' Healthcare Freedom Reconciliation Act of 2015.[10] The bill would have

10. Congressional Budget Office, letter to the Honorable Mike Enzi regarding the budgetary effects of H.R. 3762, the Restoring Americans' Healthcare Freedom Reconciliation Act, as passed by the Senate on December 3, 2015 (December 11, 2015), www.cbo.gov/publication/51090. CBO and JCT later updated those budgetary estimates following the enactment of the Consolidated Appropriations Act, 2016. See Congressional Budget Office, cost estimate for H.R. 3762, the Restoring Americans' Healthcare Freedom Reconciliation Act, as passed by the Senate on December 3, 2015, and following enactment of the Consolidated Appropriations Act, 2016 (January 4, 2016), www.cbo.gov/publication/51107.

immediately eliminated penalties associated with the requirements that most people obtain health insurance and that large employers offer their employees health insurance that meets specified standards. It would have also repealed or delayed many of the noncoverage revenue provisions included in the ACA. After a transition period of roughly two years, the bill would have eliminated the ACA's expansion of Medicaid eligibility and the subsidies available to people who purchase health insurance through the marketplaces established under the ACA. Accounting for macroeconomic feedback, CBO and JCT estimated that the bill would have increased federal budget deficits by $27 billion in the first year following enactment (2016) and by $6 billion in the second year (2017). (After 2017, CBO and JCT estimated, the bill would have reduced deficits; the total reduction over the 2016–2025 period was estimated to be $516 billion.) The effects of a legislative proposal that was very similar to H.R. 3762 but had a three-year transition period would, CBO expects, probably exhibit a similar pattern—that is, the bill would increase deficits in each year during the transition period and reduce them thereafter.

Estimating the effects of extending policies governing health insurance one year at a time would be difficult. Decisions about offering and purchasing health insurance depend on the stability of the health insurance market, and it is not clear how federal agencies, state regulators, insurance companies, and potential purchasers of insurance would respond to the uncertainties that would prevail if the expiration of the ACA's provisions loomed each year, particularly because insurance companies have to set policy provisions and premiums for the coming year well in advance.

Question. On January 20, 2017 President Trump issued an Executive Order stating:

> *To the maximum extent permitted by law*, the Secretary of Health and Human Services (Secretary) and the heads of all other executive departments and agencies (agencies) with authorities and responsibilities under the [Patient Protection and Affordable Care] Act *shall exercise all authority and discretion available to them to waive, defer, grant exemptions from, or delay the implementation of any provision or requirement* of the Act *that would impose a fiscal burden on any State or a cost, fee, tax, penalty, or regulatory burden* on individuals, families, healthcare providers, health insurers, patients, recipients of healthcare services, purchasers of health insurance, or makers of medical devices, products, or medications. (Emphasis added.)

What effect will this directive have on the way CBO scores legislation repealing provisions of the Affordable Care Act?

Answer. CBO's assessment is that, by itself, the executive order signed on January 20, 2017, does not take the sort of concrete or definite action that would lead the agency to update its current baseline projections. Hence, cost estimates for legislation related to the ACA will not be directly affected by the executive order, but actions taken by agencies to implement that order in the future and new orders that are more specific could affect CBO's estimates.

CBO will update its baseline for scoring legislation if the departments tasked with implementing the ACA (including the Departments of Health and Human Services, the Treasury, and Labor) take further specific actions. Such actions could include issuing proposed and final rules, guidance documents, or other official announcements that clearly indicate the Administration's intent to take a specific action.

Senator Stabenow

Question. As you know, there has been a lot of talk about tax reform taking place this year. For several years I have been pushing for reform that would penalize companies and individuals who use tax loopholes to avoid paying their fair share. Just one example is an egregious loophole that allows businesses to deduct the cost of shipping American jobs overseas.

Of course, there is a broader problem in our international tax system, which is the ability of corporations to shift income out of the U.S. through inversions and other techniques. I hope to work with my colleagues on both sides of the aisle in the Finance Committee to reform taxes in a way that benefits all Americans, and not through reconciliation in the budget process.

Dr. Hall, in the CBO's report, you say there is "an expected increase in the use of [inversions, transfer prices, and intercompany loans] that many businesses and investors employ to reduce their tax liabilities." Could you tell us what you expect the impact of this tax avoidance will be on federal revenues, as well as the economy?

Answer. As stated in *The Budget and Economic Outlook: 2017 to 2027*, CBO projects that corporate income tax receipts will fall in relation to GDP over the coming decade. One reason for that projection is that CBO anticipates that multinational corporations will increasingly use strategies such as inversions, transfer pricing, and intercompany loans to shift their taxable income out of the United States. As CBO's recent report comparing corporate income tax rates around the world shows, corporate income is taxed at a higher rate in the United States than it is in the countries with which the United States conducts most of its trade.[11] The difference in those rates provides multinational corporations an incentive to engage in strategies that allow them to shift their profits overseas. CBO expects that the continued increase in the use of those strategies will not significantly change the amount of real economic activity that occurs inside the United States, so although such strategies are projected to reduce federal corporate tax revenues, they are not anticipated to have a significant effect on employment in the United States or on the U.S. economy more generally.

Overall, CBO projects that the continued erosion of the corporate tax base would result in corporate income tax revenues in 2027 that were about 5 percent lower than they would have been if that tax base did not erode any further than it already had as of 2016. About half of that erosion is attributable to a projected increase, relative to 2016, in corporations' use of strategies for shifting income out of the United States. The other half is attributable to the trend, which is expected to continue, of businesses' choosing to establish themselves as something other than a C corporation—a partnership, for example—so that their income is taxed under the individual income tax instead of under the corporate income tax.

Question. President Trump has already issued several executive orders, many of which will have a budgetary impact. Does CBO score executive orders or incorporate them into the baseline? If so, how does CBO decide when to score them? Does CBO plan to account for new, and often ambiguous, executive orders as they are issued by the new administration? When they do score executive orders, what is CBO's plan to make Congress aware of the current and future costs of these orders to inform the debate here in Congress?

11. See Congressional Budget Office, *International Comparisons of Corporate Income Tax Rates* (March 2017), www.cbo.gov/publication/52419.

Answer. CBO does not prepare written estimates of the budgetary effects of nonlegislative actions such as executive orders; under the Congressional Budget and Impoundment Control Act of 1974, CBO prepares cost estimates only for legislation being considered by the Congress.

Executive orders might affect the baseline that CBO uses as a benchmark for measuring the budgetary effects of legislative proposals that would change current law. The agency's baseline is an estimate of what spending and revenues would be over the next 10 fiscal years if existing laws—and administrative policies for executing those laws—generally remained unchanged. If an executive order leads a federal agency to change its practices in a way that affects the budget, the estimated budgetary effects are incorporated into CBO's 10-year baseline projections of mandatory spending and revenues.

CBO has not updated its baseline to account for any of the 15 executive orders that the new Administration issued through February 2017. In CBO's judgment, many of those orders will not significantly affect the federal budget. Other orders could affect the budget if in response to them agencies modified their policies to achieve the Administration's goals for certain programs. CBO will update its baseline to account for any specific actions that affected agencies take.

In most years, CBO updates its baseline projections three times (usually in January, March, and August). However, because the Congress needs legislative cost estimates to be stable and predictable throughout a legislative session, the budget committees typically specify one set of projections as the "scoring" baseline that will be used throughout a given budget cycle. Those projections rely on assumptions about a variety of factors that are beyond the control of the Congress. For example, they reflect economic projections that underlie CBO's macroeconomic forecast (which includes variables such as interest rates, GDP, and prices for certain commodities) and technical projections (such as the rate at which agencies will spend funds and program participation rates). That baseline also reflects judgments about the likelihood and potential outcome of proposed or pending administrative actions (such as agencies' rulemaking), judicial proceedings, and actions that might be pursued by nonfederal entities.

To ensure the stability of estimates throughout the Congressional budget process, CBO—by long-standing convention—generally does not update its economic or technical projections in between baselines. But under certain circumstances, CBO may update the scoring baseline to take into account specific events that occur after it has been completed. If CBO determines that such a baseline update is warranted, the baseline projections used for scoring legislation are updated immediately to take the new circumstances into account. For example, CBO always updates the scoring baseline to reflect the enactment of new legislation. Updates to reflect other events, such as administrative actions and court decisions, are less common. When analyzing the potential effects of administrative actions, CBO distinguishes between proposed actions that are routine—that is, those that enable agencies to continue to execute programs as they currently do and that therefore do not affect baseline projections—and those that signal a change in the Administration's policy and thus may have budgetary effects.

Agencies often have significant discretion to change the manner in which they implement programs, and CBO's analysts must be aware of any changes in administrative policy that may be implemented—including those set forth in new executive orders—that would have significant budgetary effects. In carrying out guidance specified in executive orders, agencies must frequently issue new rules or undertake other administrative actions to implement the Administration's new policy. The budgetary effects stemming from such policy changes depend on the details of those administrative actions. Therefore, CBO does not usually update baseline projections when the Administration issues an executive order; rather, it typically updates projections for affected programs only after agencies take specific administrative action.

Whenever CBO decides to update the scoring baseline for any reason, the agency notifies the House and Senate Budget Committees, the committees of both chambers that have jurisdiction over the affected programs or activities, and the sponsors of any pending legislation for which CBO has transmitted an estimate that may be affected by that update. If necessary, CBO also prepares revised estimates for such pending legislation to account for the change in the scoring baseline.

Senator Whitehouse

Question. Since 2010, CBO has repeatedly lowered its projections for spending on the major federal health care programs. At today's hearing, you acknowledged that parts of the Affordable Care Act have helped to reduce the growth of federal health care spending. What position do you take on causative linkage between implementation of the ACA and these reductions? Which provisions of the ACA have helped to reduce the rate of growth for Medicare, Medicaid, exchange subsidies, and other federal health care programs? By how much? If you are still reviewing these questions and do not have answers, please describe your process and timeframe for pursuing these answers.

Answer. Gross federal spending on health care has increased as a result of the Affordable Care Act, primarily because of the expansion of eligibility for Medicaid that occurred under the law and the subsidies provided through the insurance marketplaces established under it. But provisions of the ACA have also reduced spending on Medicare. Although the growth of overall health care spending has slowed, and that slowdown is partially reflected in CBO's projections of federal spending over the next 10 years, it is difficult to separately identify how much of that slowdown was caused by the ACA. A number of factors suggest that the ACA's direct effect on health care spending may have been limited so far. Nevertheless, implementation of the ACA's provisions may have led to a focus on cost control that has caused growth in such spending to be slower than it would have been otherwise. Moreover, some of the ACA's provisions have not yet taken effect or are likely to have a greater impact on costs in the future than they have had to date. CBO could attempt to identify which provisions of the ACA are most likely to affect health care cost growth in the future, but whether and when such analysis can be undertaken will depend on the Congress's priorities for CBO's work in the health care area.

Medicare. In March 2010—shortly before the ACA was enacted—CBO projected that spending on Medicare, net of offsetting receipts, would total $893 billion in 2020 (the last year of the 10-year projection made at that time). In the updated projections that it published later that year after the law was enacted, CBO estimated that the ACA would reduce Medicare spending in 2020 by 13 percent. The agency continues to view that estimate as reasonable in light of subsequent experience, although the actual reduction in spending through 2016 that resulted from enactment of the ACA cannot be identified because the relevant budgetary effects are embedded in other changes in the broader categories of Medicare spending. Most of the projected decrease stemmed from reductions in annual updates to payment rates for services provided in the fee-for-service sector and from changes in payment formulas that reduced payment rates for Medicare Advantage plans below what they would have been had the ACA not been enacted.

CBO currently projects that net spending for Medicare in 2020 will total $701 billion—21 percent less than the amount that the agency had projected in its March 2010 baseline. The 13 percent reduction that CBO attributed to the ACA explains more than half of that difference. Most of the remainder reflects a substantial but unexplained slowdown in the rate of growth in Medicare spending. CBO's analyses as well as studies conducted by other researchers have shown that Medicare spending began to slow before the enactment of the ACA—and before the 2007–2009 recession. CBO found that the recession's direct effects explained very little of that slowdown, which suggests that other factors were at work.[12]

Other Health Care Spending. Health care spending has grown more slowly in recent years than it has historically, both in absolute terms and compared with the pace of economic growth. Many analysts attribute at least a portion of the slowdown to the effects of the recent recession and slow recovery, but questions remain about the role of structural or other changes in the health care sector and about whether and how enactment of the ACA has encouraged those changes.

In addition to the fact that Medicare spending began to slow before enactment of the ACA, two other considerations suggest that the ACA's effects on health care spending may have been limited. First, the overall slowdown in the growth of spending occurred before most of the ACA's provisions had been fully implemented, so it is difficult to attribute much of the slowdown to specific provisions of the law. Second, the last time health care spending grew at roughly the same rate as the economy for an extended period was in the mid- to late 1990s—after an unsuccessful attempt to enact major health care legislation—which suggests that attention to the issue may be a more important factor than the enactment of legislation.

Nevertheless, it is difficult to dismiss the argument that implementation of the ACA's provisions has in some way been responsible for a push to control health care costs that has slowed growth in spending. But as one recent analysis concluded, "It is impossible to quantify how much the ACA has truly contributed to the reduced spending projections over time"—at least until more extensive data and analyses are available.[13] In light of that circumstance, CBO has not explicitly incorporated such an effect into its projections of federal spending on health care. Researchers continue to examine the issue, and CBO will update its analysis if research yields a more definitive conclusion.

12. See Michael Levine and Melinda Buntin, *Why Has Growth in Spending for Fee-for-Service Medicare Slowed?* Working Paper 2013-06 (Congressional Budget Office, August 2013), www.cbo.gov/publication/44513; and Chapin White and Paul B. Ginsburg, "Slower Growth in Medicare Spending—Is This the New Normal?" *New England Journal of Medicine*, vol. 366, no. 12 (March 22, 2012), pp. 1073–1075, http://dx.doi.org/10.1056/NEJMp1201853.

13. See John Holahan and Stacey McMorrow, *The Widespread Slowdown in Health Spending Growth: Implications for Future Spending Projections and the Cost of the Affordable Care Act* (Robert Wood Johnson Foundation and Urban Institute, April 2015), p. 11, http://tinyurl.com/q7j6kkc.

THE ECONOMY AND PRIVATE SECTOR GROWTH

WEDNESDAY, MAY 3, 2017

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 10:31 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, chairman of the committee, presiding.

Present: Senators Enzi, Crapo, Johnson, Perdue, Gardner, Kennedy, Boozman, Strange, Sanders, Wyden, Kaine, King, Van Hollen, and Harris.

Staff present: Eric Ueland, Republican staff director; and Warren Gunnels, minority staff director.

OPENING STATEMENT OF CHAIRMAN MICHAEL B. ENZI

Chairman ENZI. I will go ahead and call this hearing to order, mostly because we have a 10:45 vote this morning, and that will add a degree of difficulty to it. So I will go ahead and make my opening statement. If Senator Sanders is here, he can give his when I complete mine. Otherwise, we will do some introductions and get started on the testimony. And then when the vote starts, we will have a quick recess to run over and vote and come right back again, because there is just one vote in the process.

Good morning, and welcome to our hearing on the economy and private sector growth. First, let me thank the witnesses for agreeing to testify this morning. It is important for Government to focus on policies that promote private sector growth. As we enter into a period of higher than historic debt with projected economic growth below average, Congress must debate how to encourage business growth without raising our spending deficits.

The good news is hard-working families finally have a Congress and a President focused on addressing these critical issues. The Congressional Budget Office (CBO) recently published a report on the macroeconomic and budgetary effects of Federal investment. The Federal Government considers annual spending bills and authorizations on a regular basis, which allocates dollars toward goods and services that are expected to increase private sector productivity. This includes infrastructure, education, training, research, and development.

CBO finds the increase in productivity that results from Federal investment boosts economic output, but only gradually. The macroeconomic effects of Federal spending depend on how those dollars are financed. The Federal Government has been operating in deficits for over a decade. We have been financing investment spending by increasing Federal borrowing. While increasing Federal spending boosts demand and the gross domestic product (GDP) in the first several years, the Government cannot create long-term growth through appropriations alone.

According to CBO, the increase in Federal borrowing reduces the amount of money available for private investments, dampening GDP in later years. We cannot spend our way out of these fiscal challenges. Instead, we have to look to the private sector to create long-term growth, and often the policies needed to encourage business investment are as simple as getting out of the way—regulatory relief, tax reform, and simplification, and reducing uncertainty. These policies promote business investment and private sector growth.

As a former small business owner myself, I know firsthand the risks and rewards of entrepreneurship. Tough economic times make business investment more risky, and the uncertainty surrounding Government policies makes it difficult to implement a surviving business strategy.

The U.S. economy has not yet recovered since the last recession, and CBO projects long-term economic growth to be substantially lower than historic averages. Government needs to incentivize entrepreneurship and innovation, not regulate and tax it. We need to lower the barriers to entry and simplify compliance requirements.

Our witnesses today will discuss a variety of policy options to support economic growth. Regulation reduction and tax reform probably ought to be front and center.

A new study from the Mercatus Center at George Mason University finds that regulation distorts investment choices. This lack of efficiency reduces innovation and creates a drag on the economy. The study finds that over a period of 35 years, regulation has reduced the average annual GDP growth rate by eight-tenths of a percent, and had regulation been held constant at levels observed in 1980, the U.S. economy would have been about 25 percent larger.

Our uncompetitive and complex Tax Code also restricts growth. The Tax Foundation's analysis of the Republican tax reform proposals shows the increase in the long-run size of the economy from 5 to 9 percent. The Joint Committee on Taxation has consistently shown potential economic growth when scoring past comprehensive tax measures, including proposals that have no loss of revenue to the Federal Government.

Increasing GDP from private sector growth provides additional dollars to the Treasury. According to CBO, a one-tenth percentage increase in productivity growth would reduce the deficit by $273 billion over a 10-year period. As Congress considers the daunting task of getting our deficits under control, growth policies must play a role in getting to balance.

I look forward to our conversation today with the panel of these national economists on how Government can foster a stronger U.S. economy.

Senator Sanders.

OPENING STATEMENT OF SENATOR BERNARD SANDERS

Senator SANDERS. Thank you very much, Mr. Chairman, and welcome to our guests. And, Dr. Sachs, thank you so much for being here. Two points.

You mentioned, Mr. Chairman, the Mercatus Center. To the best of my knowledge, it is funded largely by the Koch brothers, and if, in fact, the tax program initiated by the President, repeal of the estate tax, I think that the Koch brothers get about a $30 billion—their family will get a $30 billion tax break. So I can understand why those guys might think that this is very good economics. I do not think most Americans do, but that is the case.

But before I get started, I would like to note, Mr. Chairman, that it has now been 7 long weeks since the Trump administration came out with its budget, and yet our committee has not held a single hearing on what he has proposed. Not one.

This is unprecedented. In 2001, the day after President George W. Bush released his preliminary budget, this committee heard testimony from the Treasury Secretary, followed up by three other hearings with the Budget Director, the HHS Secretary, and the Secretary of State. In 2009, after President Obama released his preliminary budget, our committee held three hearings with the Budget Director, the Treasury Secretary, and the Energy Secretary. Up to this point, we have held zero hearings.

Moreover, under Section 300 of the Congressional Budget Act, Congress is supposed to complete its work on the fiscal year 2018 budget resolution no later than April 15th. It is now May 3rd, and we have not even started.

Now, maybe there is a good reason for this, and maybe you will explain it to us. But maybe it is also simply the fact—and I can understand this—that your side of the aisle is not particularly interested in defending a budget which gives hundreds and hundreds of billions of dollars in tax breaks to the top 1 percent while at the same time it would end an after-school program—my God, after-school programs, mothers all over the country worried about where their kids are after school—would end the after-school program. It would take away student financial aid, Pell grants, from 1.5 million college students and eliminate other college grant programs.

Maybe your side of the aisle is not interested in defending a budget which would throw more than 200,000 Americans out of their homes by cutting affordable housing programs by more than $6 billion or taking away hot nutritious meals from vulnerable senior citizens by cutting the Meals on Wheels program. And my guess is that many members of this committee actually do not want to do that, but that is what is in the President's budget. Or maybe to talk about a budget which would force over 6 million Americans to go cold in the winter by eliminating the Low Income Home Energy Assistance Program (LIHEAP) or throw some 90,000 kids off of Head Start by cutting that program by more than 10 percent.

But, Mr. Chairman, while the Trump budget may be indefensible, that is not an acceptable excuse for Republicans not to hold any hearings on it or to work with us to come up with a different and better budget. That is our job, and we should accept that responsibility.

Further, Mr. Chairman—and this is really quite incredible—just yesterday, as you know, President Trump sent out a tweet—we are a Government by tweet—which threatens to shut down the Federal Government. Mr. Chairman, how many jobs would be lost if President Trump follows through on his threat? How many disabled veterans would not receive their benefits on time? How many families would not receive health care, child care, education, or nutrition assistance? What would happen to our military? How many people could be placed at risk?

Mr. Chairman, I think we need to make it clear to President Trump that we will not under any circumstances shut down the Federal Government and endanger the lives and economic well-being of millions of Americans.

Now, Mr. Chairman, when Donald Trump campaigned for President, he told the American people that he would be a different type of Republican. He said that he would stand up for the working class of this country and take on the political and economic establishments. That is what he said. Unfortunately, that is not what he did.

President Trump said that he understood the pain that working families across this country were feeling, and there is a lot of pain. But when you propose a budget which increases military spending by $84 billion over 2 years while slashing program after program that addresses needs of working families, of the elderly, the children, and the poor, you are not addressing the needs of the working class of this country.

Mr. Chairman, at a time of massive wealth inequality—this is unbelievable—Trump wants to repeal the estate tax for people who have over $5.4 million in wealth, a $353 billion tax giveaway to the richest two-tenths of 1 percent. And I would like the American people to listen to this: At a time when the middle class is in decline, 43 million people living in poverty, what Mr. Trump wants to do is give a tax break to the Walton family of Walmart, the wealthiest family in America, of up to $53 billion. We cannot afford Head Start, child care, after-school programs, but we can afford to give $53 billion in tax breaks to one family.

The Koch brothers, our good friends who fund much of the Republican Party, would get a tax break, their family would get a tax break of up to $35 billion.

Sheldon Adelson, who only put $5 million into the President's inaugural program, will get a tax break of up to $12.6 billion.

And, coincidentally, last but not least, Donald Trump's own family will get a tax break of up to $4 billion.

Mr. Chairman, I think those are issues that we might want to discuss right here on this committee, and I hope and look forward to the opportunity of doing that. Thank you.

Chairman ENZI. Thank you, and we will have that opportunity when the President's budget, actual budget comes out. We will have hearings on it. There are a number of things you mentioned that I would like to talk about, but I feel obligated to get the testimony from our folks that have given some of their time to present their ideas, and I think we can all agree that Congress has to address economic growth as an integral part of the quality of life for all Americans. So we need to consider how growth affects the Federal budget. As CBO has pointed out in their reports year after year, the more we overspend, the less flexibility future policymakers have for the economic downturns. I am looking forward to hearing from our panel this morning on the importance of getting our private sector growing again.

Our first witness this morning is Dr. Michael Strain, who is the director of economic policy studies and resident scholar at the American Enterprise Institute (AEI). Before joining AEI, Dr. Strain worked in the Center for Economic Studies at the U.S. Census Bureau and in the Macroeconomics Research Group at the Federal Reserve Bank of New York.

Next is Dr. Bill Dunkelberg, who has served as chief economist for the National Federation of Independent Business (NFIB) since 1971. Dr. Dunkelberg is also a professor of economics at the School of Business and Management at Temple University and served as the dean there from 1987 through 1994 and as director for the Center of Advancement and Study of Entrepreneurship.

Our third witness is Dr. Jeffrey Sachs, a university professor and director of the Center of Sustainable Development at Columbia University. Dr. Sachs served as the director of the Earth Institute from 2002 to 2016, and prior to joining Columbia, he spent over 20 years as a professor at Harvard University.

We look forward to receiving the panel's testimony. I want to thank all of you for joining us to share your expertise on this important subject.

When the vote starts, at the completion of one of the testimonies we will run over and vote and then come back so that everybody has the opportunity to hear the testimony.

With that, welcome, Dr. Strain, and you can begin.

STATEMENT OF MICHAEL R. STRAIN, PH.D., DIRECTOR OF ECONOMIC POLICY STUDIES AND RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE

Dr. STRAIN. Thank you, Mr. Chairman.

Chairman Enzi, Senator Sanders, and members of the committee, thank you for the opportunity to be here today to discuss economic growth. Few issues are as important to the future of the United States. It is an honor to be here.

A growing private sector economy is central to the health of society. Economic growth drives increases in living standards and quality of life. This is perhaps most easy to see over long periods of time. Compare life 200 years ago with life today. Economic growth facilitated dramatic reductions in child mortality rates and poverty rates, increased access to education and medical care, increased life spans, and the amenities of the modern world we enjoy today.

It is tempting to say that at this point the Nation is rich enough, that the economy is large enough, and that we need to worry more about redistributing wealth and income than about creating them. But imagine if our forefathers in 1817 had said the same. We owe our posterity in 2217 what we received from our forefathers, just as we owe our children and grandchildren and ourselves.

Of course, some level of redistribution is clearly desirable. Economic growth allows for redistribution to be more palatable by increasing the resources that can be redistributed. More generally, economic growth is important because it mitigates distributional conflict. Without growth, the only way for me to do better is for you to do worse. With growth, I can do better and you can stay the same. Ideally, of course, growth allows you and me both to do better.

Public policy can affect the growth rate. A specific goal of labor market policy should be to increase the rate at which adults participate in the workforce. This would increase the economy's overall growth rate, among other benefits.

It is reasonable to argue that labor market regulation is suppressing the workforce participation rate, for example, minimum wages. Economists debate the employment effects of minimum wage increases, but in my view the balance of the evidence suggests that by regulating wages Congress is suppressing employment. And raising the Federal minimum wage to $12 per hour, as has been discussed, would, in my view, have a non-trivial effect on employment.

Beyond regulation, current labor market policies should be reformed. Two important policies in need of reform are the Social Security Disability Insurance program and the Unemployment Insurance program. Between 1989 and 2009, the share of working-age adults receiving SSDI benefits doubled, at the same time that workplace safety increased, service sector employment increased, and the quality of health care increased. A just society makes provision for disabled workers, but it seems clear that the structure of SSDI is unnecessarily discouraging workforce participation and has become for some workers a permanent unemployment program.

Unemployment insurance could also be reformed to increase workforce participation. The long-term unemployed who live in local labor markets characterized by high unemployment and low employment could be offered financial assistance to move to a stronger local labor market. This would likely lead to shorter unemployment spells, possibly to fewer Federal expenditures on unemployment insurance, and to fewer workers leaving the workforce altogether. Other safety net programs should be evaluated to see whether pro-work reforms could help beneficiaries get back to work.

Public policy should increase the workforce participation rate by increasing the number of highly skilled immigrants allowed to live and work legally in the United States. In addition to increasing the growth rate of the economy through increasing the growth rate of the labor force, immigrants start more businesses than native-born workers. New businesses create jobs, strengthening the economy. And occasionally we hit the jackpot and an immigrant starts a Google.

Public policy should increase workforce participation through increasing the generosity of the earned income tax credit (EITC). The EITC is an earnings subsidy. Because it supplements earnings, it only goes to households that work. Because eligibility is conditioned on household income, the subsidy only goes to low-income households. Previous expansions of the EITC have been shown to significantly increase the workforce participation rates of targeted populations. Expanding the EITC again would, I believe, have similar employment effects.

In addition to increasing workforce participation, public policy should increase the productivity of the workforce through increasing the skills of workers. Work-based learning offers a promising path toward increasing skills. Such programs combine on-the-job training with classroom learning, often at a community college. In the case of apprenticeships, participating firms post vacancies and hire an apprentice only if the hire makes business sense. In this way, the market is determining where workers get trained and the content of on-the-job training. Having the market determine the content of training is much superior to traditional, Government-run training programs.

In addition, international trade allows for specialization here at home, which increases productivity. The United States should maintain a posture of openness toward trading with other nations and should not embrace protectionist policies. The Congress has a critical role to play in this effort.

Finally, I would like to highlight the importance of corporate tax reform. It has been encouraging to see some progress on that front, and that would certainly help the growth rate and should be at the top of the list of policies Congress is considering. And I would like to echo the Chairman in pointing out the importance of entitlement reform to get the debt under control. A growing Federal debt is certainly an increase to long-run economic growth.

Thank you.

[The prepared statement of Dr. Strain follows:]

AMERICAN ENTERPRISE INSTITUTE

Statement before the United States Senate Committee on the Budget
On "The Economy and Private Sector Growth"

Economic Growth

Michael R. Strain
Director of Economic Policy Studies and Resident Scholar

May 3, 2017

Chairman Enzi, Senator Sanders, and Members of the Committee, thank you for the opportunity to appear before you today to discuss the economy and private-sector growth. Few issues are as important to the future of the United States. It is an honor.

ECONOMIC GROWTH IS CRITICAL

A growing private-sector economy is central to the health of society. Economic growth drives increases in living standards and quality of life. This is perhaps most easy to see over long periods of time. Compare life two-hundred years ago with life today. Economic growth facilitated dramatic reductions in child mortality rates and poverty rates, increased access to education and medical care, increased lifespans, and the amenities of the modern world we enjoy today.[1]

It is tempting to say that at this point the nation is rich enough — the economy is large enough — and that we need to worry more about redistributing wealth and income than creating them. But imagine if our forefathers in 1817 had said the same. We owe our posterity in 2217 the same as we received from our forefathers — just as we owe our children and grandchildren, and ourselves.

Of course, some level of redistribution is clearly desirable. Economic growth allows for redistribution to be more palatable by increasing the resources that can be redistributed. More generally, economic growth is important because it mitigates distributional conflict. Without growth, the only way for me to do better is for you to do worse. With growth, I can do better and you can stay the same. Ideally, of course, growth allows you and me both to do better.

The growth rate of the economy has been disappointing of late. Since the year 2001, real annual GDP has grown at an average rate of 1.8 percent. In the fifty years prior, real annual GDP

[1] For examples see: Robert Gordon, *The Rise and Fall of American Growth: The U. S. Standard of Living Since the Civil War*, Princeton University Press, 2016.

grew at an average rate of 3.6 percent — double the average this century.[2] The rate of economic growth is widely expected to remain significantly lower over the next ten years than in the decades near the end of the twentieth century.

INCREASING THE ECONOMY'S GROWTH RATE

Economists model economic output as a function of economic inputs. The growth rate of output, therefore, is determined by the growth rates of inputs: labor, capital, and technology. Policy can affect the growth rate. For example, policy can encourage savings and investment by switching from a tax system that taxes income to a system that taxes consumption.[3] Economic theory predicts that the larger capital stock associated with a system of consumption taxation (relative to income taxation) will make workers more productive, and increase their wages. And during the transition to a consumption base, the economic growth rate will increase.[4] In addition, rising federal debt is a threat to long-run economic growth, in part through reducing private investment.[5] The Congress should take steps to reduce projected debt, including reforming middle-class entitlement programs.

Like tax and budget policy, labor market policy — employment policy — can increase the economy's growth rate. A specific goal of labor market policy should be to increase the rate at which adults participate in the workforce, which would increase the economy's growth rate, among other benefits.

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[2] Author's calculations based on Bureau of Economic Analysis data.
[3] For more information about consumption taxes, see: Alan D. Viard, "Fundamental Tax Reform: A Comparison of Three Options," *The Economics of Tax Policy*, Alan J. Auerbach and Kent Smetters editors, Oxford University Press, 2017. Robert Carroll, Alan D. Viard, and Scott Ganz, "The X Tax: The Progressive Consumption Tax America Needs?" *AEI Tax Policy Outlook*, no. 4, December 2008. Robert Carroll and Alan D. Viard, *Progressive Consumption Taxation: The X Tax Revisited*, AEI Press, 2012.
[4] For example, see: Alan J. Auerbach, Lawrence J. Kotlikoff, and Jonathan Skinner, "The Efficiency Gains from Dynamic Tax Reform," *International Economic Review*, vol. 24, no. 1, February 1983.
[5] Congressional Budget Office, "The 2017 Long-Term Budget Outlook," 30 March 2017.

The workforce participation rate for men ages twenty-five to fifty-four — males who are generally speaking too old to be enrolled in school and too young to be retired — has been falling for the past six decades.[6] This trend has historically not received much attention due in part to the fact that the overall workforce participation rate — the rate for men and women combined — has been rising. But since 2000, the overall workforce participation rate has been declining.[7] And the overall workforce participation rate for women has been declining since 2000 as well.

It is reasonable to argue that labor market regulation is suppressing the workforce participation rate. Occupational licensing requirements have, in some cases, ceased to serve as reasonable precautions to protect the public's health and safety, and to encourage quality service, and have instead become barriers to entry for aspiring workers. For example, according to the Institute for Justice, on average an interior decorator requires 2,190 days of training for licensure, whereas an emergency medical technician requires thirty-three days of training.[8] Congress can provide incentives for the states to reduce unnecessary licensing requirements.

Economists debate the employment effects of minimum wage increases, but in my view the balance of the evidence suggests that by regulating wages Congress is suppressing

[6] Prime-age male labor force participation peaked in 1954 at 97.9 percent. The decline in prime-age male workforce participation has been the subject of recent interest. For examples, see: White House Council of Economic Advisers, "The long-term decline in prime-age male labor force participation," June 2016. Nicholas Eberstadt, *Men Without Work: America's Invisible Crisis*, Templeton Press, September 2016. Michael R. Strain, "Getting Back to Work," Conservative Reform Network, 2015. Alan Krueger, "Where Have All the Workers Gone?" presented at Federal Reserve Bank of Boston, October 2016.
[7] Note that here I am referring to the labor force participation rate of Americans aged 16 and older, which is the standard definition.
[8] Dick M. Carpenter II, Lisa Knepper, Angela C. Erickson, and John K. Ross, "License to Work," Institute for Justice, May 2012.

employment.[9] And raising the federal minimum wage to twelve dollars per hour, as has been discussed, would, in my view, have a non-trivial effect on employment.

Beyond regulation, current labor market policies should be reformed. Two important policies in need of reform are the Social Security Disability Insurance (SSDI) program and the Unemployment Insurance (UI) program. Between 1989 and 2009, the share of working-age adults receiving SSDI benefits doubled[10], at the same time that workplace safety increased, service-sector employment increased, and the quality of healthcare increased. A just society makes provision for disabled workers, but it seems clear that the structure of SSDI is unnecessarily discouraging workforce participation, and has become for some workers a permanent UI program. SSDI's structure made sense for a manufacturing economy in which disability often resulted from physical accidents. But in a services economy, and with the definition of disability broadened to include health conditions that are harder to diagnose, SSDI is likely (unintentionally) keeping many recipients out of the workforce who could be working and who would like to be working.

UI could also be reformed to increase workforce participation. The long-term unemployed — workers without a job but who have been actively searching for six months or longer — who live in local labor markets characterized by high unemployment and low employment could be offered financial assistance to move to a stronger local labor market. This

[9] For examples of recent minimum wage research, see: Arindrajit Dube, T. William Lester and Michael Reich 2010, "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties," *Review of Economics and Statistics*, vol. 92, no. 4, November 2010. Jonathan Meer and Jeremy West, "Effects of the Minimum Wage on Employment Dynamics," *Journal of Human Resources*, vol. 51, no. 2, spring 2016. Jeffrey Clemens and Michael R. Strain, "Estimating the Employment Effects of Recent Minimum Wage Changes: Early Evidence, an Interpretative Framework, and a Pre-Commitment to Future Analysis," *NBER Working Papers*, no. 23084, January 2017. For a review of the literature, see: David Neumark and William L. Wascher, "Minimum Wages and Employment," *Foundations and Trends in Microeconomics*, vol. 3, no. 1—2, 2007. I provide my perspective here: Michael R. Strain, "More than the Minimum Wage," *National Review*, 11 December 2013.

[10] David H. Autor and Mark Duggan, "Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System," Center for American Progress and The Hamilton Project, December 2010.

would likely lead to shorter unemployment spells, and to fewer workers leaving the workforce altogether.[11] Other safety net programs should be evaluated to see whether pro-work reforms could help beneficiaries get back to work.

Policy should increase workforce participation by increasing the number of highly skilled immigrants allowed to live and work legally in the United States. In addition to increasing the growth rate of the economy through increasing the growth rate of the labor force, immigrants start more businesses than native-born workers,[12] and businesses in "STEM" industries are disproportionately likely to be founded by an immigrant.[13] New businesses create jobs, strengthening the economy. And occasionally we hit the jackpot and an immigrant starts a Google.[14]

Public policy should increase workforce participation through increasing the generosity of the Earned Income Tax Credit (EITC). The EITC is an earnings subsidy. Because it supplements earnings, it only goes to households that work. Because eligibility is conditioned on household income, the subsidy only goes to low-income households. Previous expansions of the EITC have been shown to significantly increase the workforce participation rates of targeted populations.[15]

[11] I discuss this policy reform, among others, here: Michael R. Strain, "A Jobs Agenda for the Right," *National Affairs*, no. 18, winter 2014.
[12] Immigrants are more than twice as likely as those born in America to start a business; see: Robert Fairlie. "Open for Business: How Immigrants Are Driving Small Business Creation in the United States," The Partnership for a New American Economy, August 2012.
[13] One fourth of all technology and engineering companies had at least one immigrant cofounder between 2006 and 2012; see: "The Economic Case for Welcoming Immigrant Entrepreneurs," *Entrepreneurship Digest*, Ewing Marion Kauffman Foundation, September 2015.
[14] I discuss a policy reform for high-skilled immigrants here: Michael R. Strain, "Stapling Green Cards to Diplomas: Time to Make This Cliché a Law," *The Atlantic*, 21 June 2012.
[15] For a review of these stndies, see: Hilary Hoynes and Jesse Rothstein, "Tax Policy Toward Low-Income Families," *The Economics of Tax Policy*, Alan J. Auerbach and Kent Smetters editors, Oxford University Press, 2017.

Expanding the EITC again would, I believe, have similar effects. The subsidy for childless workers is an obvious candidate for expansion. Currently, the maximum subsidy for these workers is around five-hundred dollars per year.[16] This is inadequate, and expanding it would increase workforce participation among this population.

In addition to increasing the workforce participation rate, public policy should attempt to increase the productivity of the workforce through increasing the skills of workers. Increasing productivity would increase the short-run growth rate, and is the key factor behind long-term economic growth. Work-based learning offers a promising path towards increasing skills. Such programs combine on-the-job training with classroom learning, often at a community college.[17] In the case of apprenticeships, participating firms post vacancies and hire an apprentice only if the hire makes business sense. In this way, the market is determining where workers get trained, and the content of on-the-job training. Having the market determine the content of training is much superior to traditional, government-run training programs. Apprenticeships and other forms of work-based learning are showing promise, and should be expanded.

And, of course, in addition to postsecondary education, primary and secondary education need to be reformed to better achieve their mandate of creating a workforce with the basic skills required by the twenty-first century economy.

In addition, international trade allows for specialization here at home, which increases productivity. The United States should maintain a posture of openness towards trading with other

[16] Internal Revenue Service, 2017 EITC Income Limits, Maximum Credit Amounts and Tax Law Updates, accessed 25 April 2017.
[17] For more information on work-based learning, see: Robert I. Lerman, "Expanding Apprenticeship Opportunities in the United States," The Hamilton Project, June 2014. Harry Holzer, "Higher Education and Workforce Policy: Creating More Skilled Workers (and Jobs for Them to Fill)," Economic Studies, Brookings Institution, April 2015.

nations, and should not embrace protectionist policies. The Congress has a critical role to play in this effort.

CONCLUSION: THE IMPORTANCE OF INNOVATION

My remarks have focused mostly on economic growth over the short and medium term, the period that is most immediate and most amenable to policy interventions. Over these time horizons, increasing the growth rates of the labor force and capital investment are extremely important, as is improving the skills of the workforce. But over long periods of time, nothing is more important to economic growth than innovation, than letting loose the creative power of individuals. New ideas, new inventions, new technologies — new things that rose along with a new culture around work, equality, and dignity — are what created the world we live in today. They took, and are taking, billions from poverty to wealth, from illness to health, from short to long lives, from ignorance to educated. Government should have in mind the importance of sustaining a culture that allows for creativity and energy. Public policy should not stifle human potential, the growth that comes with it, and the betterment that it creates.

Chairman ENZI. Thank you, and the vote has started, so we will have a recess until 5 minutes after 11:00. Then we will resume again. But if you can hurry back, we may be able to start quicker than that to hear the other two testimonies. I apologize to the witnesses. We do not have control over the votes. They sure mess things up. It is like it was something important to do.

[Recess.]

Chairman ENZI. We will resume the hearing, and now we will hear from Dr. Dunkelberg. Thank you for your patience in waiting for us to do our vote.

STATEMENT OF WILLIAM C. DUNKELBERG, PH.D., CHIEF ECONOMIST, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

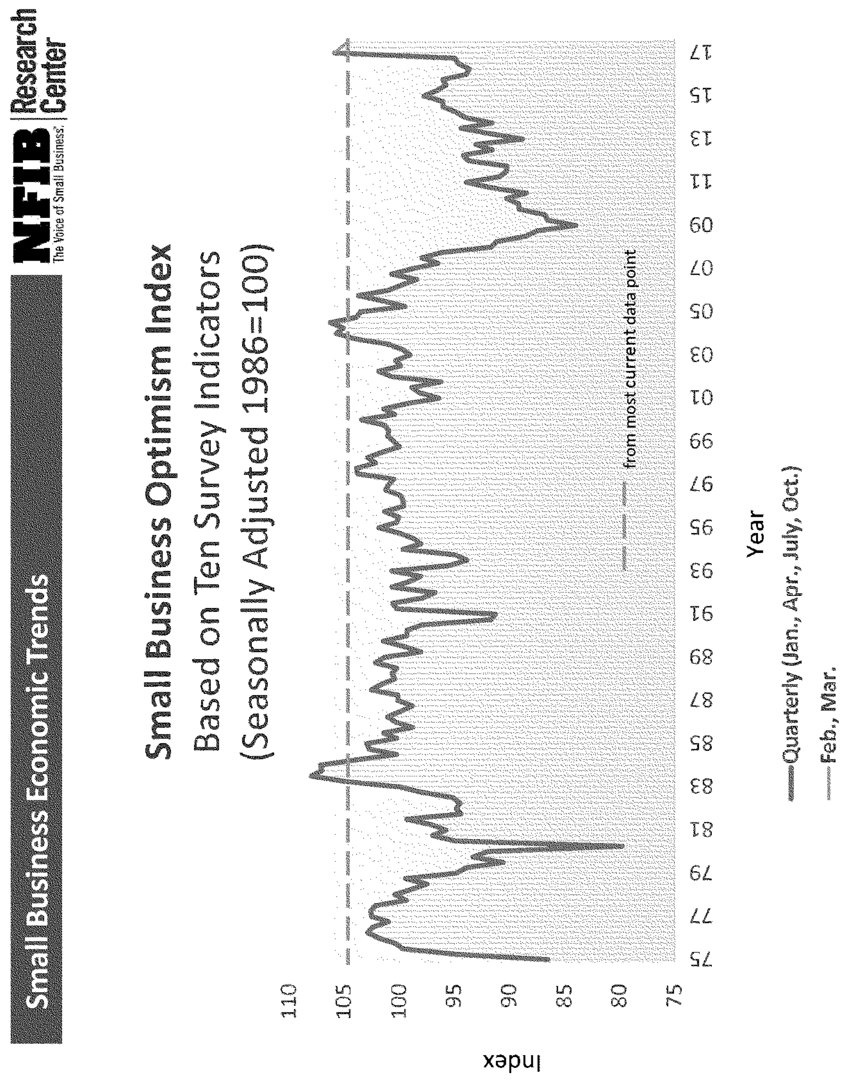
Dr. DUNKELBERG. Thank you, sir. I appreciate the opportunity.

Just a word about the National Federation of Independent Business (NFIB). NFIB is the Nation's leading small business representative. We represent our 325,000 member firms in Washington and in all 50 States. We do surveys, regular surveys and special interest surveys, of a sample of our 325,000 members to find out what is going on in the part of the economy that is not covered by the financial news on TV, but it is a very, very important part of that economy. So we have done that for 42 years, and I have been fortunate enough to be directing those surveys for that long, so I am still alive and well.

I think that the topic is very good. You talked about the budget issue. Well, obviously, to support the budget we need revenue, and the revenue comes from the private sector. We, of course, all like the Fortune 500. They get a lot of attention. But we have to keep in mind that half of the private sector jobs are at small businesses. Census says that 90 percent of the employer firms in the U.S. have under 20 employees. So small business collectively is very big business. There are 28 million firms of various sizes out there that are basically characterized as "small businesses." So when you want to talk about revenue and revenue base, these people are very important.

Now, if I could have Slide 1 put up there, if you look at the last 10 years, you can see that we have really had a subpar recovery. This is the Index of Small Business Optimism. It is basically based on 10 questions, forward-looking questions, like: Do you plan to hire, make capital expenditures? Do you think the economy is going to be better or worse? Those kinds of questions. And you can see that we have had a terrible time in this recession, much worse than the 1980–82 period. Optimism is back. And then you did notice that, starting in November, optimism soared, really jumped up. We hope that that will continue and that will translate into spending because that, of course, will give us GDP growth and employment growth that will improve revenues. A healthy economy means healthy revenues for the Government, and that is what we would like to see.

[Slide 1 follows:]


Small Business Economic Trends
NFIB The Voice of Small Business. | Research Center
Small Business Optimism Index
Based on Ten Survey Indicators
(Seasonally Adjusted 1986=100)
Index
110
105
100
95
90
85
80
75
75
77
79
81
83
85
87
89
91
93
95
97
99
01
03
05
07
09
11
13
15
17
Year
from most current data point
Quarterly (Jan., Apr., July, Oct.)
Feb., Mar.
1

Now, we ought to ask ourselves: Well, why did we get this subpar performance from this half of the economy? It did not do well at all. Obviously, it dragged down the overall GDP numbers. If you think about averaging the big firms with the little firms, the little firms were not performing up to par. And we asked them why. We said, "What are the most important issues that you have?" Something we have done every 4 years since 1982.

The top issues were: one, the cost of health care insurance; number two, the cost of complying with all the regulations that we have; and, number three, taxes on our income, which is the only place we get capital to grow. We do not issue stock. We cannot go out and borrow. We cannot do any of those kinds of things. We have to keep in mind that dollar for dollar, every dollar we spend on compliance is a dollar we cannot spend on investing in growth of the firm and in productivity-enhancing equipment and knowledge and technology. And that is not happening.

So on the taxes side, you know, the profits are the source of capital that we have, and the things that really are the most bothersome things that make the top 10 list are the complexity of the Tax Code—you have got to pay a lot of money just to get help to file your taxes. Most of us probably do—and, of course, frequent changes in the Code.

So what we forget when we look at all of this regulatory stuff is that the most important asset these firms have is the time of the entrepreneur, the owner. And the more of that time we divert into all this compliance time, the less time they have to think about growing the firm and financing the capital expenditures that we need to have growth.

If I could have Slide 2 up there, we all know the growth equation. Basically, growth is the function of productivity gains and population growth. So population growth is going to do what it is going to do. Productivity—that is the issue that we have to really worry about, and that is a function of, of course, capital expenditures, getting new knowledge, new techniques, investing in all these kinds of things which improve the output per worker hour, and that is productivity, and that is the thing that makes it possible to pay workers more, is when they produce more per hour.

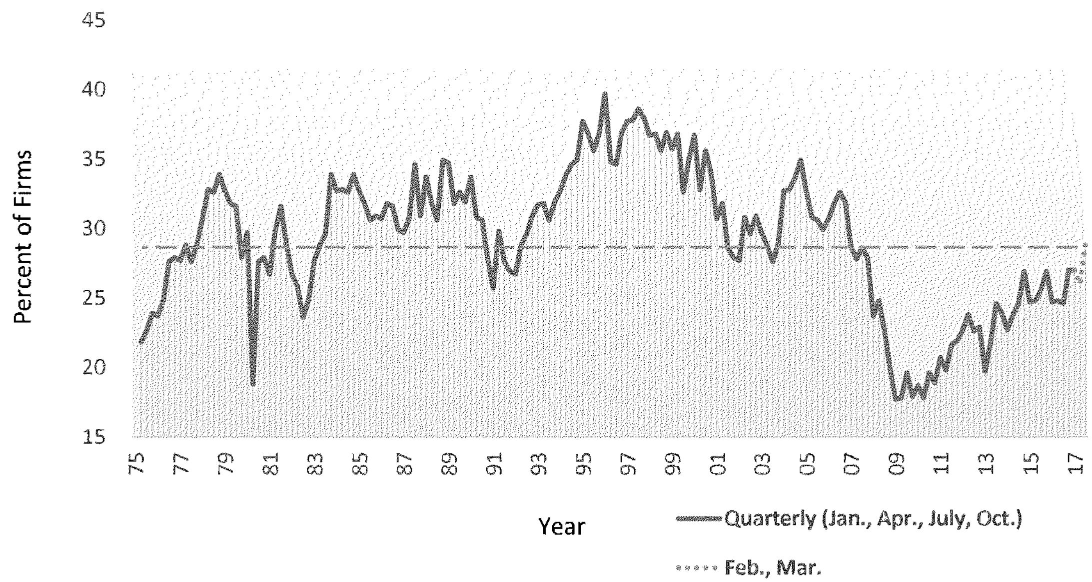
[Slide 2 follows:]

Small Business Economic Trends

NFIB The Voice of Small Business. | Research Center

Planned Capital Expenditures

Percent Making a Capital Expenditure During the Last Six Months



So if you look at the sentiment we have had, the chart we just looked at, we have not been optimistic about where the economy is going to go for 10 years. And when you have a pessimistic view about the future, you do not bet on the future. You are not going to put your money, your own personal money down when you are not really sure that the economy will support it. As you spend money, invest in growth, you need to have customers come and grow, and, of course, that will help create jobs.

So we really need confidence, which we now seem to have, and then, of course, we need incentives. And one way to get incentives, of course, is to remove disincentives, and the regulatory structure that small business owners face not just at the Federal level but also State and local are impediments to growth.

So tax reform is certainly one of the things that we would like to see. It is very complicated. I do not have to tell you. We have all seen the stories about how high the stack is and how complicated it is. It costs a lot of money. It would be really nice to have a simple Tax Code where we all paid the same tax rate, we all knew what it was. Over the 40 years that I have been collecting data from NFIB members, we have seen them switching their status from self-employed or single proprietorship to some kind of an incorporated thing because the tax rates were different. And it is just a waste of resources for us to be jumping back and forth and changing our status, getting an attorney, doing all that. Why? Let us just, you know, have a simple Tax Code that we can understand and we can all believe in and not waste our money doing—simplification would be great.

We would like to see a set of budget priorities that make sense to us. You know, you need us to grow, we need to grow, and so we need to see a sensible set of budget priorities which will improve the regulatory process. We would like to see more cost-benefit analysis. That is not done except in a few cases.

If you look at a small firm out there, they can have half a dozen different regulators. None of those regulators is looking at what the other regulators are doing. None of them is really asking the question: Is this regulation I am going to impose going to really be beneficial compared to the cost? Because they do not really worry about the costs they impose on the firm. And so if you want to get something done, there are two ways for the Government to do it. One is to tax us and then use the money to get something done. Or they can make us do it, and that seems to be a popular strategy.

So when you talk to our people, a third of them say that the cost of compliance is just one of their biggest issues. It costs an awful lot of money, and as I pointed out, dollar for dollar, every dollar we spend on compliance is a dollar we cannot spend on new equipment, on a new truck, on new whatever we need to improve worker productivity.

Half of them worry about the volume of regulations. There are so many. They say they spend way too much time, have to spend way too much time trying to figure them out. For one in five, they said they just really cannot figure out what the regulation is requiring them to do and how to comply with it. So all this entrepreneurial time is being wasted by really a not very effective set of regulatory policies, and we really need to straighten that out.

So when we get a change in the management team, obviously, we liked it. You saw the first chart with the index spiking from below 95 reading, which is 3 points below the 40-year average, to 106 in the last few months—105, 106. We have not seen that since 1983 when we came out of the last recession that had 10 percent unemployment rates. So this is an opportunity for us to get something done. These people are ready to go. They have got the energy. They have been kind of sitting around for the last 8 years with slow growth. We have certainly had a very rough time. We lost, you know, tens of thousands of firms in the 2008–09 period, and now, you know, we are there, but we need a reason, and if we have it, why, if you will give it to us, I think we can really—so we are prepared to grow, produce jobs, and produce revenue. We just need to see action from Congress to remove the disincentives, give us some incentives, and stop using so much of our capital complying with regulations of doubtful value in so many cases. So we really need to have a hard look at that.

Government cannot create new jobs, right? Only the private sector can do that. The Government can help by getting things out of the way. There are certain areas in the economy where we do not think the markets work as well as they should and the Government has to intervene there. But if Congress will allow the private economy to grow, I think we can help you a lot on the budgetary issues.

If I could have my last chart here, this is a result of our last 4-year survey. It was done almost a year ago now; it was early 2016. You can see those are our top issues. The one interesting thing about this chart is that, for the first time since 1982, when Paul Volcker was at the top of the list, right? Credit availability and so on was the top. This is the first time we have seen a real kind of business problem show up. In the top 10, finding qualified workers is a real issue. That is not something I think the Government should be dealing with. It just is something they told us was their major concern. But we are happy to have you address these issues, and then we will get busy and help you get the revenue you need to get the budget done.

[Slide 3 follows:]

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Small Business Problems and Priorities, 2016

Rank	Problem	Percent "Critical"	Percent "Not a Problem"	2012 Rank
1	Cost of Health Insurance	52.3	7.7	1
2	Unreasonable Government Regulations	33.4	6.0	5
3	Federal Taxes on Business Income	29.3	7.6	6
4	Uncertainty over Economic Conditions	25.6	4.8	2
5	Tax Complexity	27.2	6.4	7
6	Uncertainty over Government Actions	26.3	7.4	4
7	Frequent Changes in Federal Tax Laws and Rules	20.7	8.0	8
8	Property Taxes (real, inventory or personal property)	22.7	10.5	9
9	State Taxes on Business Income	22.7	11.9	10
10	Locating Qualified Employees	24.3	13.8	32

[The prepared statement of Dr. Dunkelberg follows:]

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

NFIB
The Voice of Small Business.®

Testimony of

Dr. William C. Dunkelberg,
NFIB Chief Economist

before the

Committee on the Budget

on the subject of

Private Sector Growth and the Economy

on the date of

May 3, 2017

Good morning Chairman Enzi, Ranking Member Sanders and members of the Committee on the Budget. Thank you for this opportunity to testify today on "Private Sector Growth and the Economy".

My name is Bill Dunkelberg and I serve as the Chief Economist of the National Federation of Independent Business. NFIB is the nation's leading small business advocacy association, representing members in Washington, D.C. and all 50 state capitals. Founded in 1943 as a nonprofit, nonpartisan organization, NFIB's mission is to promote and protect the right of its members to own, operate, and grow their businesses.

Small businesses are the bedrock of the U.S. economy with roughly 28 million small firms, of which about 5.7 million are small employers.[1] Small businesses account for about half of private U.S. gross domestic product and about half of the private sector employment. Their contribution to the U.S. economy is vital to the creation of a strong foundation for the middle class, offering job opportunities and contributing to its local communities. Small businesses provide goods and services in every market, in every geographic region, and throughout every demographic across the country.

The health of the economy is critical to the successful achievement of our goals as set forth in the U.S. budget as it depends on tax revenues to support government programs. The private sector is the heart of the economy, providing the revenue that supports government operations, both spending and regulatory oversight. Small business provides the half the jobs and the tax base for revenue generation. However, over the last eight years, increased efforts to fund an ever-expanding government has weighed heavily on small businesses, restricting their ability to recover from the great recession and spur economic growth.

The current economic recovery, which began in the third quarter of 2009 according to the National Bureau of Economic Research, has been the weakest in modern history, although one of the longest. In addition to weak GDP numbers, slow economic growth is further confirmed by the NFIB Index of Small Business Optimism which, except for one quarter in 2015, failed to reach its 43-year average level through the fourth quarter of 2016.

In simple terms, a sector that contributes half of our private GDP and jobs turned in a sub-par performance throughout the recovery. This was a major factor contributing to slow GDP growth and a sub-par recovery in employment for much of this time frame. However, the change in the management team in Washington, D.C. as a result of the election has inspired many business owners, leaving them very optimistic about the future of the economy and their prospects for growth. Optimism is now at one of the highest levels observed in 43 years. Small businesses are hopeful that this will translate into policy changes that will help reduce the tax and regulatory burdens that

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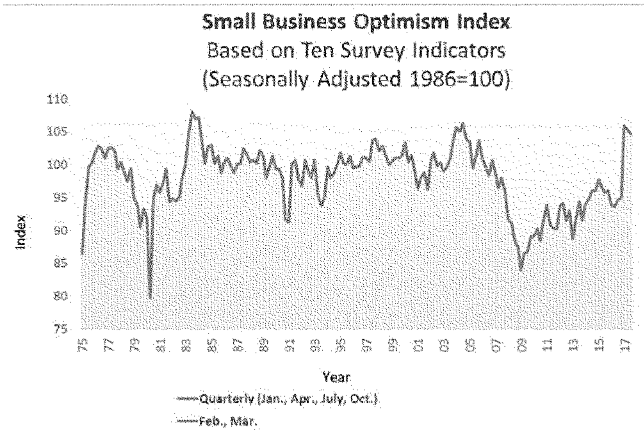
[1] Small Business Administration, Office of Advocacy, Frequently Asked Questions. https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2016_WEB.pdf

stifle small business growth. Reducing these burdens will allow small business owners to focus their time and resources on growing their business rather than spending their energy navigating the complex tax and regulatory schemes that consume so much of their valuable resources.

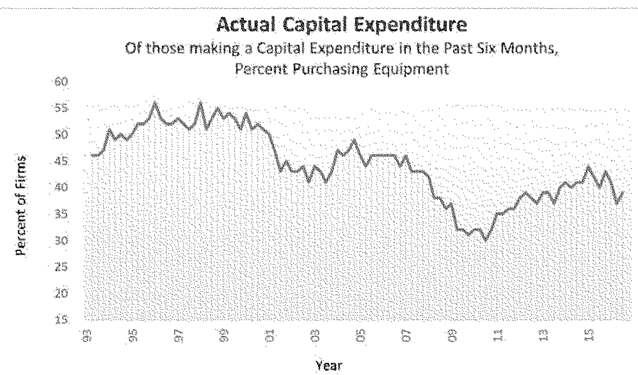


A comparison to the 1983-90 recovery which followed the last recession that produced unemployment rates over 10 percent is a perfect example of the vital importance of budget policies. In that recovery, average job creation per quarter was about 680,000 compared to 440,000 in the current recovery to date. But the workforce was 30 percent smaller in 1983 than in 2009, making the latest job creation performance even less impressive. The average growth in GDP was 4.5 percent per year (1983-1990) compared to 2.1 percent in the current recovery. And for budget purposes, the revenue implications of those differences are huge.

The government policies used to deal with each recovery were very different, one focused on empowering the private sector, the other focused on increasing the reach of government through increased regulations and taxation. The number of new regulations posted in the Federal Register over the past eight years reached record levels, this on top of a surge of state and local regulations.

Regulations are an insidious tax used by government agencies to accomplish their goals without expending government revenues or imposing explicit taxes. Instead of taxing businesses to raise funds, the government mandates through laws or regulations that owners must comply with, expending scarce resources. Each firm must cover these cost increases through lower profits initially, and then through higher prices charged to their customers. These costs, eventually passed on to consumers, are estimated to be as large in magnitude as federal income tax revenues, a second tax on private work and effort. It is not clear at all that those agencies issuing the regulations consider the cost of compliance in relation to consumer benefits. Nor does the individual regulator take into account the impact of all other regulations imposed on the small business. For example, I also serve as on the board of a small, three branch bank in NJ. And as a banker serving small businesses, I can confirm that a large share of our labor hours are spent on compliance, not growing our business or serving customers.

Growth in the economy is fundamentally driven by population growth and productivity gains. If employment grows 1 percent a year and output per hour grows 2 percent a year, GDP grows 3 percent. Longer term productivity gains depend on capital investment, new tools, faster machines, better computers, improved management techniques, new knowledge. These investments have been made at the slowest pace in 40 years in the small business sector. The surge in spending prior to "Y2K" is clear in the data, followed by a more normal level of investment which was interrupted by the Great Recession.

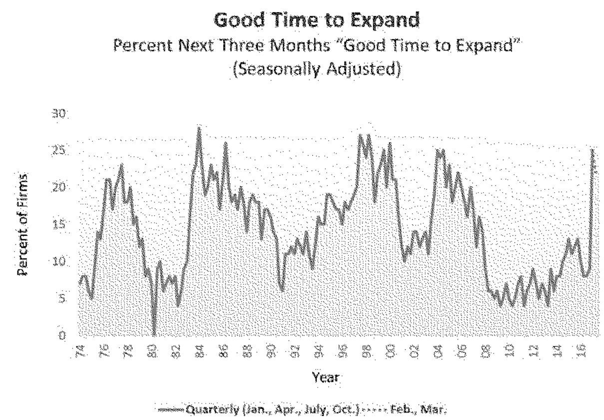


Many factors have contributed to this malaise. Regulatory compliance is costly, both in terms of actual expenditures but also in terms of labor hours used up, particularly the time of the entrepreneur, perhaps the most important asset of a firm. Compliance costs compete directly with investment spending, dollar for dollar. Private firms cannot borrow without limit and must operate within budgets. One-third of small business owners find unreasonable government regulations a critical problem in operating their businesses. Regulations are the second most severe problem for small business owners after the cost of health insurance. While owners are affected by every level of government, the federal government is the largest contributor to the problem for half of small employers.[2] Twenty-eight percent of small employers cite compliance costs as their biggest regulatory problem, followed by 18 percent were most burdened by understanding how

[2] Wade, Holly, *Regulations*, NFIB National Small Business Poll Series, February 2017, NFIB Research Foundation.

to comply with regulations. Extra paperwork is the biggest regulatory problem for 17 percent. The volume of regulations is the largest problem for 55 percent of small employers compared to 37 percent who are most troubled by a few specific regulations coming from one or two sources.

The other major damper on investment spending is the economy and the economic policies in place. High on the list of issues are profit taxes, and individual tax rates for pass-through organizations which deplete the main source of capital for most businesses to finance growth. For eight years, owners have had a dim view about the future for economy growth.



If sales are not expected to grow, then there is little incentive to expand capacity. Cheap money was available but profitable uses for the funds were not, due in large part to bad economic policies and the poor prospects for growth that resulted.

Clearly the mood of small business owners has changed. The list of their top 10 most-severe issues (out of 75 issues) makes it clear why it is important for the Administration to address all of their major issues, the cost of health insurance, the cost of regulatory compliance and the tax code, providing more certainty about policy. Over the years, we have seen owners change their tax status as Congress changed tax rates. One single rate for businesses should eliminate that waste of resources.

Small Business Problems and Priorities, 2016

Rank	Problem	% "critical" issue
1	Cost of Health Insurance	52
2	Unreasonable Government Regulations	33
3	Federal Taxes on Business Income	29
4	Uncertainty over Economic Conditions	26
5	Tax Complexity	27
6	Uncertainty over Government Actions	26
7	Frequent Changes in Federal Tax Laws and Rules	21
8	Property Taxes (real, inventory or personal property)	23
9	State Taxes on Business Income	23
10	Locating Qualified Employees	24

The quantity of their resources seized by the government through taxes and regulations, the top three items on the list, has crippled the small business sector's ability to grow as well as the incentive to invest.

Looking ahead, the prospects for economic growth depend critically on how the Administration and Congress address the issues that stand in the way of capital formation and job growth. With little prospect before the 2016 election that these issues would be addressed, owners were not optimistic about the future and were not willing to "bet" on a dismal future. The recent election changed all that and optimism is at record high levels, much like in 1983 when the record for the Index was set at the beginning of the 1983-90 expansion. If this recent spike in optimism translates into spending and hiring in the same way as in 1983, the economy is set to grow.

The question is, does the economy have the capacity to grow that fast? Eight years of sub-par growth has used up some of our excess capacity, and low levels of investment have not added to potential capacity as was the case historically. Although the unemployment rate is low, the labor force participation rate is also low, particularly for prime working age males. Unfilled job openings are at record high levels, the lack of "qualified" workers made the top 10 (out of 75 issues) list of small business owners' most severe problems for the first time since the survey started in 1982. The "double taxation" of regulatory compliance and taxes on profits are a major burden and a drag on growth, slowing capital spending and wasting entrepreneurial time.

The arrival of the new management team in Washington, D.C. revived the spirits of small business owners as the new team pledged to address the issues on their top 10 list of most severe issues and were supportive of a market economy with smaller government. The private sector has spent eight years restructuring, adjusting to the slow pace of growth and weak consumer spending. Tens of thousands of firms were lost. Owners have the capacity to grow their businesses; they just need a reason to do so and the removal of barriers that inhibit their growth is a big first step. Tax reform and regulatory relief are solid potential stimulants and implementing these in some form should be the primary goal of Congress. Adding one percentage point to the growth rate which will increase wages and entice those on the sidelines to re-enter the workforce would provide a huge boost to tax revenues to support the budget.

Only the private sector can produce real growth in the economy. Government grows only by taking resources from the private sector to support its programs. Taxes, regulations and government borrowing deplete capital available to support private sector growth, reducing both financial capital and the human capital of the private sector (the entrepreneur's time is a very valuable asset). The past eight years have made it clear that the government cannot grow the economy or create jobs. Government must have a supportive role, not leading one. Increasing the volume of regulations is not "progress", but many regulators seem to view it as such, micromanaging economic activity with little attention to the balance between costs and benefits (and "costs" are not just the budget cost, but what is lost by depriving the private sector of resources to support growth). "Less" can be "more" if reducing the size and reach of government restores to the private sector the resources and incentives to invest and grow.

I appreciate the opportunity to discuss the current state of the small-business economy and the challenges it faces going forward. And I look forward to working with the Committee to support small businesses.

Chairman ENZI. Thank you.
Dr. Sachs.

STATEMENT OF JEFFREY D. SACHS, PH.D., UNIVERSITY PROFESSOR, AND DIRECTOR, CENTER FOR SUSTAINABLE DEVELOPMENT, COLUMBIA UNIVERSITY

Dr. SACHS. Mr. Chair, thank you very much, and Senators, it is a great honor and privilege for me to be here. And I want to say that the decisions before our country on the budget are probably the most significant in at least a generation, if not more. We are in a very precarious situation as a Nation, and the budget being out of alignment with our national needs is a very, very important part of this reality.

We are in the midst of very deep structural change, and we have not addressed that in our country as a society or politically in an appropriate way. Our country has become two countries, and I am sure that you know that among your constituents.

If you have a bachelor's degree or better, you are doing well in this country. In fact, incomes at the very top are soaring. The restaurants are packed. The entertainment is booming. If you have a high school degree or less, you are suffering, if not literally dying in this country. We alone of the high-income countries have soaring mortality of white, non-Hispanic population, middle-aged, opioid epidemics, suicide, depression, falling wages, lack of attachment to the labor force. And every one of your constituents, constituencies, every State, every congressional district, has this divide. And the divide is widening.

And there are deep reasons for that. I had a look, Mr. Chair, at your State, our national producer of coal. Coal production more than doubled from the 1980s until today, but the employment in the coal sector fell to one-sixth of what it was because you had the biggest automated machines, the highest-tech mining imaginable. There are no jobs in that industry. Very, very few, about 6,000 left in your State, I believe, and nationwide a tiny number, because basically we have gone to autonomous mining, autonomous vehicles, autonomous driving in the mine sites. And the remaining jobs are going to disappear as well.

Whoever owns that stuff might be doing very well, so the stock markets are booming, profits are high. The number of billionaires we are creating is beyond imagining. I live in their neighborhood. I see what it means in Manhattan. It has never been better.

But if you just look a little bit farther along, we have a disaster brewing at the bottom half of our country, and it is showing up—can you imagine America with rising mortality rates of middle-aged Americans, with a suicide epidemic in this country? We never have seen anything like this in a century.

Now, the other problem we have is that our public debt is soaring because, in my view, both parties have been irresponsible in managing the public sector for 40 years. Both parties have been addicted to tax cuts, and the only argument is tax cuts for who? Maybe on the Republican side it is for companies or for high tax brackets. On the Democratic side, it is for working-class Americans. But nobody wants to pay taxes. Of course not. But how can you run a Government without revenues?

And so just in the last decade, the public debt as a share of GDP doubled—unbelievable—from about 37 percent of GDP to 75 percent now. It will be 77 percent before the end of this year. And if you look at the CBO baseline, which I think is as good as any, we are on our way to 140 percent of GDP on our current baseline because we are getting older, because of health care costs, because we have burdens. And then we have proposals for more tax cuts. I cannot think of anything less timely, more weird, except for the greed of the top—the richest people in this country. I do not know what they want to do with their extra billions, but absolutely from a public debt point of view, this would destroy our budget. And so this is why this is such an absolutely fundamental crossroads for us.

Let me say just very briefly a couple of points.

Tax cuts are not useful when they open up big budget deficits, reducing national saving rates, and basically burden the future generations. So it is an attack on young people if these proposals go through. It is just a war on the young who are going to have a hard enough time finding jobs in this automated economy.

Second, please let us get out of our minds the typical, what used to be true—I used to teach it at Harvard for 20 years—that growth and job creation is the same thing. It is no longer the case. Smart machines, artificial intelligence, robotics mean that growth and jobs have been separated. We can have growth that is absolutely job-destroying now, and we are seeing a lot of it. So the idea that growth means jobs means income of your constituents, it is no longer an automatic linkage. And that is why the share of labor and national income is plummeting right now, and the share of income to the wealth holders is soaring right now, because this is a deep, technological transformation that we are living through right now.

The third point I want to emphasize is the difference of jobs and decent jobs. You can always create jobs if people are working at basically unlivable incomes, have no benefits, cannot cover any of their basic needs. Sure, you can find a job if the difference of that is starvation. Jobs will be created. Markets are wonderful. They will pay workers almost nothing, and people will struggle. But what we want is decent jobs. And for decent jobs, you need decent skills and you need decent benefits. And in our country, we make a mistake that no other country makes. We tell the small businesses, "You have to provide the health coverage." In every other high-income country, the government finances the health coverage by taxing people who can afford it, and then the small businesses do not have to cover the health costs. That is how every normal country does it except for ours. And so we put this very heavy burden, and we think that jobs is the point, but what we are after is decent jobs.

And a final point I want to make is regulation. You know, there is regulation and there is regulation. And the idea that deregulation unleashes something, well, deregulation often unleashes monsters, like when we repealed Glass-Steagall. It unleashed Citigroup. That was a monster for our economy 10 years later because it was a creation that never should have been there. It was a gift to a few powerful constituents, and it ended up creating the calamity of our time.

So I do not personally like to think of regulation as a category so broad that it is good or bad. It is a matter of content, and the financial deregulation was a disaster at the end of the 1990s. We know the history of it so thoroughly because we have examined every nook and cranny of it since the 2008 financial crisis. We should not think of deregulation as some job spur, as a gimmicky slogan. We should think about what rules do we want to have a decent society, one that is creating safety for people and livable incomes and decent opportunities.

To conclude, if I may, Mr. Chair, tax cuts and anything that gives up net revenues right now is marching our country in a disastrous direction. It is so untimely, it is unbelievable. We do not have the revenues we need to run the Government as it is right now. We do not have the revenues we need to run a decent country as it is right now. And to give it up on some slogan that we are going to get growth out of it is a nightmare in my mind. It has no economic merit, it will create nothing good for our country, and it will basically tell young people, "There is no hope for you."

Thank you.

[The prepared statement of Dr. Sachs follows:]

Testimony of Dr. Jeffrey Sachs
University Professor at Columbia University
Senate Committee on the Budget
Hearing on "The Economy and Private Sector Growth"
May 3, 2017

Chairman Enzi, Ranking Member Sanders and members of the Committee, thank you for the very high honor and opportunity to testify today to the Senate Committee on the Budget on the topic of "The Economy and Private Sector Growth."

In this brief testimony, I will argue that the continued reliance by both parties on tax cuts to spur private-sector growth is doomed to fail. A sound long-term budget strategy should be built on increased public outlays funded by increased tax revenues as a share of GDP, with budget deficits low enough to ensure a steadily diminishing ratio of the public debt to GDP. Of all of the FY2018 budget proposals before the Congress, the People's Budget proposed by the Congressional Progressive Caucus comes closest to fulfilling America's policy needs.[i]

To explain my reasoning, it is useful to start by summarizing briefly America's ongoing economic crisis:

(1) Stagnant or falling earnings of working-class Americans, defined here as workers with less than a Bachelor's (BA) degree;[ii]
(2) Worsening health conditions for working class white, non-Hispanic, middle-aged Americans;[iii]
(3) Sharply higher Income inequality between rich and poor Americans;[iv]
(4) The richest 1% of American households earning far more than the poorest 50% of households;[v]
(5) Sharply falling life satisfaction of Americans in contrast with the trends of other high-income countries.[vi]

Our nation's budget strategy should aim to end these highly adverse and unprecedented trends. The solution requires increased public outlays for higher education, job training, income support for low-income workers, research and development, infrastructure, and other public goods.

The Mainstream Republican Party Strategy

I would characterize the mainstream Republican Party budget strategy as follows:

(1) Tax cuts, whether financed by cuts in government spending or increased budget deficits, will raise the net-of-tax return to investment and thereby raise the investment rate of private business;
(2) Some of these tax cuts should aim to spur private investments in infrastructure, for example toll roads and oil and gas pipelines;
(3) Environmental and financial deregulation will accelerate the flow of private investments;
(4) Higher private investment will raise economic growth;
(5) High economic growth will boost job creation;
(6) Higher job creation will raise wages and working-class incomes;
(7) Higher working-class incomes will raise the wellbeing of working-class Americans.

The Democratic Party Strategy

The mainstream Democratic Party strategy of recent years has also repeatedly espoused tax cuts and infrastructure spending. There are also, of course, key differences between the two parties. I would characterize the mainstream Democratic Party budget prescriptions as follows:

(1) Tax cuts should be directed towards the middle-class and the working-class (for example through an expanded Earned Income Tax Credit) rather than towards corporations and high-income households;
(2) Corporate tax reform should aim at closing loopholes rather than cutting rates;
(3) Infrastructure spending should be financed by government outlays rather than private investments spurred by tax credits;
(4) Tax cuts should aim at "demand stimulus," especially increased consumption spending by working-class and middle-class;

(5) Government programs, especially safety-net programs, should not be cut to offset tax cuts.

Both Parties Have Been Too Lax on Budget Deficits

Both parties have been short-sighted regarding budget deficits and the public debt. Larger deficits in the present require higher taxes or lower government spending in the future to service the build-up of public debts. Republicans argue, wrongly, that corporate and personal income tax cuts largely pay for themselves, a claim that was thoroughly disproved by the Reagan and Bush Jr. tax cuts.

Democrats argue, wrongly, that the future costs of debt servicing will in any event be negligible compared with the great benefits of short-run stimulus. Unfortunately, this view is also too good to be true. During the Obama Administration, the public debt rose from 37 percent of GDP in 2008 to 75 percent of GDP in 2016. As interest rates are now likely to rise by 2-3 percentage points from their recent lows, the extra 38 percent of GDP will impose a heavy financing burden, roughly an incremental 1 percentage point of GDP in interest servicing costs per year.

The current trajectory of public debt is frightening. The CBO projects the average budget deficit during the coming decade on current budget policies to be around 4 percent of GDP. On a business-as-usual scenario, according to the CBO, the debt-GDP ratio would reach around 150 percent of GDP in three decades (2047).[vii] The consequences, including large tax hikes and deep spending cuts, would likely prove devastating for American society, and especially for today's young people who would bear the heaviest burden of the future fiscal retrenchment.

The Republicans claim that corporate tax cuts would lower taxes on capital income and thereby spur investment and growth. But they forget that US national saving will be needed to fund the higher domestic investment, unless the Republicans' idea is to rely heavily and dangerously on foreign borrowing. Under the Republican tax-cut proposals, national saving would fall steeply because of the fall in government saving. Thus, even if a cut in corporate tax rates successfully stimulated investment demand at current interest rates, the decline in national saving would push up interest rates and tend to crowd out any increase in private investment, or alternatively, would cause a sharp rise in US borrowing from abroad.

Many Democrats are similarly naïve about the growth effects of tax cuts financed by budget deficits, especially when the economy is already at high employment. Tax cuts today would have to be offset by future tax increases, or by future cuts in government spending such as Social Security. Under such circumstances, households will tend to save rather than spend during a new round of tax cuts, as they anticipate future tax increases. The budget deficit would therefore soar but without producing any boost to growth, even in the short term.

The real conclusion is that federal government should pay its way by collecting adequate tax revenues. Otherwise the rapid build-up of federal debt will cripple our country in future years with few if any growth benefits in the short term. The only "winners" from another round of tax cuts would be taxpayers who garner large tax cuts today and are able to avoid the rebound in tax rate increases in the future.

Both Parties are Mistaken on the "Automatic" Linkage of Growth and Jobs

Both parties have assumed that faster economic growth will almost automatically translate into more jobs, higher wages, and improved household incomes. Yet the linkage of growth and decent jobs is not as strong as widely believed and less strong than in the past. A considerable amount of current investment spending is on labor-saving machinery such as robots and artificial intelligence (AI) systems. Such investments raise the US national income but also decrease the demand for lower-skilled workers and shift the national income even more towards capital owners. Recent growth has thereby been associated, somewhat counterintuitively, with a *widening* of income inequality and an absolute *decline* in the earnings of less-educated workers.

Consider a simple numerical illustration to elaborate the point. Suppose that annual GDP is $18 trillion. Suppose also that the workforce totals 150 million, made up of 50 million workers with a college degree and 100 million will less than a college degree. Suppose also that the college graduates own all the capital income, a reasonable approximation of the facts. (Recent estimates suggest that the richest 10 percent of households own around 78 percent of US wealth.[viii])

Initially, the $18 trillion GDP is divided as follows: $6 trillion for college-educated households; $6 trillion for high-school educated households; and $6 trillion for capital owners (all rich households). Thus, per capita income of college-educated workers is $120,000 per worker, and per capita income of high-school educated workers is $60,000 per worker. The college-educated also have another $120,000 per worker in capital income, for a total income of $240,000.

Now, suppose that economic growth accelerates the shift into high-productivity technologies such as robotics and AI. The GDP rises to $20 trillion, now divided as $7.5 trillion in earnings of college graduates, $7.5 trillion in capital income, and $5 trillion for high-school graduates. The earnings of college graduates have increased to $300,000, a gain of $60,000 per worker, while the earning of high-school educated workers has declined to $50,000 per worker, a decline of $10,000 per worker.

The economic pie is larger, though the slice going to the working class – constituting two-thirds of all workers – has gone down. Should we stop economic growth? Should we smash the machines? Hardly. In order to ensure that economic growth indeed raises all boats, we should ensure that the "winners" compensate the "losers" in the economy.

Suppose, for example, that the 50 million college graduates are levied an incremental $40,000 in taxes. Their net-of-tax income still rises by $10,000 per worker while the incremental government revenues (=$2 trillion) can finance a transfer of $20,000 per worker to the 100 million less-educated workers. On net, the workers with only a high-school diploma would thereby also enjoy an incremental $10,000 per worker (= $20,000 in transfers minus $10,000 in lower market earnings).

Both Parties Confuse "Jobs" with Decent Jobs

Both parties routinely confuse the creation of "jobs" with the creation of **decent** jobs. Many of the millions of jobs created in recent years have not been decent jobs in the sense that they do not provide the conditions for a dignified and secure life out of poverty. This is especially true for most of the new jobs occupied by less-educated workers, notably workers who lack a bachelor's degree or higher.

The market demand for less-educated workers is already low and still declining as the result of rapid advances in robotics and artificial intelligence. Yes, millions of new service-sector jobs have been created for less-educated workers, but these jobs have been at very low wages, with high job insecurity and few if any non-wage benefits. The low earnings cannot cover the costs of health care, college tuitions for children, leisure time for the family, maternity and paternity leave, quality child care, and pre-K (except government funded). In communities dominated by less-educated workers, the local property and sales taxes are not enough to maintain decent local infrastructure, such as safe, lead-free drinking water, storm protection, clean-up of toxic sites, and a decent quality of local education.

There are two key ways to foster **decent** jobs. The first is to provide more students with the opportunity to complete a college education free of crippling student debt. The second is to provide **government supplements** to market earnings, either through direct transfer payments, refundable tax credits (such as the Earned Income Tax Credit, or EITC), and the public funding of essential needs such as health care coverage and college tuition costs.

Such government policies would of course require more, not less, government spending and revenues. Yet for the U.S. society as a whole, they would represent a lower cost than today. Consider health care. The US currently spends around 18 percent of GDP on healthcare while other high-income countries (like Canada and Germany) achieve universal health coverage with only around 12 percent of GDP. In the US, the 18 percent of GDP is divided roughly half and half between the private and public sectors, with each spending around 9 percent of GDP. In a U.S. single-payer system, such as Medicare for All, the public costs would probably rise from 9 percent of GDP to perhaps 12 percent of GDP, but the private costs would fall from around 9 percent of GDP to around 1 percent. The net saving would be perhaps 5 percent of GDP, or roughly $1 trillion per year.

The Republican Party's Confusion Regarding Deregulation and Growth

In addition to tax cuts, the Republican Party position is that market deregulation is a key policy measure towards faster growth and higher national income. This view reflects a mass of confusion. Consider first the issue of fossil-fuel regulation and then of financial regulation.

The Republicans aim to "save jobs" by removing the EPA regulations on CO2 emissions from coal-burning power plants. Yet they fail to appreciate that coal mining is remarkably capital intensive while renewable energy deploys far more workers, for example, in installing solar panels on residential and commercial buildings. There are only 20,000 or so coal miners left in the US, while there are hundreds of thousands of workers deployed in renewable energy. Deregulating coal is therefore a triple mistake. It leads to fewer, not more, jobs; more air pollution; and more global warming, which is already imposing enormous costs on the US economy.

The Republicans also aim to create jobs by deregulating Wall Street. This general approach is a conceptual embarrassment just 9 years after the second greatest financial crisis in the country's past century. Financial deregulation of the Savings and Loan industry in the 1980s led quickly to a real-estate boom and bust during the Reagan years. Financial deregulation of Wall Street in the late 1990s led similarly and quickly to a real-estate boom and bust during the Bush Jr. years. The proper issue is not whether to regulate Wall Street but how to do it. The current call for financial deregulation is merely pandering to the Wall Street lobby, rather than addressing the underlying instability of our financial system.

A Growth Strategy to Achieve Decent Jobs for All

The economy today is creating jobs but not decent jobs. A true growth strategy to create decent jobs should include the following policies:

(1) A long-term rise in the proportion of individuals completing a college degree through increased public outlays to cover tuition costs.
(2) A long-term rise of public infrastructure spending financed by an increase in tax revenues (e.g. through a new carbon tax) as well as a new class of public infrastructure bonds backed by future user fees and general revenues; increased public outlays to ensure that new jobs are also "decent jobs," especially for less-educated workers.

(3) For less-educated and lower-earning workers, public outlays to ensure adequate take-home pay (e.g. through an expanded EITC); access to quality healthcare, education, childcare, and pre-K; leave time for vacations, maternity, paternity, and illness; and a safe physical environment at work and in the community.
(4) Policies to speed the transformation to a low-carbon economy, also thereby creating millions of new jobs in green tech.
(5) Transition to a single-payer health system (such as Medicare for All), paid by increased government outlays that are more than offset by the elimination of payments for private health insurance;
(6) Higher government revenues to pay for the above measures, with total federal tax revenues rising gradually from around 18 percent of GDP to around 23-25 percent of GDP over the coming decade (2018-2028).
(7) Tax reforms to include an end of corporate loopholes, higher marginal tax rates on high-income earners; a new carbon tax, and a wealth tax on very high net worth (e.g. 1 percent per year on net worth above $10 million).
(8) Reductions in effective corporate tax rates (e.g. *expensing* of new equity-funded investment) only as part of an overall increase in federal revenues.

Budget Policy for the Long Term

Senators, in conclusion, please let me emphasize the importance of a federal budget framework that looks forward to the kind of America we want in 2030 and beyond. In our current politics, we sometimes feel lucky to think ahead a week, month, or year. Yet to build a stronger and sustainable future for our country, we need to retrain ourselves to think ahead for a generation and more. We need to contemplate the dynamics of technology, demography, global warming, public debt, and other long-term trends, if we are to get our policies right. We need to stop drafting legislation by lobbyists, and begin again to draft legislation based on long-term needs and the best knowledge of scientists, engineers, and public managers. Most importantly, we need to plan ahead in an honest, transparent, and deliberative manner.

In my recent book, *Building the New American Economy: Smart, Fair, and Sustainable*, I urge America to adopt clear and bold Sustainable Development Goals for the year 2030 – to slash poverty by half, narrow income inequality, drop the crippling mountain of student debt, and decarbonize our energy system, among others. By adopting bold goals and a budget framework to match, we would demonstrate again America's remarkable ability to innovate and succeed, when we put our brains, energy, and resources in the service of a common cause.

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[i] See "The People's Budget: A Roadmap for the Resistance," Congressional Progressive Caucus, May 1, 2017

[ii] David Autor, "Skills, education, and the rise of earnings inequality among the 'other 99 percent'," *Science*, 23 May 2014: Vol. 344, Issue 6186, pp. 843-851

[iii] Anne Case and Angus Deaton, "Mortality and morbidity in the 21st century," *Brookings Papers on Economic Activity* Conference Drafts, March 23–24, 2017

[iv] Thomas Piketty Emmanuel Saez Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States," *NBER Working Paper* 22945, December 2016

[v] Thomas Piketty Emmanuel Saez Gabriel Zucman, op. cit.

[vi] Jeffrey Sachs, "Restoring American Happiness," *World Happiness Report* 2017

[vii] CBO, *The 2017 Long-Term Budget Outlook*, March 2017

[viii] Emmanuel Saez and Gabriel Zucman, "Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Tax Data," *The Quarterly Journal of Economics*, Vol. 131, May 2016 Issue 2

Chairman ENZI. Thank you. I thank all of you for your testimony.

We will begin with the questions now. I think everybody understands the order that we go in with the questions, making one slight change, and that is, I am going to relinquish my time to Senator Johnson, who I know has another committee that he needs to be at.

Senator JOHNSON. Thank you, Mr. Chairman.

I was in manufacturing for 30-some years, and certainly what I found out, what I needed to grow my business and create really good, high-paying jobs was I needed labor and I needed capital. And so I think Government policies, I mean, to make it simple, we ought to do everything we can to make sure we have enough labor, and I am actually going to talk about a guest worker program governed by the States to make sure we have the labor in the States in the right industries. And we have to have capital. Two things that obviously affect our stock of capital are overregulation and overtaxation.

But I want to use two analogies, a little bit talking to Dr. Sachs' point. Would anybody argue that America would be better off if we had the same composition of our workforce as 100 years ago where so much of American labor was directed toward growing food? Because of capital, because of productivity gains, machinery, we have a much smaller share of Americans producing the food that feeds the world. That is a good thing. The same thing is happening in manufacturing today.

The other analogy or the other anecdote was Milton Friedman visiting China, when he saw, you know, people digging a ditch with shovels. Why aren't they using equipment? Well, it is a jobs program. Well, then give them spoons.

So I want to talk about, first of all, taxation. Dr. Sachs, I agree with you. I am highly concerned about the deficit. I think that is very harmful in terms of economic growth. If you are a family and you are in debt over your head, you cannot grow your economy. You are paying for the basics and then servicing your debt. Well, the same thing is true on a national basis.

I just gave a short summary to Senator Wyden about my corporate tax reform, which would tax corporate income at the ownership level. You know, Dr. Dunkelberg, 81 percent of American businesses are pass-through entities. It would be a true Warren Buffett tax, by the way. It would eliminate double taxation of dividends. It would allow more efficient allocation of capital. I do believe there is some growth-oriented aspects to it; 100 percent expensing, I want to talk a little bit about that, to get the different opinions on that. It could be revenue neutral based on the economic activity it provides. So I am hoping Senator Wyden—I have given that to an awful lot of my fellow Senators—will take a look at that as one method of—and here is what we ought to be talking about, instead of tax reform, tax simplification and tax rationalization, because I am highly concerned about the deficits.

There is a debate whether 100 percent expensing is really pro-growth or would we be better off lowering tax rates, you know, if we are going to see a static score that is going to lose revenue but we are going to hope to regain that revenue through economic growth.

I just want to ask the panel: What is better, 100 percent expensing so that manufacturers, if they are encouraged to invest in equipment, have that capital and can grow their business, or is cutting tax rates better? I will start with you, Dr. Strain.

Dr. STRAIN. Well, thank you, Senator. I think the devil is in the details on a lot of these things. I think expensing is a good idea. It is certainly worth discussion and worth further consideration. It creates some issues. You know, what happens if you purchase capital equipment that is well in excess of what your tax revenues are? You know, are we comfortable with refunds and things of that nature? But I think moving the tax system away from a tax system that taxes savings, that taxes investment, that taxes income, and toward a tax system that taxes consumption is good public policy. I think it will make the economy bigger. I think that along the path to that bigger economy we will have increased economic growth.

How that stacks up against tax rate reductions I think depends a lot on how the tax rate reductions are financed. It depends a lot on how large the tax rate reductions are. You know, on the corporate side, I think we should be looking at lower tax rates. I think our corporate tax rate is——

Senator JOHNSON. We are just simply uncompetitive. I mean, if you benchmark—I am running out of time. I did want to get to the kind of labor part of this. And, Dr. Dunkelberg, I am interested in your latest survey that says locating qualified employees is now for the first time since 1982 in the top 10 concerns. Not one manufacturing company I have visited in Wisconsin in 6 years can hire enough people. I would fault two things. We tell all of our kids, "You have got to get a 4-year degree," which implies, oh, factory work, that is not good enough for my kid, as well as we pay people not to work. There is an extremely good article written by Nick Eberstadt in *Commentary* magazine going through this dramatic, drastic reduction in labor force participation rate, talking about, for example, our Government policies that pay people not to work. I would recommend everybody read it.

But can you just talk about how that is a really big problem, severe problem for especially small businesses? It is not that we do not have enough jobs for people. We do not have enough workers.

Dr. DUNKELBERG. That is right. Just a quick comment on expensing. You know, if we do not get rid of the concept of depreciation, then really, you know, over time I either can write off 100 percent of my capital asset now and really lower my taxes, right, if I expense it, or I spread it over some period of time. But if you think about——

Senator JOHNSON. It is just a timing difference.

Dr. DUNKELBERG. Yeah, I mean, it is really—expensing is simpler. Let us go for that.

Senator JOHNSON. I like that.

Dr. DUNKELBERG. Because we really like that idea. Expensing, we do not have to do the bookkeeping and accountants do not have to do it.

On the employment side, if you look now at the detail in our survey, you know, the highest percentage of our firms are complaining about not finding qualified workers is in construction. Then, of course, the number two group is manufacturing, no surprise, and then professional services and then on down the list.

We asked a couple years ago—we did a special survey and said, "Well, what makes people unqualified?" And, of course, about 50 percent said typically it is you do not have the right skill set. That makes sense. But what was astounding to us is about 20 percent said lack of social skills, poor appearance, unreasonable wage expectations, you know, take a bath. All kinds of stuff that these people could fix if they wanted to and did not have some other way to support themselves, they could fix and get a job. A lot of these people apparently are looking for a job because they have to to qualify for, you know, the other kinds of support that they are getting.

So, you know, when we are paying people not to work, make it comfortable enough for a person that does not have a lot of ambition to work, that is the problem. So you do not have to have a college degree to make a lot of money. The last 2 weeks reminded me, my electrician makes a ton of money, and my mechanic makes a ton of money. I mean, there are so many jobs, and we have made a mistake of—you know, the baby boomers, we probably did it—saying go to college, take anything you want, get a degree, and you will be happy. Well, not a lot of jobs for art history majors at the undergraduate level out there. So we really need to focus on that.

In terms of attracting people and solving this problem, we are doing it the best way we can. We have record numbers who are raising worker comps, so the way the market solves that problem is try to offer more money to get you to come. But, of course, there are all kinds of other complicating issues, including are you where the jobs are and so on, that are slowing that down. So we have lots of openings. We would love to hire people, and we are going to figure out how to do it.

Senator JOHNSON. Thank you.

Thank you, Mr. Chairman.

Chairman ENZI. Time has expired. Senator Wyden.

Senator WYDEN. Thank you, Mr. Chairman.

First, a question for you, Dr. Sachs, with respect to this tax proposal, because there is much that troubles me about this Republican proposal that came out last week. But I am particularly concerned about one feature of the proposal, and I want to kind of walk you through it because it strikes me as a prescription for more inequality in America, and I want to get your reaction.

Right now, the mom-and-pop small business that operates locally pays taxes as an individual. That is how it works for them. It is called "tax pass-through." The new Republican tax proposal creates a giant loophole for the super wealthy to abuse pass-through policy so, in effect, they can avoid paying their fair share of taxes as well as shortchanging Social Security and Medicare. The way this works is that they can, in effect, recharacterize their salary income as investment income that gives them a lower rate than lots of working people would have, and at the same time lets them skip out on their fair share of contributions with respect to Social Security and Medicare.

I would be interested in your reaction because my take—and I have gone through this now several times as the Ranking Democrat on the Finance Committee—is this really is a prescription for more inequality in America.

Dr. SACHS. Everything we know, Senator, about the scoring of these proposals is that, though we have not seen all the details of the White House proposals, what we have seen and what, I would say, the consensus view is that the overwhelming benefits would go to the top of the income distribution at a time when we have more income inequality than at any time in our modern history. So the specific provisions you mentioned, the kinds of loopholes that are hidden in these proposals, but the whole point of deep cuts of the corporate tax rate and the personal tax rates by themselves would overwhelmingly accrue to people who have done very well at a time when most Americans are facing income stagnation or decline.

I think the discussion we just had about jobs is very anecdotal but not correct, and this is important to understand. High school graduates in this country have had falling real incomes now for more than 30 years. That is the overwhelming—you can find maybe your plumber is doing better, but if your advice is do not worry about that college degree, there are plenty of jobs out there, this is absolutely false. We have a divide in this country that is serious, real, and unaddressed. And the way we have handled it is today it was reported that 70 percent of our kids from high school are going on to college, which is a record, which is great. But a large proportion of those will fail because they will end up with student debt, crushing debt, and they will not be able to continue, and they are not finishing their 4-year degrees.

And so we have created a mountain of $1.2 trillion of debt on young people who do not finish the degree, cannot find a decent job, and end up getting crushed for decades. This is not the right advice, with all respect.

Senator WYDEN. Let me see if I can get another question that builds on your comment, Dr. Sachs, for you and your colleagues. So Senator Johnson said that people he meets—and there is a study I guess he is citing that people do not want to work because somehow they are being paid not to work. I can tell you, in my State people overwhelmingly want to work, and the big challenge—and I think it relates to something I have talked to NFIB about—involves workforce issues and particularly technology and automation. Those are the driving factors in this workforce challenge. When we go out and meet employers and they say, "I have got to have workers," and the workforce needs have changed dramatically because of technology and automation.

So why don't any of you who has a fresh idea in terms of how we ought to tackle this, because we are looking at this on the Finance Committee and, obviously, here in the Budget Committee, we are really open for fresh ideas because that is the intersection, workforce and technology, for people to really go up the path to get a high-skill highways job. Anybody have a fresh idea?

Dr. SACHS. If I could just quickly come in, Senator, our manufacturing output is rising in this country. We have a strong manufacturing base, and employment has declined from 19 million to 12 million. Those jobs are not coming back because we have a productivity soaring through—especially now through automation and artificial intelligence. And the kind of jobs that are being created in that sector are skilled jobs, highly skilled jobs. But if you have a high school degree, you will not find decent work except if you are extremely lucky. And we will have two countries, which is what we have right now, and we need to help kids complete their education because we are the only country that piles on $1 trillion of debt on the back of our young people rather than paying for the tuition. That is the first point.

And, second, we need to take on through the budget burdens like job training or like health care that are now on our companies that cannot afford them, and so we need absolutely a budget that is able to pay for that. We are going in exactly the opposite direction.

Senator WYDEN. Let your colleagues take a crack at it. A fresh idea with respect to technology and automation, the driving factors in the workforce.

Dr. DUNKELBERG. Well, you pointed out that the big issue is kids coming out of the high school. Other countries do have different plans to get kids trained in the kinds of things that we need.

I remember when I became dean of the business school at Temple. We did not have any computers, and we really should have had, so we had to do computer labs and so on. And then I said to the faculty, "You have to use computers in the curriculum," and they were, like, shocked. But, anyway, they did not know how because they were all older people who did not—you know, had not been brought up—so one of the problems we have in the high schools, we are finding that doing financial education as well, and nobody can teach it. But also on the technology side, it is really hard to get that switched over because the people there need to be trained. You know, the students are trainable. They are there. But the people in the schools resist this kind of thing. They do not want to change. They do not want to do it because that is hard. So we really—I do not have a fresh idea how to make them do it. I gave my staff a free computer if they would do it. You know, that is a budget problem I had to deal with.

So we have to give them the incentive to change what they are doing, because they can.

Senator WYDEN. The Chair was gracious enough; because of the importance of this question I will not talk, Dr. Dunkelberg.

Dr. STRAIN. Senator, I certainly think it is a very important question. You know, right now we have basically two tracks for young people who are in high school. You can graduate high school and go to college, or you can graduate high school and enter the workforce. We need a third option, which is to graduate high school and to get some training and build some skills beyond what are taught in high schools but that do not involve a traditional 4-year college experience where you spend time as an art history major or doing whatever else.

Other countries are able to do this. If you look at Germany, for example, they are very successful with apprenticeship programs. If you look at Great Britain, they are very successful with apprenticeship programs. I talk a little about this in my testimony, in the written testimony, for a paragraph or two. Work-based learning as a postsecondary option that builds credentials, that involves classroom time, but that also involves on-the-job training to get people into occupations that are skilled—not as skilled as being a brain surgeon, but more skilled than being a cashier—that I think is of critical importance.

Senator WYDEN. Many thanks. Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Perdue.

Senator PERDUE. Thank you, Mr. Chairman, and thank you, guys, for being here.

I am really confused. I think the evidence is there that the connection between bigger Government and more equality has been disproven not just here in the United States, but in other mature Western economies, over time, not just in the last decade, over the last 100 years. I would argue that the Great Society was our attempt at a bigger Government solution to something we all wanted to solve, and that is poverty. And yet the poverty rate today is exactly the same as it was in the 1960s.

So I am really confused at the debate here about whether growth is good or bad. The connection between growth, job creation, and income is a precept that I personally subscribe to.

Now, I recognize that when you are coming from the ag industry to an Industrial Age to an Information Age—and the cycle of that change is much more rapid today than either of those other two changes, but I have a hard time believing that making a buggy whip survivor—or a company survive because it has X number of jobs today and if we bring in an automobile manufacturer and that is going to create fewer buggy whip makers, I do not get that logic in terms of solving the growth problem. And the reason you want growth is to keep people working, let people have a viable way to provide for themselves inside our Government. But let me—or inside our economy. But let me highlight a couple concerns I have.

This Federal Government has grown from $2.4 trillion to $3.9 trillion under the last two Presidents—one Republican, one Democrat. And yet we have got nothing to show for it basically except a burnt-up military after two wars we perpetrated and a dead economy right now.

The last 8 years we have generated a recovery that is the worst in 70 years. We have allowed 4 million women to fall into poverty. This is not a formula for success in my mind, and both parties are guilty.

But I want to talk about the debt, and this is the question I am getting to. I argue that it is $20 trillion. I actually believe that we actually do owe that money to Social Security and Medicare. So when you guys talk about it being 70 percent of GDP and, you know, $14 trillion, that is wrong, in my opinion. The total debt is approaching $20 trillion. I have a debt clock in my office, and it is going to turn any day now to $20 trillion. And we know right now that over the next decade the baseline budget we have that both Democrats and Republicans have authored will add another $10 trillion to that debt.

We have heard people tell us that we cannot tax our way to solve that. We have heard people in this room tell us we cannot cut our way to solve that. And we have also now heard people tell us that we cannot grow our way out of here.

My question to all three of you, very quickly, is: What are the three things that you would do with regard to this debt crisis as it relates to growth and the well-being of our citizens to, within that, help solve this debt crisis? Which, by the way, all of our discretionary money today is borrowed, by definition, because of the size of our mandatory side of the equation. So just be very brief. I have got about 2 minutes left. I dedicate the rest of it to you guys.

Dr. STRAIN. Yeah, thank you, Senator, and I agree with you about the importance of the debt.

The first thing I would do is get our entitlement programs under control, Social Security and Medicare, middle-class entitlement programs.

The second thing I would do is try to reform our health care system in such a way that there is downward pressure on costs. And if you look at what is driving increases in the debt, those really are the two main factors.

Dr. DUNKELBERG. Well, I think the best measure of the burden of Government, you know, the tax burden is really the Government budget plus all the regulatory stuff that we do not measure very well. I mean, I think you have to ask yourself, isn't Government really too big and doing the wrong things? And so we really are going to depend on you to ask those questions and get answers from us and streamline what the Government is doing. It is wasting a lot of resources.

Senator PERDUE. So the model right now, we are about a little less than 18 percent of our GDP as the Federal Government. You know, European nations went as high as—some 30 percent, some a little higher than that. Is the argument today that we are at 18 percent, do we need to be at 25 percent? I mean, what is the question? How big is Government going to be? And then how is it going to spend the money? And every dollar that the Government spends is a dollar that is sucked out of this equation that created this economic miracle in the last 70 years, in my opinion, is innovation, capital formation, and the rule of law. So that is the question that I have.

Dr. Sachs, do you have a comment?

Dr. SACHS. First, Senator, nobody should talk about trying to protect the buggy whip industry. The point I am making is a different one, which is that the nature of economic growth which expands the pie is also slicing it in a different way now. So you can have growth, but you are not getting good jobs alongside it.

Senator PERDUE. Great, but isn't that the transition we are talking about coming out of an Industrial Age into an Information Age?

Dr. SACHS. Not quite. It is the difference of machines that can do the job of what——

Senator PERDUE. So are you saying that we should stop technological development and innovation?

Dr. SACHS. No. No, no, no. What I am saying is that when you have a bigger pie and some are losers of it, you should redistribute.

Senator PERDUE. And how would you redistribute?

Dr. SACHS. First, I would make sure that all our kids can get the education they need without the student debt of $1.2 trillion.

Senator PERDUE. You know, I worked my way through college. I have to tell you, I am offended by that argument personally. And I have a lot of good friends who worked their way through college.

Dr. SACHS. What was the tuition you paid at that point, Senator?

Senator PERDUE. In current dollars?

Dr. SACHS. Yes.

Senator PERDUE. About exactly the same at that institution as it is today.

Dr. SACHS. That surprises me, because the real cost of tuition——

Senator PERDUE. In constant dollars.

Dr. SACHS [continuing]. Has soared.

Senator PERDUE. In constant dollars.

Dr. SACHS. Tuition has soared.

Senator PERDUE. Agreed. So have wages.

Dr. SACHS. No. No, wages have been stagnant. If you are a high school grad——

Senator PERDUE. Over that long period of time——

Dr. SACHS [continuing]. Wages have been stagnant for 35 years.

Senator PERDUE. I was not a high school grad. I had college education.

Dr. SACHS. For 35 years now. But on your question, so if we have our mega wealth earners, if we have the Googles and the Microsofts and the Apples and the Amazons putting all their profits in the Cayman Islands and Bermuda, where they do right now, or in Ireland, so they do not pay their taxes, so the bigger pie has escaped taxation, which is exactly what has happened. And I can tell every one of those companies what they have——

Senator PERDUE. I would like to have a longer—I am out of time, but I would like to have a longer discussion about the corporate tax rate.

Dr. SACHS. Then we cannot fund our Government. But you ask a very good question, Senator, which is: What tax should we have? We are the lowest-taxed country, measuring tax as a share of GDP, of any high-income country.

Now, I spent a lot of time in Germany, in the Netherlands, in Sweden, in Denmark. The average person there is living better than the average person in the United States. They have vacation time. They have guaranteed health care. They have free tuition. They have 6 weeks off in their summer vacations, paid leave, because they are taking care of themselves; whereas, we are letting the bottom half of our country fall to pieces in opioid epidemics and in suicide and in depression and in falling real incomes, because no one is taking care of them, all the benefits are going to the top. We need to tax some of that income so that we can share it with all of Americans and help people get the help that they need to be able to survive this transition.

Senator PERDUE. Thank you. I am out of time, but I do want to make one comment real quick, and that is, if the Government has done such a great job, then why isn't the VA doing a better job? And look at what we have done with regard to how we spend the money solving the poverty issue. That is all. Thank you.

Chairman ENZI. Senator Kaine.

Senator KAINE. Thank you, Mr. Chairman. Thanks to the witnesses.

You know, I think everybody on this committee, anybody in the Senate, believes economic growth is very important. If I could sort of summarize, you do have two sort of different theories. The Republican position tends to be that you get growth by less taxes, less regulation. The Democratic position tends to be that you get growth through better skills, better jobs, and better wages.

Now, we do not, as Democrats, say taxes and regulation are irrelevant, and I am not saying the Republicans say skilled jobs and wages are irrelevant. But we just have a fundamentally different view about the way to promote economic growth. If it was less taxes, less regulation, we would not have had the big bust in 2008. We had a big bust after deregulating and less taxes, the worst since the 1930s. Deregulation did not help us. Deregulation hurt us.

There is good agreement on this panel. You have agreed—two of you have agreed that the earned income tax credit is good for promoting labor force participation in your written testimony. I think you all agree that innovation and creativity, we should do things that promote that. That is such a strength. You all agree that we in Congress ought to do a better job of debt management. You all agree on career and technical education. So there is some uniformity there.

I want to talk about something that this committee hates. I am like Johnny One Note in this committee. I grew up in a small business household, helped run a small business. I was a mayor, I was a Governor. I think a huge drag is uncertainty.

Could you put up Dr. Dunkelberg's list? Here are the 10 things that businesses are concerned about in 2016, small businesses. Number four is uncertainty over economic conditions, 25 percent. Number six is uncertainty over Government action, 26 percent. That is 50 percent uncertainty.

But if you look at the others, cost of health insurance, what is the premium going to do next year? It is not just the cost. It is the volatility of the cost. Look at number two, unreasonable Government regulations, regulations that are being written, are they going to come out or aren't they? There is an uncertainty factor there.

Number three, Federal taxes on business income. We have been talking up here for years are we going to do tax reform or not. People do not know what tax policy will be.

Number five, tax complexity. Complexity generates uncertainty.

Number seven, frequent changes in Federal tax laws and rules. The first seven all have an uncertainty element to it.

Should Congress try to give as much certainty about policy as we can if we want to have strong economic growth? Does anybody disagree with me on that proposition?

Dr. DUNKELBERG. I will jump in and just say yes. I mean, again, the time of the owner of this small firm, all 25, 28 million of them, you know, needs to be not spent figuring out what the tax changes are going to be, not waiting until December to find out whether we can expense or not, et cetera, et cetera. None of that. That is bad stuff. It wastes our time, wastes our valuable resources. And they would be devoted to much more productive use.

Senator KAINE. And do you generally agree, Dr. Sachs and Dr. Strain?

Dr. STRAIN. Yeah, I——

Senator KAINE. We should reduce uncertainty if at all possible?

Dr. SACHS. The biggest uncertainty we have right now is we have no fiscal framework for the next 15 to 20 years. We do not have a vision that the debt is going to remain under control. In fact, if the President had his way, we would destroy the budget for a generation to come. And so there is such basic uncertainty right now that nobody can plan.

Senator KAINE. Dr. Strain?

Dr. STRAIN. In a one-word answer, yes, I think Congress should do much more to create an environment of certainty. I agree that a fiscal framework is part of the issue. I think that businesses had a lot of uncertainty about the Affordable Care Act and what shape——

Senator KAINE. Especially this week.

Dr. STRAIN. Sure. And that uncertainty has continued in the new administration and was present in the previous administration, and it just makes it hard to plan.

Senator KAINE. I support a number of the budget process reforms that the Chair is promoting. He is promotion the notion of 2-year budgets. States and cities do it. I think that would be great. I think we ought to do a calendar year budget instead of doing an October 1 budget, and when we do budgets, it is always in December, so, you know, build the sidewalk on the place where people are walking. You know, we are doing budgets when we do them in December. Why not more certainty?

But here is my last point. Yesterday morning the President tweeted this out: “Our country needs a good shutdown in September to fix the mess.” I mean, a good shutdown. This is the CEO, this is the Commander-in-Chief. This is the Chief Executive of the Article II branch of the greatest Government in the history of the Earth. Is there one good thing a shutdown would do to promote certainty in this economy? We lived through a shutdown in 2013. It was a 13-day shutdown. And I could go small business after small business that were near the Shenandoah National Park during leaf season, and then the park closed down, and they lost their best season of the year. Or contractors or others who had contracts, and now they did not know whether they could meet them, or people who were getting furloughed from their jobs, 170,000 Federal employees in Virginia, many getting furloughed from their jobs.

A shutdown is the worst thing we could do to this country, and I cannot imagine why a President is promoting a shutdown. You are saying here what I believe to be true and what any reasonable economist would say. We should be in the certainty improvement business, not in the uncertainty wrecking ball business. And I will just close with that comment. Nobody should be using a shutdown as a good thing for this country, especially the Commander-in-Chief.

Thank you, Mr. Chair.

Chairman ENZI. Thank you for being the closest to maintaining your time.

[Laughter.]

Chairman ENZI. Senator Boozman.

Senator BOOZMAN. I will try and do the same thing. Thank you, Mr. Chairman. And thank you all for being here. I think this is really a very, very good discussion.

I want to ask about community banks for you to comment on that because I think that is a huge problem in much of America. But the one thing about education is I think when I went through, probably the State paid for 70 percent, I probably paid for 30 percent. We have reversed that now. You know, the student is paying for 70 percent, the State is paying for 30 percent. And the way that we have allowed that to go on to make it work is by giving them loans. They cannot be refused. There is no counseling at all regarding that. And it truly is financial malpractice.

The other problem is that we have not done anything to really look at what is feeding the inflation in higher education. What is the frustrating thing for us here, I think, is you push more money to the States, invariably, to higher education or whatever, you do not get ahead because the State then—because they are all broke. Most of them have balanced budget amendments. All that is going to prison, it is going to K–12, and their Medicaid budget. So it is something that we need to look at.

I agree totally, you know, that education is the answer. I do not know what you do as an unskilled laborer these days, or not so much now but looking at 10 years ago. And the one thing I do do that I think is so important—I used to be on the school board, and I tell these school board members, "You need to go to a factory now, and the first thing you do when you are there is you wonder where everybody is at," you know, because you have got these big places, and then the skill set that it takes to run the equipment and fix it. So often people in those positions are my age, a little bit younger, whatever, a little older. They look back at a factory how it was 10 years ago. So I think education in that regard to our educators is a key component.

I want to ask you, though, about the community banks. I am out and about as much as anybody. I agree totally, you know, as far as regulating the big entities. But a lot of that regulatory atmosphere really has come down on our community banks. I hear stories about the regulators come in and they literally have to get card tables out because there are more regulators there than there are employees in the bank.

My brother was an ophthalmologist. I am an optometrist. We started a little practice. It grew to where we had 75 employees. I do not think now if we went down to get that loan—we had an education, but that was all. I do not think we would be able to check the boxes to get that business, which became—you know, those were good-paying jobs. We could not have gotten that started.

So can you comment about that? Why don't we start with you, Dr. Sachs, if that is okay?

Dr. SACHS. Senator, I am not really an expert on community banks, but I do want to agree with you on——

Senator BOOZMAN. But one of the things——

Dr. SACHS. But may I just say one word about——

Senator BOOZMAN. No, but let me just finish my thought in the sense that—because my thoughts just kind of come. What we are trying to do is take the risk out of capitalism, and you just cannot do that. Now, you can diminish it some when appropriate, but go ahead, sir.

Dr. SACHS. I was going to come back to your financing of college because I think you put your finger on it exactly. We are imposing a burden for exactly the skills that are needed that cannot be sustained. And you are also right that costs of higher education could come down because technology now permits us to do things better, more cheaply. So you could combine more financing with ceilings on tuition, and that is the direction we should go.

Same with health care, by the way. Our biggest problem with health care in this country is that we empower monopolies all over the place—our drug companies, our local providers—so that the costs of health care in this country are at least $1 trillion a year more than you would pay for exactly the same services in any other country. In other words, we have put about 5 to 6 percent of GDP extra because we allow a company to charge $1,000 for a pill that costs $1 to make, and we call it a "market" when there is no market. They have a patent for 20 years, exclusive monopoly. And then we say we do not negotiate with them because that is about R&D. Well, this is a little bit of an aside. If you want to save money, save it through putting price controls on the health system. We are out of control. We tell these monopolists, "Charge anything you want." We do not say a word.

Senator BOOZMAN. Talk to me about community banks real quick, guys, or the Chairman is going to yell at me. Actually, he going to gavel me.

Dr. DUNKELBERG. Let me talk briefly. First, I would point out that, you know, I used to be able to earn my tuition and some extra money with a summer job, which is an impossible thing. Having been the dean of a business school and been in this business for a long time—maybe Jeff would agree with me—professors are either overpaid or underworked, in general. I do not know where all that is coming from. And we are also turning our campuses into amusement parks with lazy rivers and climbing walls and all kinds of wonderful things that are really expensive, and that is—anyway, okay.

So now I will put on my hat. I am chairman of the board of Liberty Bell Bank. We started about 11 years ago. We have now been making money for a couple years. We are happy we got through the bad thing. We have three branches and 40 employees, and we serve basically small businesses. You know, your story about the regulators coming in, the amount of time we spend. I mean, almost all of our board meeting time is spent putting things into the minutes to show the regulators that we talked about this or that.

All of our staff hiring over the past couple years has been to hire more people to check that all the boxes and the mortgage applications were done right, et cetera, et cetera. There is no value added here to the consumer, but our costs just keep going up. So you see the small banks are disappearing because we cannot support that overhead. So we are operating under a set of regulations designed for a Citigroup, and we are not Citigroup. There are 6,000 of us out there doing community stuff, and it is going to be hard for us to do that in the future.

Senator BOOZMAN. Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. And I want to thank all of you for your testimony today. As Senator Kaine said, there are some points of overlap that I think we can work on going forward.

I do want, Mr. Chairman, to point out that a comment was made earlier that a lot of the efforts we have undertaken since the mid-1960s to fight poverty have not been successful. It is absolutely true that we have a big poverty problem in the United States.

On the other hand, as a result of things like Social Security, Medicaid, and food nutrition programs, we saw 38 million Americans who were not in poverty who would otherwise have been in poverty. We had a big conversation about this just a few years ago, and it was pretty clear that if you were to eliminate a lot of those programs, you would have close to 40 million more Americans in poverty.

I want to pick up on something, Mr. Chairman, where it sounds like people are on the same page, and I do want to cite the report from the CBO 2 months ago, and I am quoting: "Large and growing Federal debt over the coming decades would hurt the economy and constrain future budget policy. The amount of debt that is projected under the extended baseline would reduce national savings and income in the long term."

My question for each of you: Do you each agree with that CBO conclusion?

Dr. SACHS. That is absolutely correct, and we have been on a path that is already not in control. If you take into account what we also all agree on, expanding earned income tax credits, expanding support for training, for education, and so on, we need more revenues, not lower revenues. And I am shocked by the very idea that we might give up net revenues. And if you give it up on some guise of dynamic scoring—I have now been through that, because I am old enough to know that trivial gimmick, several times in the last 30 years. Please do not do it again. This is bogus. It is a fig leaf for giveaways to rich people. And dynamic scoring is not the point here. The point here is there is no space for losing revenues right now, and it would cripple us for another generation.

Dr. DUNKELBERG. Well, I think it is a well-established principle that if you borrow money and do spending today, you cannot do it tomorrow if you have to pay the money back. The silly game we are in, nobody asks us to pay the money back, so we can just pile it up and people seem happy. We pay them a pretty good return on all those bonds out there. But, you know, Greece found out that did not work, and everybody else is going to find—and we may be the last ones to find out that does not work. But it will not. So we just really need to get sensible about how we are financing Government and what it does and how we allocate the funds. We want the money to be used effectively, not just thrown away.

Senator VAN HOLLEN. Right. Do you agree with the CBO conclusion?

Dr. STRAIN. I do agree with the CBO conclusion. At the same time, I think it is important not to be hysterical about it. I mean, we are not going to wake up—we are probably not going to wake up next week and have some sort of a terrible debt crisis on our hands. There are reasons that the United States is very different than other nations. Dollars are where people put their money in U.S. Government bonds or where people put their money when they are concerned about risk, et cetera, et cetera. But I think there is no question that the debt is on an unsustainable trajectory under current law, and I think that there is no question that getting it on a sustainable trajectory should be a top priority of Congress. I think the right place to start with that is reforming——

Senator VAN HOLLEN. Let me just ask, if I could ask—let me just ask this, though, and I think Dr. Sachs has already answered this question. And I am going to give the other two witnesses the benefit of the doubt her. Let us say CBO does use dynamic scoring—and I agree with Dr. Sachs' conclusion about that. But let us say CBO looks at whether it is President Trump's plan or the Republican plan, and even with that little extra bump, they conclude that it adds to our Federal debt, would that be a bad idea, to adopt a tax plan that adds to the Federal debt under CBO's conclusion, even if they include dynamic scoring?

Dr. SACHS. This would be a terrible idea right now given the baseline is already out of control.

Senator VAN HOLLEN. Thank you.

Dr. Dunkelberg.

Dr. DUNKELBERG. Well, the dynamic scoring is not going to solve the problem. I mean, it gives you a bump, but as you point out, it does——

Senator VAN HOLLEN. Right, so my question is: Under those circumstances, should we add to the debt with a tax reform plan?

Dr. DUNKELBERG. We should try not to add to the debt, but not just on the tax side. How about on the spending side?

Senator VAN HOLLEN. Okay. But the fundamental question is we hear a lot of talk, which I agree with, about the dangers of accruing debt, so——

Dr. STRAIN. Yeah, so I agree that the spending side is really the most important side, particularly——

Senator VAN HOLLEN. So if I can just stop you, so debt from your perspective, it is not a problem with debt, it is a problem with spending. In other words, debt is debt. Right? And how you work that out, to Dr. Sachs' point, is a fiscal question for the Congress, whether it is revenue or whether it is cuts. My question is not how you would do it. My question is: Whatever tax plan may come before the Congress, whether it is Donald Trump's or somebody else's, if even after the CBO's dynamic scoring it adds to the Federal debt, should the Congress still support that given the situation we are in?

Dr. STRAIN. I think the devil would be in the details.

Senator VAN HOLLEN. No, this is not devil-details question.

Dr. STRAIN. I would not——

Senator VAN HOLLEN. Just does it add to the debt?

Dr. STRAIN. I would not support a debt-financed reduction on labor income taxes. I think if we put together a good corporate tax reform and there was a projection that it would add to the deficit, but the projections were modest, then that might be a sensible thing to do because our corporate tax rate is so high, and we do not really know what the economic effects would be from a 15-percentage-point reduction in the corporate tax or a 10-percentage-point reduction in the corporate tax. But I think the right way to do tax reform is to do it revenue neutral.

Senator VAN HOLLEN. Thank you.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

I have not taken my turn yet, but I will not right now. Go ahead, Senator Harris.

Senator HARRIS. Thank you, Mr. Chairman.

Dr. Sachs, you are probably aware that the President's skinny budget is cutting the Department of Labor's budget by 21 percent, and the Department of Labor has many responsibilities, including job training and employment grants and senior employment programs and things of that nature.

Given that there is that significant cut to the Department of Labor, how do you suggest that we as the Federal Government and perhaps through the budget create incentives for retraining these populations of folks that are losing their jobs even though there is a growing economy, as you have described?

Dr. SACHS. We know that we need more than ever active labor market policies that include job training and support for higher education and also other ways to supplement income and help make work, jobs, more decent for those who have low earnings. The idea that we would cut the Labor Department at this moment when we are in a jobless growth environment or a growth environment even if it produces jobs, it is not producing decent jobs; even if it is producing some decent jobs, it is not producing decent jobs for many millions of people. It is simply the wrong approach.

Senator HARRIS. And I heard your testimony earlier, which I agree with, about the need for decent jobs, which requires decent skills and benefits.

Dr. SACHS. Yes.

Senator HARRIS. With the emphasis at this moment being on the skills piece and the training piece.

Dr. SACHS. I think for the Department of Labor it would be on skills and, also, since so many workers are abused at work, they do not have rights, they are not protected by unions because we basically have so little union coverage in this country, the other area where the Labor Department has a special role to play is defending basic rights of workers, which is against sexual harassment, against an unsafe physical environment. And given how the bottom is falling out of the bottom half of our country, we should be bulking up the Labor Department, not cutting it back.

Senator HARRIS. Please talk with me about your thoughts about how we will train the American workforce to take on the jobs of the so-called 21st century. As we understand, automation is taking hold around a lot of industries. Where are the jobs of the 21st century? I know that there has been testimony by all three of you about manufacturing and construction and then professional services.

So here is my question: For that population of people right now who are between the age of 30 and 50, who want to work and are unemployed, how do we train them to take on those jobs where we have a demand for skilled labor? Is there a way to transition them, they who are now between the age of 30 and 50, who are going to have a life expectancy of about another 30 to 50 years, how do we transition them into the jobs that we actually need to be performed? Because I cannot believe we are going to have to give up on them. I have to believe that there is a way and there is a plan that you all might recommend for how we transition them smoothly and rather swiftly to take on those jobs.

So I would like the ideas from each of you, and I will start with Dr. Sachs.

Dr. SACHS. I think that there are two parts to keep in mind. Because of this technological transformation, the earnings that many people will face will not be very good. They may be stagnant or even falling, even with training, because we are really moving in a period where there is an elimination of a lot of jobs, and we are just in the beginning wave of that. And the way that countries are successfully handling it—not our country—is that the job is only one part of their broader income. The government is guaranteeing the health coverage. The government is guaranteeing tuition for their kids. The government is guaranteeing early childhood development, pre-K. The government, in other words, is providing through that growing pie—because this is productivity gain, so the income is going up. But it is saying to Larry Page and Sergey Brin and others, you pay taxes and then we can share the benefits of your miracles broadly so that even if the market earnings are not great, the life of the people is good. That is what we need to offer, where a $60,000 average income economy per capita income in our country is still rising a lot, but it is all going to the top.

So it is not only the job training, but it is also ensuring that around whatever working-class people earn, they are not desperate. But we forgot all about that coverage around the jobs.

Senator HARRIS. Mr. Chairman, if I can just have a minute from each of the other two panelists on this point?

Chairman ENZI. Okay.

Senator HARRIS. Thank you.

Dr. DUNKELBERG. Well, I will just quickly suggest that, you know, we have to—it has to really be in our high schools that we change really dramatically what we are doing there, because that is where——

Senator HARRIS. The 30- to 50-year-old right now is the population I am talking about.

Dr. DUNKELBERG. That is where we get started, I mean——

Senator HARRIS. The 30- to 50-year-old right now, that is what I am—that is what keeps me up at night, thinking about those folks. They are beyond high school.

Dr. DUNKELBERG. They are beyond high school, but you have to—you know, if you do not—you want to focus on them, then how are you going to backfill if you do not fix that problem? You have to start it there, making sure that we do not roll this problem further.

Senator HARRIS. I am still waiting for the training solution for transitioning the 30- to 50-year-old today. Maybe our last panelist can give me that answer.

Dr. STRAIN. I think we need to do a much better job with work-based learning. And so if you are a 35-year-old guy or a 40-year-old guy and, you know, you lost your job and you want to enter into a profession that requires skills, there should be pathways to do that where you can spend some time in a classroom and earn a credential, but at the same time you can fill a vacancy as an apprentice or as some sort of a trainee with a plumbing company or with an electrical company or with a construction company. And at the end of your training, you will have spent a lot of time actually working, and you will have earned some kind of a credential that is not actually a degree.

Now, in order to make that work, we have to take a hard look at minimum wage laws, and we have to take a hard look at other labor market regulations, because we need to make it attractive for the business to actually want to hire the person, and it has to make good business sense for that to happen. But if we create that kind of a framework, then the labor market itself is determining the content of job training as opposed to the Department of Labor, which has a pretty bad track record at determining the content of job training.

So I think there are things we could do. We just have to, you know, try them out and see how they work.

Senator HARRIS. Mr. Chairman, thank you for your generosity.

Chairman ENZI. You are welcome, and thank you for your questions. In fact, I appreciate everybody's questions, and I will mention that anybody can turn in questions, too, until the close of business today.

I also have some questions that I will be submitting, and then when I get answers, I will share them with everybody that was here and was not here. I will also be giving a little bit of a summary, and I will do that right after Senator Kennedy asks his questions. So I appreciate anybody that comes and has some questions.

I would mention on this job training thing that there are a lot of job training programs out there, and we are just not getting the people into them. That is a huge disappointment to me. I think we have too much duplication in the kinds of job training out there, and we ought to be picking out the best and funding those better and then putting more concentration on getting people into them. But it also had to do with our attitude toward different kinds of work.

I visited schools in Sweden, and in Sweden, when you graduate from high school, you go to tech school. If you finish tech school, you can go to college. And then while you go to college, you can be working part-time on weekends and paying part of your debt. But the biggest thing that it does over there is take the stigma off of normal jobs, and I think that helps a lot.

As far as automation, I have been trying to get my computer on the floor of the Senate for 20 years now.

[Laughter.]

Chairman ENZI. And we still cannot do it. People have told me that they do not know how to type, so if I did it, they would have to learn how to type, and they do not want to do that. So thank you for your questions.

Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman. I apologize for being late. I was in another, less important committee.

I want to talk to you just for a few minutes about Dodd-Frank and its impact on the American economy, and specifically community banks. And by community banks and small credit unions, I mean institutions of less than $10 billion.

I asked Chairwoman Yellen in a Banking Committee hearing a few months ago—I am going to paraphrase, but I think it is pretty close. What did the community banks do wrong in 2008? And her response was, "Nothing."

Dr. Strain, what do you think about the idea of exempting community banks and credit unions that are less than $10 billion in assets from Dodd-Frank?

Dr. STRAIN. Well, Senator, I am not an expert in Dodd-Frank, and I cannot offer an expert opinion about that. My kind of generalist understanding is that Dodd-Frank is hurting the abilities of community banks to make loans and to service customers and to provide a valuable function to local economies. And to the extent that we can change regulatory requirements to allow that type of important economic activity to take place, I think that is important.

You know, whether or not that means exempting some banks from regulations and enforcing regulations for other banks or, you know, where the cap should be drawn, things of that nature, I cannot say.

Senator KENNEDY. Doctor?

Dr. DUNKELBERG. Well, I am the chairman of the board of a $200 million community bank with three branches that has survived. We are living under regulations designed for Citigroup and half a dozen other very big firms with all the risk rating problems that we have, what we can count, what we cannot count, and the complexity of having to deal with all that, you know, gobbles up huge amounts of our time. We seem to have regulators in our bank more often than not, and it takes up huge amounts of staff time. We hire staff just to keep records to make the regulators happy so that we can pass the Bank Secrecy Act (BSA) or we can get the Community Reinvestment Act (CRA)——

Senator KENNEDY. If I could interrupt just a second, and I apologize for that, but we have to be mindful of time constraints. You are a $200 million institution?

Dr. DUNKELBERG. Not big.

Senator KENNEDY. You are not exactly a threat to the American economy.

Dr. DUNKELBERG. No, I do not think so. If we went down, we probably would not be missed except by our community——

Senator KENNEDY. Of course.

Dr. DUNKELBERG [continuing]. That we are very much involved in and all the local stuff. And, of course, we can do a better job—our loan committee is so good, I mean, they know the whole market really well. They know the people who are going to come in and apply.

Senator KENNEDY. It is called "relationship banking."

Dr. DUNKELBERG. Exactly.

Senator KENNEDY. Excuse me for interrupting, but——

Dr. DUNKELBERG. Go ahead. I am done.

Senator KENNEDY. Thank you for those comments.

Doctor?

Dr. SACHS. Senator, no doubt the regulations should be both different and less onerous on small banks, and the attention should be on the large financial institutions.

Senator KENNEDY. Would you support exempting them?

Dr. SACHS. Probably not exempting them, because small banks also fail, and then they hurt their communities. The basic principle of finance is you are using other people's money, which means that you tend to have a tendency to get into trouble and too many bad accidents happen. I subscribe to financial regulation, but I feel this man's pain. And I am sure that it is right that it is onerous when you have the regulations for mega institutions apply to small institutions.

Senator KENNEDY. Let me just ask you a philosophical questions, Doctor, and I do not mean this—if this comes out as in some way pejorative, I do not mean it. It is an honest question. What makes you think, why do you believe that people who work for the bureaucracy in Government know better than everybody else, know better than the private sector, know better than the people who choose to invest in a small bank or not? What is it—I mean, honestly, why do you believe—I work with a lot of folks in the bureaucracy—I do not use that critically—every day at the Federal level, and I worked with them for 16 years at the State level. I do not think they are vastly superior to people who make their own decisions in terms of intellect or insight or knowledge. Why do you believe what you do?

Dr. SACHS. I do not think it is a matter of intellect. I think it is a matter of incentives. I know a lot of people on Wall Street. Many of them are crooks. They use other people's money. If they are not regulated, they will steal. I know them. I sit with them. I eat with them. I deal with them. I do not trust them for a moment, and yet they have billions of dollars under their control.

I do not feel the same way about Federal regulators. I do not——

Senator KENNEDY. Can I just interrupt? What percentage?

Dr. SACHS. Well, I could introduce you to a lot of them.

Senator KENNEDY. No, I mean what percentage of—it is a pretty bold statement you made, and I know a lot of people who believe that. But of all the folks on Wall Street, what percentage do you believe are crooks?

Dr. SACHS. I think enough of people in the hedge fund industry that gives—scares the wits out of me.

Senator KENNEDY. But, I mean, is it like 1 percent or 10 percent or 80 percent?

Dr. SACHS. I could put it this way: enough to make a calamity of our economy. Because it is not the proportion, it is what resources they command. And 2008 did not just happen by itself. It happened by malfeasance, massive malfeasance. Almost nobody paid the price for it, by the way. The Obama administration protected them. The Justice Department was afraid. The Securities and Exchange Commission (SEC) does not go after individuals. And so a lot of crooks walked away, and I see them at gala dinners in New York, and I do not trust them to turn my back on them.

Senator KENNEDY. Do you blame President Obama for that?

Dr. SACHS. Certainly I do, President Obama and President Bush, both of them. And President Clinton, by the way, because he was President when this was deregulated. It was dangerous then. President Bush continued this. Alan Greenspan let it happen. And President Obama in my view did not exercise justice after the fact.

Senator KENNEDY. I have gone way over. I am sorry, Mr. Chairman, but I found all three of you interesting. Thank you. Again, I am sorry I was late.

Chairman ENZI. That is okay, and those were different questions than we had had before. So I will add that to my list.

One overriding thing that I saw through the whole thing was a lot of comment about debt and how much in debt we are and how that is affecting the economy. I do not get invited to speak many places because I am too depressing. I know those numbers. And I agree that it is overwhelming and we are passing it on to the next generation, and people do not even know how we are passing it on to the next generation. We have a custom user fee that we like to use for offsets for different things. But we have already spent that through 2025 to do current projects. So as that money comes in, there is not really anything to spend it on. But we will. We will spend it again. So now we are spending the money from the year after that to do another offset. There are just so many things that are really piling debt on to the next generation, some of it not even showing.

But enough of depression. I was glad to hear the comments about budget reform. We really have to do that. And Senator Kaine has talked a lot about the debt-to-GDP ratios with guardrails. I hope we can institute that; biennial budgeting, calendar year, and something that we are just beginning to talk about, which is portfolio budgeting. We have 160 housing programs administered by 20 agencies. No agency is in charge of any one of those programs. So nobody is setting goals. Nobody is doing oversight. I think we could do it with five agencies and—five programs. Of course, that would mean that we would get complaints from 155 managers that they might be losing their job. But it is money that could be put into housing people instead so I hope we will begin to talk about that.

I think that my overseas tax plan is beginning to reemerge, and it was mentioned that there is a lot of money in the Cayman Islands. I do not know where all the money is, but I know that yesterday there was an article about $250 billion in cash, and I realize that a lot of companies overseas do not have their money in cash, so my international tax plan makes us more competitive overseas, but it also gives some incentive to return the money to the United States over a period of time—or pay the taxes. They can return it at any time they want.

I could ask some questions. I do not have the audience of the Senators that I would have if I had used my time right at the beginning, but as I said, I am going to submit some questions which may have some more import now than they would have even then, and I will share those answers with my colleagues.

Chairman ENZI. I want to thank you for your time and your expertise. If you have any publications you want to suggest that I read, I am happy to do that. I read about 100 books a year and do a book report on each of them. That saves me having to go back and re-read them again unless I want to review what I read before. I find it very helpful, as you have been, so thanks for your time and your preparation and your testimony, which I will encourage people to read as well. And keep those ideas coming.

Thank you. The hearing is adjourned.

[Whereupon, at 12:32 p.m., the committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

QUESTIONS SUBMITTED TO DR. MICHAEL R. STRAIN BY CHAIRMAN MICHAEL B. ENZI

Question. Decreasing taxes on individuals and businesses has a well-established demand effect. In the case of labor, reducing taxes increases wages and the trade-off of work to leisure. In the case of capital, reducing taxes increases profits and incentivizes investment. How would tax simplification, even if it is revenue-neutral, create economic growth? Does certainty in tax structures support long-term investment?

Answer. Tax simplification would have important efficiency properties that would result in a larger economy, and an increased rate of economic growth as we move from today's economy to that larger economy.

Eliminating or reducing tax expenditures—for example, the mortgage interest deduction and the state and local tax deduction—would, even if part of a revenue-neutral reform, result in a more efficient allocation of scarce resources. Concretely, some money that Americans would spend today on larger houses would be spent in a different way. To the extent that the decision to spend money on larger houses today is driven by the mortgage interest deduction, spending that money in a different way would increase the productive capacity of the economy, and would result in an increase in income per capita, which would be reflected in the short-term growth rate.

Regarding the second part of your first question, yes, I think it is safe to say that certainty in the tax code supports long-term investment. Senator Kaine made this point very well during the hearing: the Congress should have as a goal to provide an environment of policy certainty so that business decisions are not driven by concern and a lack of clarity over the future course of public policy.

Question. The American workforce has a variety of labor policies adopted based off the laudable goal of protecting workers—minimum wage, unemployment insurance, and occupational licensing. Dr. Strain, your testimony references how these types of policies can actually impede economic growth. How does economic growth support the average worker?

Answer. Economic growth supports the average worker because a growing economy is an economy in which businesses are creating new jobs, labor markets are tight, and wages and incomes are rising.

Of course, longer term, structural issues are still at play in an economy with economic growth. And those issues—for example, the automation of jobs requiring "routine tasks," and downward pressure on wages in industries exposed to international trade—still affect many American workers. But those structural issues are easier to manage in a strong-growth environment.

It is also the case that in a strong-growth environment incomes for some workers rise more rapidly than incomes for other workers. But this argument does not mitigate the desirability of broad-based growth.

Having said that, in my view public policy should complement economic growth in an effort to increase economic opportunity for American workers. I discussed many policies that I think would increase opportunity—for example, EITC expansion, a greater emphasis on work-based learning, and reforms of existing policies—in my written testimony, and during the hearing. To support American workers, we should not rely only on economic growth. But economic growth is critical in that effort.

Thank you again for the opportunity to appear before the committee. It was an honor. And I am eager to be helpful to you and to any member of the committee in the future.

NFIB The Voice of Small Business. | Research Center

May 16, 2017

Dear Senator Enzi:

Thank you very much for the opportunity to testify before the Committee on the Budget and to respond to your specific questions. And thank you for your support of NFIB.

Question 1: Could you explain some of the reasons why you think the current market is so tight? Is this a regional problem, or one in certain sectors of the economy?

This is a complex question. On the supply of labor side, there are many factors contributing to the problem including an aging of the population into retirement, competition from the "welfare" side with federal and state programs providing a good-enough living for people who do not have attractive work opportunities, and potential workers geographically mismatched with job openings. Retirement is taking a heavy toll on "skills" and new workers with degrees who are not prepared for available jobs raises this "mismatch" problem. Graduates often require an investment in their training which benefits the employee but is an immediate expense for the firm.

On the demand side, the unfilled openings are concentrated in a few industries including construction, manufacturing, and professional services, focusing on technical skills like programming, but also welding, electrical, plumbing, carpentry and other occupations that are not taught in four year colleges or universities.

Question 2: NFIB rates the "cost of health insurance" as the number one small-business problem. As Congress considers legislation to repeal and replace the Affordable Care Act, what provisions of the law or regulations stemming from the law, are most important to address for your members?

First, the ACA includes a pile of taxes that should be addressed. These taxes disproportionately affect small businesses with most small offering firms purchasing insurance in the fully insured marketplace. The cost of health insurance is the most severe issue facing small business owners with 52 percent finding it a critical issue.

Second, the individual and employer mandates try to improve a coverage problem but not a cost problem. Instead, these mandates require small business owners to insure themselves and many of their employees regardless of their ability to absorb costs.

From a larger perspective, the only reason that firms offer health insurance is because of the tax law change long ago that allowed firms to deduct this benefit as a cost of employment and provide health care insurance as a non-taxable benefit. Otherwise, there is no reason why consumers couldn't just buy their health insurance the same way they buy food. And there are thousands of insurance agencies selling home insurance, car insurance, life insurance, boat insurance, etc. Why can't they sell health insurance? And why not across state lines? The health insurance industry is far too regulated, restricting the number of suppliers and the insurance options available.

Third, the restrictions and benefit mandates in the ACA drive up the cost for individuals and small businesses. The Essential Health Benefits package and community rating should be revisited with a focus on affordability.

Question 3: I am an advocate for small business health plans, whereby multiple small businesses can pool together to lower health care costs for their employees. Do you believe allowing small businesses to pool together for purposes of providing health coverage would help with employer costs?

Small business purchasing pools are a great idea, one that NFIB has supported. Creating purchasing pools would allow the health insurance market to function better. Purchasing pools reduce the cost of each firm trying to "negotiate" a deal and makes it easier for the providers to price insurance options when they include a larger pool of risks. Permitting innovative pooling arrangements enables groups of individuals and employers to band together to form larger, more stable risk pools with increased negotiating power and decreased administrative costs.

On September 1, 2011, CMS issued guidance requiring Association Health Plans/Small Business Health Plans (AHPs/SBHPs) be subject to all small group insurance requirements, defeating advantages and savings of AHPs. Congress should revisit this restriction and other limitations on SBHPs to provide maximum flexibility for small businesses. If a proposal is overly permissive of state regulation or burdensome to establish, it will not benefit small business owners and their employees.

NFIB The Voice of Small Business. | Research Center

May 16, 2017

Dear Senator Stabenow:

Thank you for the opportunity to testify and to answer your specific questions.

Question 1: What role does credit financing and interest deductibility through the current tax code play for these small businesses?

While profits are the main source of capital for most small businesses, the majority of small businesses utilize debt financing at some point in operating their business whether in the form of a line of credit, business loan, credit cards, etc. Some owners are more reliant on debt financing than others depending on a variety of circumstances including expansion purposes, working capital, and capital expenditures. Because small businesses debt financing needs vary, so does the importance of interest deductibility. Based on NFIB's monthly Small Business Economic Trends survey, about 40 percent operate without debt (excluding credit cards). And, with ten years of historically low interest rates compliments of the Federal Reserve, the interest expense is quite low as a share of operating costs. But as the Federal Reserve increases interest rates and borrowing increases as the economy improves, interest deductibility will become meaningful to more small business owners.

Question 2: What are some reasons that companies would finance their operations through debt versus equity?

Equity financing is generally not an option for most small business owners; they are too small and it is very expensive. When small business owners do seek equity financing, it usually involves a private offering to "accredited investors". The cost of a "public offering" is far too high to be a feasible option for all but a few high growth small firms. One area of concern for NFIB is that the SEC is considering tightening the definition of accredited investors which would make raising equity harder. But most small business owners are able to access adequate debt financing for their purposes and are reluctant to give up control of business operations that equity financing requires.

GROWTH POLICIES FOR THE NEW ADMINISTRATION

WEDNESDAY, MAY 10, 2017

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 10:30 a.m., in room SD–608, Hon. Michael B. Enzi, chairman of the committee, presiding.

Present: Senators Enzi, Crapo, Johnson, Corker, Gardner, Kennedy, Boozman, and Strange.

OPENING STATEMENT OF CHAIRMAN MICHAEL B. ENZI

Chairman ENZI. We will go ahead and call this hearing to order. I will go ahead and do my opening statement, and if Senator Sanders makes it, whenever Senator Sanders makes it here, we will allow him to do his opening statement. There was a vote this morning, and I am not sure exactly how it came out yet, but I know that has got quite a bit of interest over there. But they should be back here pretty quick.

So good morning, and welcome to our hearing on Growth Policies for the New Administration.

First, I want to thank Senator Phil Gramm for agreeing to testify this morning. He has always been one of my heroes of the Senate. He was one of the first people that I met when I got to Washington, and after listening to a few of his debates, when I could see terror in the face of his opponents, I actually got to sit down and visit with him about some critical issues.

I was on the Banking Committee that he was the chairman of at the time, and I learned a lot. And I wanted specifically to have him here for a hearing because of his past experience, not while I was in the Senate, but before that, when he worked with Rudman and Hollings to do some specific stuff with the budget, and that has had a carryover effect on us today. And that was quite a while ago, so there needed to be some revisions in it, and so we will be relying on him and others who have chaired the Budget Committee to come up with some solutions that will make it more possible for us to actually get control of the budget while we improve the economy.

So Senator Gramm's decades of experience serving as an elected official, both in the House and then in the Senate, both as a Democrat and as a Republican—not at the same time, of course—provide insight into which policies have historically led to growth upon implementation as well as which are most politically attainable for the new administration and for Congress.

The rules that govern budget information are incredibly outdated. The last time Congress updated its accounting rules was long before any of us here in the committee were in Federal office. The last comprehensive change was 50 years ago. I am proud to say that last month, the members of the committee unanimously approved reforms to the broken budget process that will lead to more orderly, meaningful, and transparent consideration of budget resolutions in the Senate Budget Committee, not on the floor yet. We will handle that one later.

In addition to the budget process reforms adopted by the committee, I have also proposed a budget concepts commission to review Government budget rules and ensure that they keep pace with advances in economics, with accounting, and with finance.

This should be a bipartisan exercise, with each party receiving an equal number of appointments. The commission of experts should comprehensively review the quality of budget information used by the executive and legislative branches. Congress writes policies based on their budgetary impact. All of us want to ensure that legislative estimates are clear, concise, and accurate.

For example, past scoring practices did not include the reaction of the general economy to major policy changes. We know, however, that big policy changes can and do alter the size of the economy. Dynamic scoring can add missing economic information that static scoring does not provide, making the score more complete. This is critical information for policymakers to better understand how legislation affects the economy as a whole, how macroeconomic feedback or dynamic scoring interacts with Congress' official cost of legislation, which is important for the committee to discuss.

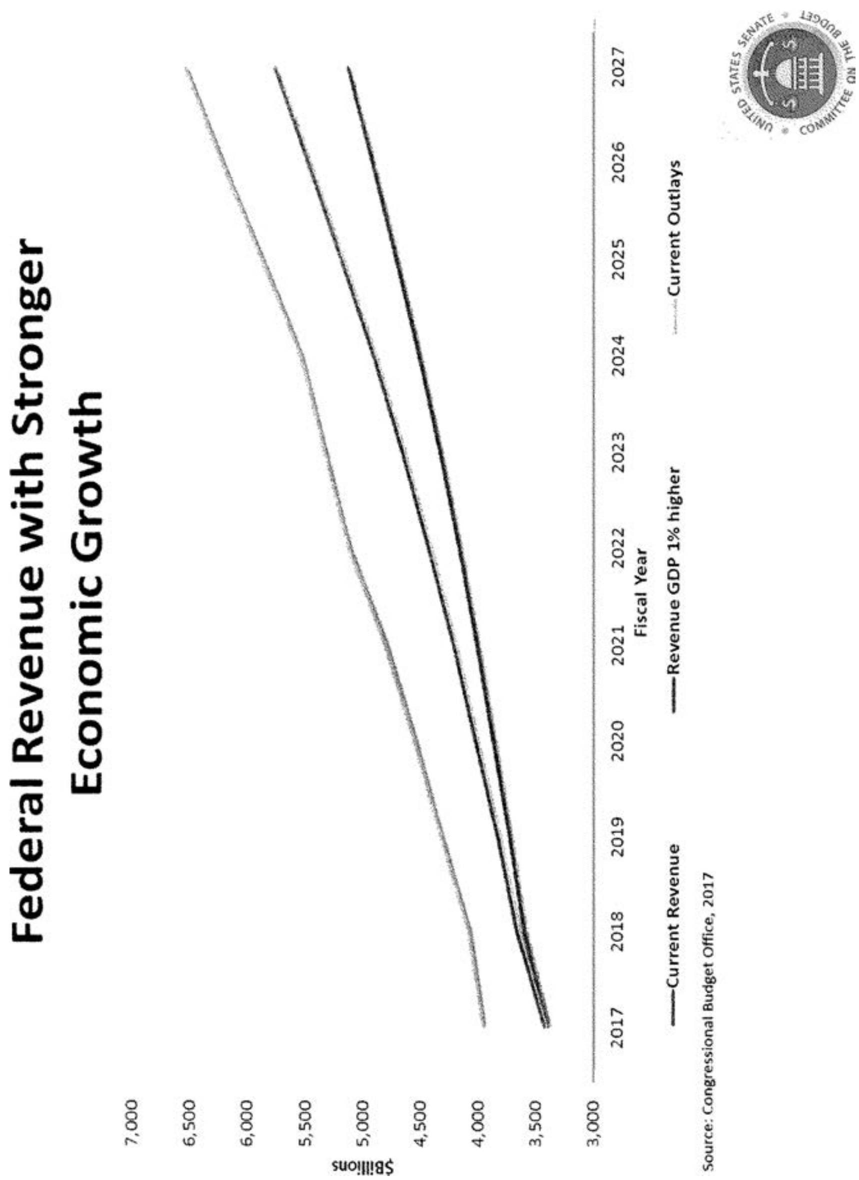
These budget rules are particularly relevant when Congress considers policies with the goal of increasing economic growth. Tax reform is a prime example. In last week's hearing, we discussed with national economists how taxes influence economic growth. Both the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) recognized the link between taxes and output of the economy. According to the JCT, tax policy can directly influence the level of labor supply, the physical capital, the human capital, and technology in an economy by changing the after-tax returns to certain economic activities or changing the cost of pursuing them.

Our Tax Code is a mess, and it is riddled with inefficiencies and loopholes. People are demanding some simplicity. Reform that makes it simpler and fairer for everyone would require bold policy changes, not tweaking around the edges of a broken structure. Broadening the base and lowering tax rates will limit Government distortion of market-based decisions. It will increase efficiency and growth of business.

Our projected economic growth is below average, and we need to continue discussing the root causes of our lethargic economy in order to promote policies that grow it.

As you can see from this graph, a 1 percent increase in gross domestic product (GDP) significantly changes the trajectory of expected Federal revenue. The blue line is the current level, and the orange line is the revenue with higher growth. The gray line is Federal outlays. Regardless of growth, our spending still exceeds our income. Cutting the growth of spending is something this committee will continue to address.

[The referenced graph follows:]



I look forward to our conversation today on how Congress can work with the new administration to foster stronger U.S. economy and the impact of that growth on the Federal budget.

So since Senator Sanders is not here, I will go ahead and introduce our witness. Our witness this morning is the former Senator Phil Gramm, a visiting scholar at the American Enterprise Institute (AEI). Senator Gramm served 6 years in the U.S. House and 18 years in the U.S. Senate. His legislative record includes landmark bills like the Gramm-Latta Budget, which mandated the Reagan tax cut; and the Gramm-Rudman Act, which placed the first binding constraints on Federal spending. As chairman of the Banking Committee, Senator Gramm steered through legislation, modernizing banking, modernizing insurance, and modernizing securities law, which had been languishing in Congress for 60 years. That is our normal pace, I think.

Phil Gramm holds a Ph.D. from the University of Georgia in economics, the subject he taught at Texas A&M University for 12 years. He has published numerous articles and books on subjects ranging from monetary theory and policy to private property and the economics of mineral extraction.

This morning, Senator Gramm will testify on growth policies and how a new Congress and administration can get our economy going again. We have talked, not only about the chart that I had up, but other times, with how much a slight increase in the economy makes it bring in more revenue.

So I look forward to hearing your testimony. Senator Gramm.

STATEMENT OF THE HONORABLE PHIL GRAMM, FORMER SENATOR FROM THE STATE OF TEXAS

Senator GRAMM. Mr. Chairman, thank you so much. I am obviously very honored to be here.

I remember first meeting you as this young accountant who had this annoying habit of wanting things to add up. For the last two decades, I have watched your career, as I am sure the people of your State have watched it, and as a person who worked with you when you were a very young Senator, I am very proud of your career and what you have done.

Today, I want to talk about the budget. I have always taken an interest in the budget because behind these numbers with a sort of endless row of zeroes behind them is a vision for America's future. I have always thought the budget, in trying to set out what we wanted Government to be and, therefore, what we wanted America to be, was very important. So from my very first day in the House until the day that I left here in 2002, I have paid very close attention to the budget.

What I would like to do today is to talk about where we are in the economy, why the economy is performing poorly today, at least from my perspective, and how we change it. I realized in trying to write this testimony that when you are talking about the performance of the economy during the Obama presidency and you are talking about the Reagan program and the performance following the implementation of the Reagan program, that no matter how you want to be nonpartisan, that we are all invested in those things, and so it is very difficult to talk about them without it becoming a partisan issue. And I think it is too bad that is the case. I want to try today to the best of my ability to not inject partisanship into what I have to say. I would like to talk about what happened in these years and then the programs that gave rise to that performance and then look to the future.

First of all, we have a lot of experience about America's economic performance. This is an extraordinary country where labor from somewhere else and capital from somewhere else met here, fell in love, and with very few exceptions lived happily ever after.

Even in postwar America, American exceptionalism has meant that we have out-produced and grown faster than any developed country in the history of the world. From 1948, the beginning of the postwar era, until 2008, counting recessions, 10 recessions, 10 recoveries, we averaged an astonishing 3.4 percent real growth. In good years and bad, under Democrats, under Republicans, we consistently grew. Until 2009, we had not had a President in 135 years that did not have at least 1 year during their term where we had 3 percent real economic growth. And I picked 135 years ago because that is where the data begins on an annual basis. I suspect it is true that never in American history had that been the case.

In 10 of those recessions and recoveries, the American economy behaved basically the same. We used to have a cliche in teaching freshman economics when I was a college professor that the bigger the bust, the bigger the subsequent boom, and that pattern held throughout the postwar period until 2008.

And then in 2008, we had a recession, the subprime crisis, and following that recession, we had far and away the slowest economic expansion, the slowest recovery in American history. The economy grew by an astoundingly low 1.47 percent.

Now, obviously, the question is why, and people can give whatever interpretation of the facts they want to give, but let me give you my interpretation. Our policies beginning in January 2009 were distinctly different than the policies we had followed in every recovery in postwar America.

There was a dramatic increase in marginal tax rates on individuals. Because Congress and the President could not agree on reforming corporate taxes, we ended up with the highest corporate tax rate in the world. Eligibility standards for Social Security disability and food stamps were dramatically reduced, and enrollment exploded. We expanded Medicare and Medicaid. Obamacare was adopted. The work requirements were suspended under the welfare program, and through legislation, through agency action, and through executive action, a layer of regulation was applied like a wet blanket over the economy that literally choked the economy. And as a result of the policies being so different than the policies we had followed before during other postwar recoveries, the net result was very low economic growth.

In fact, I do not think it is an overstatement to say that as our Government came to look more like a European government, our economy performed more like a European economy.

Now, let me just give you a contrast to that. The two policies in postwar America that are the most distinct are the Obama policy, on one hand, and the Reagan policy, on the other. And it is I do not think a coincidence that the performance of the economy following those policy implementations represent the high and low of America's postwar economic performance in terms of economic growth and achievement.

When Reagan took office, we were coming off a slower period of economic growth, 2.5 percent in the late 1970s. The inflation rate was 13.5 percent. Prime interest rates had peaked at 18.9 percent. And there was a general discussion in America, serious discussion, about how economic and political malaise and how the scarcity of resources meant that America's future was going to be dramatically different.

Mr. Chairman, you may be old enough to remember the Time magazine headline, "The Joy Ride for America is Over." Well, Ronald Reagan was elected and dramatically changed policy, and what happened? The performance of the American economy changed dramatically. Reagan cut marginal tax rates dramatically. I am being dramatic, but these were dramatic times. He cut nondefense spending and entitlement spending, and he lifted regulatory burden. When that program was in effect, the economy in the last 6 years of the Reagan Administration grew by 4.6 percent, and in 4 of those 6 years, Federal revenues grew on average by over 10 percent per year.

Now, this comparison is important because the question we are faced with now is, are we in a secular stagnation, or is this a policy-induced stagnation? My belief is—and I think an objective reading of the policies of the postwar period and the performance of the economy in the postwar period—is that policy makes a difference. American exceptionalism is based on freedom and market efficiency, and when Government policy reinforces those things, the economy grows and has no equal on earth. When Government policy stifles those things, the growth of the economy is stunted, and I believe that that is what happened beginning in 2009.

Now, the question is, what can we expect when we move from a policy that was implemented in the last 8 years to a policy that is closer to the Reagan policy? What happens when we dramatically reform the Tax Code, when we reduce rates, when we strip out provisions of the Tax Code that misallocate resources? What happens when we lift regulatory burden? What happens when banks begin to hire people to make loans rather than hiring compliance officers?

Well, what happens is I think we will begin to see the economy move back to what we knew for 60 years was the economic norm in postwar America. Through 10 recessions and 10 recoveries until this last recession and recovery, we averaged 3.4 percent real growth. If by changing policy, we could get that growth back, as you showed in your chart, if we could get back the normal growth America experienced for 60 years in postwar America, revenues would rise by $4.6 trillion over 10 years. If we could just get half that difference back, if we could just get halfway back to the norm by implementing policies that have been the normal policies in postwar America, we would get $2.3 trillion of new revenues in the American economy.

Now, I want to digress real briefly to make the point that growth is the key factor for Federal revenues, and I will just give you two examples. And I give them because they show how powerful growth is, and I picked two examples of tax increases.

In 1990, there was a Budget Summit Agreement, and part of that agreement was to raise taxes. And a tax bill was adopted, and that tax bill was projected over 5 years to raise revenues by $159 billion. But because of subsequent poor economic performance, because the growth rate fell as the economy slipped into a recession, revenues actually declined by $206 billion because of a decline in economic performance.

Probably, the most dramatic one in American history occurred in 2013. The Bush tax cut expired. A new tax bill was adopted that was supposed to raise $650 billion over a decade. After that tax bill was adopted, the CBO continually reduced its projection of economic growth to the point that those reductions in economic growth reduced revenues five times more than the tax increase was supposed to increase revenues.

If you do not have economic growth, you cannot balance the budget. If you do not have economic growth, you cannot fund the policies that we are committed to fund. Right now, the Congressional Budget Office estimates that the economy is going to grow by 1.9 percent for a decade. At 1.9 percent, with a growing population and with a population that expects to have opportunity, that expects to have prosperity, and with a disappointment that will come at that growth rate, there is no possibility that we are going to be able to meet our obligations in programs like Medicaid, Medicare, Social Security. So we have got to get out of this rut.

Now, let me give you two examples of policies that have had a pretty big impact economically, and let me start with the 1986 tax reform. This is not only the standard in America; this is a standard in the world. When you talk to economists anywhere in the world, they talk about tax reform. They talk about 1986. When we adopted the 1986 tax reform, the Congressional Budget Office said it would have no effect on Federal revenues. That was their official projection. But they actually, almost immediately lowered their projection of economic growth to 2.9 percent. They did that in January 1987. By the time the tax reform was fully in force, over that ensuing 5 years, the economy grew by 3.8 percent, and revenues grew by a commensurate amount.

The most dramatic underestimate by CBO occurred when it scored the 1997 Balanced Budget Act. You will remember the Congress and the President under President Clinton reached an agreement to commit to a balanced budget and adopt budget numbers to achieve the result. They also agreed to cut the capital gains tax. The Congressional Budget Office projected that that action would produce $33 billion of new revenues.

In 1 year alone in the year 2000, the economy generated $303 billion more than the Congressional Budget Office projected, and by the time the whole budget cycle had been completed, revenues had grown by a whopping $1.34 trillion more than the Congressional Budget Office had predicted.

Now, when you write your budget, it is clear that the Congressional Budget Office is not going to be able to differentiate because it has never really been able to differentiate between policies that cause growth and policies that impede growth, and so if you adopt a major tax reform package, my guess is that the Congressional Budget Office is not going to score it as generating much in the way of revenues.

I believe that we have every right to assume that if we change policies, especially if we adopt policies that have worked in the past, that they are going to have an impact. If I were writing the budget and I were going to dramatically change policies with tax reform and with regulatory relief, I think you certainly have the right to assume that we are going to get halfway back to norm with this policy. I think that is a conservative estimate.

Now, what this will mean is, when you write the tax reform bill, part of it will be permanent, and part of it will go away in 10 years if, in fact, we have not achieved what we set out to do, which was to write one that was self-financing. If it works and if revenues grow, you have got to assume that public support would be sufficient to make it permanent.

But I want to say something about permanence. If there is anything that you learn in being in Government, it is that nothing is permanent. The great 1986 Tax Act was changed twice in 10 years.

This idea that the economy will not respond to tax provisions that are going to potentially expire in 10 years is invalid. There are very few business people that I have ever met anywhere that have confidence as to what Government policy is going to be 10 years from now, because most of the people that had such confidence have gone out of business long ago.

Finally, to conclude and then throw it open, I want to mention two dangers, two things I worry about that I think we ought to be paying attention to as we are trying to get the economy going, as we are trying to get this lift-off, and there are sort of two problems that are out there that do not show up today. One of them is the debt servicing cost of the doubled Federal debt that has occurred in the last 8 years. Fifty-five percent of that debt was bought directly and indirectly by the Fed, and then the interest payments were rebated to the Treasury. And we have had historically low interest rates. So, actually, in the last 8 years, we doubled borrowing, and the cost of servicing the debt actually went down. But when we have a full-blown recovery, every recovery in the postwar period has been driven by exactly the same things and produced the same results. It has been driven by strong private investment and by home building, and in every recovery that has been a normal robust recovery, interest rates have risen. If we get a full-blown recovery and interest rates go up, debt servicing costs are going to explode.

Now, you have seen the numbers where in 10 years, debt servicing costs alone will exceed Medicare, but let me give you an even more frightening number to me, and that is, historically, in a recovery, Government borrowing has grown at about 1.7 percent a year. In the recovery we hope to start, within 5 years with a full-blown recovery and interest rates returning to the normal levels, debt servicing costs will rise to 6.6 percent of GDP.

Historically, the Federal Reserve Bank has offset some of this by expanding the money supply to meet the needs of trade, and they have created enough liquidity so that the net Government borrowing has been 1.4 percent, but now they quadrupled their balance sheet with all of the monetary easing programs. So, when interest rates rise, banks are holding over $12 of reserves for every $1 they are required by law to hold. The Fed is paying them interest, so they really turn these reserves into a Treasury note, a Treasury security. But if we get a full-blown recovery, interest rates start to rise, banks are going to start to lend, and when banks start to lend, the money supply is going to start to grow.

And so despite all the Fed's reassurances about all the things they can do—they can sell securities, they can pay higher interest on deposits, they can let the securities they hold mature on their balance sheets, they can borrow against the securities with reverse repos—all of those things have the same thing in common, and that is they are all competing with a private sector for available capital.

When you look at where they are in their balance sheet, if you assume that in a 5-year recovery that the Fed sold off the balance sheet, which is what Bernanke has now predicted, they would have to sell over $500 billion worth of securities a year and absorb 3 percent of GDP in competing directly against private investment for loanable funds.

So what is the message here? One, we need a strong recovery. Two, once a recovery is in place, interest rates, I believe, based on the debt problem and the Federal Reserve Bank balance sheet problem—that interest rates are going to rise faster than they have in the average recovery, and they are going to be higher as the recovery reaches maturity. This is going to force us to look at things like spending control and entitlement control quicker than the Congress or the President want to do. It is very important that this be done.

Final point. Mr. Chairman, thank you for your patience. If we do not break out of this rut we are in, if we continue at a 1.9 percent growth rate, or if we break out and we cannot do the things necessary to keep the recovery going, we could easily end up in a secular stagnation. And America cannot be the America we know if it is not growing and prosperous. Everything our country stands for, all of the opportunities that we believe should be there for every American depend on growth, and so I think we need to be bold in getting the economy growing, and then we need to be vigilant about what we do to keep it growing.

Thank you, Mr. Chairman.

[The prepared statement of Senator Gramm follows:]

Phil Gramm
Testimony as Prepared for Delivery Before the Senate Budget Committee
Hearing on Administration's Economic Policies
May 10, 2017

Good morning Chairman Enzi and Ranking Member Sanders, and other members of the committee. To return here today to testify before the Senate Budget Committee is a privilege that I appreciate. I first began work on the House Budget Committee as a Democrat in 1979 and concluded my work on the Senate Budget Committee as a Republican in 2002. From my first day to my last, I never forgot that behind all the numbers, followed by a train of zeroes, were critically important policies that reflected our vision for America's future.

Since the 1974 Budget Act, every new president has had to present his legislative agenda first to this committee to secure the budget allocation and the privileges and protections provided by this committee's budget resolutions. My purpose today is to explain why I'm confident this committee can help reignite economic growth and to discuss the challenges the nation faces in starting and sustaining a full blown economic expansion.

America's economic exceptionalism has always been the product of freedom and opportunity, secured through limited government. When government policies have strengthened or impeded these sources of American exceptionalism, they have yielded quantifiably different results.

America's postwar economic experience spans 11 recessions and 11 recoveries. Ten of those recoveries were similar, but one was quite different. The economic policies implemented by Presidents Reagan and Obama were the polar extremes of postwar policies. The economic consequences of those policies defined the highs and lows of America's postwar economic experience. These extremes help define what might be expected if this Administration and Congress are successful in reversing the Obama program and moving toward a more Reagan-type policy of tax reform and regulatory relief.

Under President Obama, individual marginal tax rates soared and corporate tax rates became the highest in the developed world. Federal spending spiraled with a nearly trillion-dollar stimulus; Social Security Disability and food-stamp qualifications were eased; work requirements in welfare programs were suspended; Medicare and Medicaid were expanded and a significant portion of US healthcare was nationalized. Federal debt doubled, and public and private debt held by the Federal Reserve Bank quadrupled. New legislation, an unprecedented number of new regulations, and a torrent of executive orders transformed the role of government in American life.

From this uncompromised vision, fully implemented, an astonishingly low 1.47% GDP growth rate resulted – just 43% of the average growth rate in the postwar era through 2008. The economic failure came not from the deepest postwar recession, which ended six months into the first year of the Administration, but from the weakest postwar recovery, where real growth in gross domestic product averaged just 2.1% per year, less than half the 4.5% average during previous postwar recoveries of similar duration.

Naturally, proponents of the policies implemented over the last eight years now say the policies had nothing to do with the weak recovery, and that we are experiencing secular stagnation. We heard the same arguments back in 1979 when I first came to Congress. The claim then was that the general malaise and resource shortages severely limited America's future. Between 1974 and 1980, GDP growth averaged 2.5%, inflation reached 13.5% and the prime rate hit 18.9%.

When policy changed dramatically, results were dramatically changed as well. President Reagan in 1981 dramatically cut marginal tax rates, cut nondefense and entitlement spending, and reduced the regulatory burden. Once those policies were in place, inflation hit a 22-year low, the prime rate fell to a 14-year low and economic growth averaged 4.6% during the remainder of the Reagan presidency.

If the empirical evidence of America's postwar economic experience through 11 recessions and 11 recoveries demonstrates anything, it is that policy matters. Dramatically different policies will deliver dramatically different results. After averaging 3.4% growth per year through 10 recessions and 10 recoveries from 1948 through 2008, economic growth averaged just 1.47% for the last eight years. The Congressional Budget Office (CBO) now projects economic growth will average 1.9% over the next decade. If economic growth returned to the postwar average, federal revenues would rise by a whopping $4.7 trillion over the next ten-year period. Even if we closed only half the gap between the currently projected 1.9% GDP growth rate and the 3.4% GDP growth rate that the economy averaged for the previous 64 years, that alone would deliver $2.3 trillion in new revenues due to higher growth over the next 10 years.

The official CBO estimates originally saw no economic benefit in the 1986 tax reform. In fact, during the three years when the tax reform was fully in effect -- before the 1990 tax increase -- CBO actually lowered its average real GNP projections to 2.9% in January of 1987 but the economy during that period actually grew by 3.8%.

The CBO projected that the 1997 Balanced Budget Act would produce a $77 billion fiscal dividend over seven years, of which $33 billion would come from additional revenue growth. But in 2000, CBO actually found that revenues in that single year were "$303 billion more than estimated in 1997" due to "the strength of the economy and changes in characteristics of income." By January of 2001, CBO reported that an additional $1.34 trillion in revenues had flowed to the federal government than had been projected at the time the Balanced Budget Act of 1997 was enacted.

Together the 1986 tax reform and the Balanced Budget Act of 1997 helped produce a quarter-century of rapid growth, surging federal revenues and a balanced budget.

Economic growth is far and away the dominant factor in generating federal revenues. The 1990 Budget Summit agreement between President George HW Bush and Congress attempted to raise $159 billion in taxes over five years, but two months later, CBO reported that slower projected growth would cost $206 billion in revenues over the same five years – slow growth from an economy slipping into recession wiping out one of the biggest tax increases of modern times. The 2013 tax increase was supposed to increase federal revenues by $650 billion over the following decade but since then, CBO and JCT have revised down their ten-year revenue projections by almost five times that amount not because of a recession but because of weak economic growth.

Since its models cannot distinguish between failed and successful economic policies, the CBO and JCT are likely to miss or dramatically underestimate the economic growth and federal revenue coming from improved economic policy. But, this committee has every right to assume that a full blown pro-growth program of tax reform, a lifting of regulatory burden and a wholesale reduction of the degree to which government dominates the economy will allow us to escape this policy-induced stagnation and approach growth rates that defined postwar America. While some of the tax reform may have to be temporary due to JCT scoring and the limits of reconciliation, if the economy returns to its postwar norm, the tax reform will prove to be revenue neutral and pressure will build to make it permanent.

Critics will denounce the idea that good policies have anything to do with economic growth. But is America not itself proof that policies matter? After all, policies of freedom and opportunity are what allowed America to take the world's "huddled masses" and produce the most impressive empirical evidence the world has ever seen.

Not only do we need strong medicine to ignite a full blown economic recovery, sustaining that recovery will be more difficult than it has been in any of the previous postwar recoveries. The driving force behind every significant postwar recovery has been a sustained rise in private investment and new homebuilding, which has increased borrowing and driven up interest rates. Most postwar recoveries enjoyed sufficient momentum to overcome those rising interest rates. However due to the unparalleled borrowing and monetary stimulus which has occurred in the last decade, rising interest rates in a full-blown recovery would require the Treasury and the Federal Reserve Bank to compete with the private sector for available credit at unprecedented levels.

The recent debt surge was largely hidden by ultra-low interest rates and Fed purchases of government securities. So massive were Fed purchases of Treasury debt and mortgage-backed securities that the Fed effectively funded 55% of the Treasury debt issued during the last years as compared to only 12% of the debt issued during World War II. Despite doubling the publicly-held national debt as a share of GDP, debt servicing cost amazingly dropped to 1.3% of GDP in 2016 from 1.7% in 2008.

During the current recovery, private investment has averaged only 88% of the postwar norm and housing starts remained at recession levels. If a robust economic recovery were ignited now, private investment and housing starts would surge and competition for credit would intensify. Real interest rates would begin to rise as they have in other postwar recoveries. If interest costs simply returned to their postwar norms, government debt servicing costs would skyrocket, adding an extra $4.4 trillion of costs over the next decade. If those costs were simply borrowed, debt servicing costs would rise by another $1.3 trillion. By 2027, Federal interest cost as a share of GDP would more than triple to 4.9%, exceeding $1.4 trillion– roughly equal to that year's projected Medicare spending.

During previous postwar recoveries, annual gross private domestic investment averaged 17.6% of GDP. Increased annual Treasury borrowing during previous postwar recoveries averaged only 1.7% of GDP. If interest rates returned to their historic norms, debt servicing costs in the fifth year of a recovery would cause Treasury borrowing to spiral to 6.6% of GDP – almost 4 times the average competition for credit caused by Federal borrowing during previous postwar recoveries.

In addition to the headwinds produced by Federal borrowing, a full-blown recovery and a return of normal interest rates will force the Fed to sell assets, competing with the private sector for available credit. Since the bloated Fed balance sheet is the mirror image of bank reserves, the Fed's purchases of $3.4 trillion in Treasury bonds and mortgage-backed securities in its various monetary easing programs has swollen bank reserves to $12.31 of reserves for every dollar they are required to hold. These massive excess reserves have not produced an explosion in bank lending and the money supply because the Fed now pays interest on excess reserves – sterilizing those excess bank reserves by in essence converting them into interest bearing Fed securities.

Once a powerful recovery is underway loan demand will swell, increasing interest rates and incentivizing banks to expand lending. To stop the money supply from exploding, the Fed will have to reduce its balance sheet to soak up the excess liquidity in the banking system. Whether the Fed sells securities, lets securities it holds mature, pays higher interest rates on excess reserves to stop banks from lending or borrows against the value of its balance sheet with reverse repos all these options will have the same effect – competing directly with the private sector for credit.

Even if the Fed had five years to absorb excess reserves during a full-blown recovery, it would still have to dump $590 billion of Treasury bonds and mortgage-backed securities into the markets each year. The combined effect of Fed asset sales and new Treasury borrowing would generate a massive headwind for the recovery driving up interest rates faster and to higher levels than has been the postwar norm.

In the six decades before 2007, the Treasury borrowed on average an extra 1.7% of GDP per year. The Fed offset part of the Treasury's borrowing by buying some 0.3% worth of

Federal debt per year, reducing net new public borrowing to 1.4% of GDP per year. But by the fifth year of a full-blown recovery, with normal interest rates, the Treasury would have to borrow some 6.6% of GDP as the Fed shifts from being a buyer to a seller of financial assets absorbing another 2.8% of GDP. Treasury borrowing and Fed asset sales would absorb 9.1% of GDP in new borrowing, 6.5 times the postwar average – a crippling level of crowding out of private investment never before remotely approached in a postwar era recovery.

Igniting and sustaining a strong recovery will not only entail overcoming the current stagnation but overpowering the extraordinary headwinds posed by the explosion of Federal debt and the balance sheet of the Fed. As long as the economy has no pulse the fever of rising interest rates will not be felt, but in a full-blown recovery the extraordinary nature of the challenge we face will become all too clear.

To meet this challenge, I believe Congress needs to adopt a dramatic tax reform that reduces marginal rates, repeals subsidies in the tax code, grants territorial tax treatment for foreign earning and repeals the gift and estate taxes to promote strong, sustained levels of private investment.

The lifting of regulatory burden should be pursued relentlessly through legislation, agency rule making and executive action. Spending limits and entitlement reforms will be critical to sustaining the recovery once it is ignited, and with Medicaid metastasizing and Medicare and Social Security careening toward insolvency by 2028 and 2034, respectively, comprehensive entitlement reform should not be delayed. Failing to ignite a strong recovery in the private sector and failing to dramatically reduce the growth of government during the ensuing recovery will risk making our current government-induced stagnation a permanent part of American life.

Chairman ENZI. Thank you. I am always fascinated to hear you. You put things very clearly.

I am going to defer to Senator Corker to ask the first questions, but before I do that, I want to mention that once I had an opportunity to talk to all of the head accountants for the Securities and Exchange Commission (SEC). And when I was asking questions, my people back in the office were noticing the camera did a little wedge like that, and everybody behind them was asleep.

[Laughter.]

Chairman ENZI. There are not many people that can talk about numbers and keep people awake, so I was keeping track, and everybody was awake. You do an outstanding job of presenting.

Senator GRAMM. Thank you.

Chairman ENZI. Senator Corker.

Senator CORKER. Well, thank you, Mr. Chairman. I will be very brief. I have folks waiting on me.

That was a very fulsome presentation, and, Senator Gramm, all of us here like to listen to you.

I am just generally going to observe what I see here right now, and that is a party-like atmosphere, where nothing is going to be done to deal with spending. Certainly, it's hard when you have a President that is not willing to deal with 70 percent of our budget, mandatory spending, which is where the dollars are, and is where all the growth is too. It is growing very rapidly.

And then at the same time, we hold numbers of discussions about tax reform and tax cuts. Those are two very different things, obviously. Sometimes they can take place in a combined way.

I think you have always been, generally speaking, a fiscal hawk. I agree with you 100 percent. There is no way to deal with the issues that we have before us without growth rates substantially increasing.

I do think that we will move ahead in a strong way on regulatory reform. I think that is one thing the President is committed to. He can do a lot of that himself. I am convinced we will pass substantial Dodd-Frank reforms under the leadership of Senator Crapo, and so some of the things you alluded to are going to happen.

Let me just digress for a second. Under Reagan, no doubt, the 1986 law is one we all look at and certainly admire the economy that took place under Reagan. I will say, however, that the national debt doubled, and we never got things under control. The national debt doubled, and the mantra for Republicans became, unfortunately, deficits do not matter anymore. So somehow or another, with your leadership and through caucus meetings and all that, we have to figure out a way to not just do the sugar side of this, but to do the spinach side. And I am just going to tell you right now, I see no evidence whatsoever—no evidence—of us being willing to deal with the spinach side of the equation.

So I think we are in a hell of a mess right now, hell of a mess, and while I am someone who happens to believe we ought to give some countenance to dynamic scoring, my sense is there is going to be a push by supply siders to carry that to levels that are beyond belief and beyond reality. And I would just love to have any comments, and I will stop, but I am telling you——

Senator GRAMM. Well, let me——

Senator CORKER [continuing]. We are in a hell of a mess right now from the standpoint of where the Nation is and the lack of ability here to deal with the spending side of the equation.

Senator GRAMM. Well, let me say that we are getting along now because we do not have any recovery. We do not feel the fever of this big debt, and we do not feel the impact of this massive buildup in the Federal Reserve Bank's balance sheet because there is so little pulse. But when the economy starts to grow and interest rates start to rise, it is not me saying that servicing the debt we have right now is going to cost as much as we are spending on Medicare annually. Those numbers are numbers that are out there that are easy for anybody to calculate.

Senator CORKER. No debate. No debate.

Senator GRAMM. And if we can break out of this rut and get the economy going, it gives us a chance to gain control, but we—and I am not trying to be an alarmist, but I do not think we will be able to keep the recovery going if we do not begin to deal with spending. And I think at some point, we will be forced to do it, and my guess is what will force us to do it is rising interest rates.

Senator CORKER. Well, if you want——

Senator GRAMM. Now, if you do not ever get the economy going, then this problem will get worse without warning signs, but if we ever get the economy going and rates go up, these bills come due.

Senator CORKER. Yeah. Well, just as one Senator—and it is going to take 50 Senators. It is going to take 50 of us. As one Senator, I think we need to be really careful when we do this tax reform to not over-project revenues.

I mean, the fact is you talked earlier about $4.6 trillion in additional revenues over the next 10 years—I do not know which particular plan you are looking at, but——

Senator GRAMM. Well, no. That is if we could get back to the average growth we had over the previous 60 years. That is what the number would be.

Senator CORKER. Yeah.

Senator GRAMM. What I said was, even if you could get back half that growth—so splitting the difference between the 1.9 that is projected now and the 3.4 percent we were able to get through recessions and expansions for 60 years, if we could get to that level, that would be $2.3 trillion over 10 years. That to me would be a conservative number.

But, look, I do not fear having to give part of the tax reform cut back if it does not work. In fact, it is somewhat of a disciplining agent that part of it would be temporary.

Like I said earlier, this deal where people will not respond if it is not forever until Jesus comes back, the 1986 tax bill was changed twice in 10 years, and it is still the gold standard for tax reform.

Senator CORKER. Thank you, Mr. Chairman, for deferring, and thank you so much for your continued contributions to all of us. Thank you.

Senator GRAMM. Thank you for your contributions.

Senator CORKER. Thank you, sir.

Chairman ENZI. And I cannot possibly let him leave without asking this question: What overarching goals should Congress focus on when debating tax reform for individuals, for corporations, internationally? How do we ensure that these marginal tax rates incentivize growth?

Senator GRAMM. Well, the one thing I would emphasize, Mr. Chairman, is that everybody focuses on the 1986 act and what it did to marginal rates, but that was only part of its productivity. It also eliminated all kinds of subsidies in the Tax Code where people were incentivized to do all kinds of things that made no sense economically.

So the first thing I would do is get rid of every provision that you can possibly get adopted in the current Tax Code that pays people to do things. All of the—and I know some of them reach almost religious fervor in terms of support some have for them, but to the extent that you can eliminate deductions and credits and subsidies, do it, and use the money to lower rates. That would be my first advice.

I think we will have to assume that we are going to have some success. I do not think we can make this work assuming that after we lift regulatory burden and after we reduce tax rates and reform the system that we are going to have the same economy we have got now. If CBO is anything close to form, that is what they are going to assume.

I do not think we can or should assume that. I think that will mean that the tax cut part of the reform will have to be for 10 years, but like I said, the greatest tax reform in American history was amended twice in 10 years. And, quite frankly, if it does not work, having it snap back may not turn out to be a bad idea.

Now, my belief is if we are conservative, if, for example, we assumed that by implementing all these reforms, we could just get back to half of where we were for 60 years prior to January 20th of 2009, I think that is a conservative estimate. I believe that is doable.

Now, we need to be relentless, and I just would throw in—Senator Corker made the point about regulatory burden. President Reagan used to say to those of us that were involved in his program that we underestimated what they were doing in lifting regulatory burden. I did not pay a lot of attention to it, but looking back, he was right. Regulatory burden today is at least as big a problem as the Tax Code, at least as big a problem. And the arbitrariness of it in finance, there is no rule of law. The law is whatever the regulator says it is, and it is a terrible situation. And it wilts confidence, and it wilts investment. And if we change it, America will change.

Chairman ENZI. Thank you. And the Democrats have invoked a rule. It means that this hearing has to end at 11:30. So in order of arrival, I have Senator Gardner, then Senator Crapo, then Senator Boozman, so if we can keep it as brief as possible.

Senator GARDNER. Thank you, Mr. Chairman. I am only going to use 14 of the 15 minutes left, so I will leave some time for everybody else, if that is all right.

[Laughter.]

Senator GARDNER. No, I will be quick.

Senator Gramm, thank you for your service. Thank you for your expertise before the committee.

Just one question, and then I will make sure everybody else has time as well. Senator Lee and I have been working on legislation addressing the regulatory burden that you talked about, also addressing the deficit situation, the debt situation this country faces, by tying the issue of regulatory burdens on our businesses, which slow the economy, with the fact that we need a thriving economy in order to address our debt crisis. And so the idea that we have come up with is this. If we are faced—and we will be faced—with increasing the debt limit of this country again, then in order to increase that debt limit, shouldn't we then face and shouldn't we put in place some kind of a mechanism to spur economic growth at the same time? Because if you are just increasing debt without economic growth, it is a spiral that results in more broken credit.

So the idea would be this—say you increase the debt limit by a trillion dollars. Then you would at the same time have a regulatory reduction, reduce the regulatory burdens on businesses by some percentage, so maybe you have a 15 percent reduction in the cost of regulations for every X amount that you increase the debt. So what do you think about that kind of approach, to find the regulatory cost, to limit that and use that?

Senator GRAMM. I think anything you can do to reduce the regulatory burden would be good. I think you might end up with some problems with Senate rules in trying to do that.

Another idea that I have thought about is, what about adopting a 10-year debt limit increase, where you set out in law the debt limit for 10 years, where the debt limit falls to the increase would be zero in the tenth year?

Senator GARDNER. So it will snap back within the 10 years?

Senator GRAMM. So that then that would have two big advantages. One, you are voting for a balanced budget, which makes the vote a lot easier. Second, you would—even if Congress went over in a year, the number would not be so large as to make debate irrelevant. Today, the debt ceiling, the debt ceiling increase will be so large, there is no way you could go back and make changes in policy to deal with it. But here, they would be much, much smaller, and you might actually be able to control them. You could also keep up with it and basically stop bills saying this is going to take us over.

And if I were a Member of Congress and we did that policy, I would just say, "Look, I have increased the debt ceiling for 10 years in 10 equal amounts. I am not going to do it again." So that, I think, would be a good approach to it.

What happened on the debt ceiling, real quickly, because I think it is important, in World War I, they changed the law because they had to adjust the debt ceiling to be able to pay for bills, and it was real cumbersome. And so they let it be done over an extended period of time because they were spending so much money on the war effort.

I wish we had gone back to the old system because what better way to stop spending than to make people vote to raise the debt ceiling to pay for it.

You might go back, Senator, and look at the pre-World War I law and how it worked.

Another nice reform would be to raise the debt ceiling and change the law, so beyond that point, any bill of any significance beyond what is in the budget, you would have to vote on a debt ceiling. And that would thin the ranks for spending.

Senator GARDNER. Thank you, Senator.

Chairman ENZI. Senator Crapo.

Senator CRAPO. Thank you very much, Mr. Chairman, and I thank you for inviting Senator Gramm to be with us. Senator Gramm, it is welcome to see you. We miss you here. I am glad that we are getting some of your advice today because we still need your wisdom.

I just want to go quickly into two things. I really want to get some numbers out, and I apologize. I was not here in the beginning, so you may have already said this. But how many years has it been since we have not achieved greater than a 2 percent growth? Do you know, in the economy? I think it is approaching 10 years.

Senator GRAMM. Let me put it this way. There is no President in the last 135 years that has not achieved at least 1 year of 3 percent growth in their presidency, and I say 135 because annual data is not available before that. But I am convinced that if we actually had the annual data, that the Obama presidency was the first presidency in American history that never had a 3 percent economic growth in any single year.

Senator CRAPO. Well, I think you are headed where I am trying to get at. I believe that it is correct to say that we have not had an economic growth rate over 2 percent for at least 8 years, probably closer to 10.

Senator GRAMM. That is about right.

Senator CRAPO. And you have indicated that the average for the last, I think, 60 years was 3.4 percent?

Senator GRAMM. For the 60 years, from 1948 through 2008. That is counting the recession.

Senator CRAPO. Counting part of the recession, yeah.

And I believe you have indicated that if there were—if we were able to achieve just half of that difference, that it would be over 2—how many——

Senator GRAMM. $2.3 trillion of revenues.

Senator CRAPO. Do you have the number of what it would be if we could actually get back to just the average?

Senator GRAMM. Yeah. 4.6.

Senator CRAPO. So if we were able to get back to just the average, we would have $4.6 trillion of additional revenue to the Treasury?

Senator GRAMM. Yeah. And the point I made in the testimony, Mr. Chairman, is that our policies in the last 8 years have been so dramatically different from our policies in the previous 60 years that you got to believe if we change the policies, that the problem is not America. The problem is its Government.

Senator CRAPO. Correct.

Senator GRAMM. We are getting Europe's results because our Government looks more and more European.

Senator CRAPO. And that leads to my next question, which is the regulatory burden, which you have already referenced. My understanding is that some of the analysis shows that the yearly cost of regulatory compliance in the United States is approaching $2 trillion. It is $1.8 trillion-plus cost per year. Now, that does not translate into its impact on the budget, on our congressional budget, but my question to you is, again—and I think you have discussed this—if we were to address the excessive regulatory burden that we have put on our economy in an effective way right now, that would also add to the generation of economic growth and revenue to the Treasury with which we could deal with our national debt. Correct?

Senator GRAMM. If you gave me a choice of eliminating the Obama-era regulatory burden or adopting the Trump tax reform, I would take eliminating the regulatory burden.

Senator CRAPO. I understand.

Senator GRAMM. I cannot overemphasize the fact that people cannot do business when they do not know what the rules are, that financial institutions are being shaken down in this country every day on trumped-up violations.

You have got a Government bureaucrat sitting in the board room of every major financial company in America, like the old commissar from the Soviet Union was in the factory and on the submarine.

Senator CRAPO. Well, that is right, and I would want to——

Senator GRAMM. Government dominates everything in America.

Senator CRAPO. I want to get back at least 20 seconds of my time because we are running out for those who have not had a chance yet, but that is a critical additional issue, and I appreciate you bringing it——

Senator GRAMM. You do them both; we are going to get America back.

Senator CRAPO. That is right.

Chairman ENZI. And people can ask, put questions in writing, which I am sure Senator Gramm would be happy to answer.

And we have 3 minutes left. Senator Boozman.

Senator BOOZMAN. Let me just take a minute, Senator Gramm. Thank you for being here. We really do appreciate your work on this.

You mentioned historical averages and things. The historical average of serving the debt is 5, 6 percent. So, if we heat up the other things, then we are going to have that to contend with. At what point do we have the balance of the debt? And this is an actuarial thing. This is something that we actually can figure out pretty easily. Where is the tipping point there?

Senator GRAMM. I do not know about a tipping point, but let me tell you, if the economy started to grow and interest rates rose, which they have in every recovery in the postwar period except this one, debt service costs are going to rise very rapidly. The Federal Reserve Bank is going to have to start sopping up liquidity by selling assets, and interest rates are going to rise.

And just to give you a number, in the average recovery in postwar America, Government borrowed 1.7 percent a year in competing with the private sector. At normal interest rates in the fifth year of a full-blown recovery, Government would be borrowing 6.6 percent of GDP.

We do not feel the problem because we do not have any growth, but if we had real growth, you are going to get the fever fast. And so what it is going to mean is, if we can get the economy going, we are going to have to deal with spending quicker than the political part of our country wants to deal with it. It cannot—we cannot let it pass.

Senator BOOZMAN. Thank you.

No, no, no. I will yield to Mr. Kennedy.

Chairman ENZI. I just got word from one of the attorneys that, looking at the Senate standing rules, it appears that we are exempt from the 2-hour rule. So, if you have another question, go ahead.

Senator BOOZMAN. Well, let me go ahead and take my time, then.

The other thing is, again, looking at the historical average of our labor force, 1.4 percent historical average, we anticipate about a .5 percent. Arkansas now has very low unemployment rates. How is that going to—what do you do about that? How do you impact that with our ability to grow in the future?

Senator GRAMM. Let me give you a number. When the Reagan program was adopted, the disability rolls under Social Security plummeted.

I hate to sound like a name dropper, but I used to could always get a smile from President Reagan by saying—when those numbers came out, I would show them to him. I said, "Mr. President, people got up out of wheelchairs today and went to work." And that is not that farfetched.

Our labor force participation is very low. It can go up and will go up if there are really good jobs out there and if we quit paying people not to work. Another thing we need to do desperately is—President Obama waived the work requirements in virtually every welfare program in every State in the Union. We need to put those requirements back.

So I am not worried about Americans being willing to work if we are willing to provide the incentives for them to go to work.

Senator BOOZMAN. I appreciate you mentioning the regulatory burden and what it is doing to our community banks and the fact that we are moving into this European style of doing things, where you are really trying to take the risk out of capitalism with our community banks, and the regulatory burden that they are facing that is simply making it so difficult for small business, people with good ideas to be able to get out and actually make those come to fruition and create the jobs that we need.

So thank you very much for being here.

Senator GRAMM. When you take the risk out of capitalism, you take the life out of it. That is the problem.

Senator BOOZMAN. That is exactly right. Yeah.

Chairman ENZI. Senator Kennedy.

Senator KENNEDY. Senator, I am sorry I am late. I am going to take your testimony home and read it.

I wanted to test a thought out on you as to why we are not—we are creating some jobs, but we are still about $6 million short of where we ought to be in recovering from a normal recession, and the larger concern in my State in addition to jobs not being created is wages are not going up.

I agree with you that part of that is the smothering of our businesses by regulations and rules, but we are growing at less than 2 percent. Pre-2008, for 30 years, we averaged about 3.1 percent growth.

The other problem, it seems to me, is productivity. We are rocking along at about 1 percent increase in productivity every year. It ought to be at least 2 percent.

I have noticed that a lot of our businesses are making record profits, but they are not reinvesting. They are doing stock buybacks. They are paying dividends. And at least part of the problem, according to one economic theory, is that our capital is not being reinvested in plants, in machinery, in equipment, in technology, which means we are not creating jobs, and we are not increasing productivity.

We have tried doing something about that on the monetary side. I think we have done just about all we can do and maybe even some harm. I do not see any choice but to address it on the fiscal side.

Senator GRAMM. Well, let me address the productivity thing. I think just to bring together the regulatory burden and the productivity, you have obviously seen the number that community banks have hired more compliance officers since the adoption of Dodd-Frank than they have hired loan officers.

My son has a little hedge fund. Hedge funds had nothing to do with the financial crisis, but he now has a compliance officer.

We have imposed all of these costs that in many cases do no good and often do some harm, and when we lift this regulatory burden, Americans have not run out of ideas. What has happened is that we have made it hard to do business. We have created tremendous uncertainties. We have got a regulatory apparatus that is hostile to business.

There are people that want to milk the cow, and you can have a successful economy and do that. But you cannot have a successful economy if you are trying to do the cow harm, and I think what has happened is that we now have an environment where regulators are hostile to the very people they regulate.

And I can remember when I was working in a bank. There was not an adversarial situation between us and the FDIC auditor. They were doing their job. We were supposed to be doing our job. They wanted us to be successful.

I think all of that has changed. Money, we have proven the limits of monetary policy. Now we are going to prove the cost of it, but I do believe that fiscal policy is important. But I never thought 20 years ago, I would ever believe this: Regulation is the No. 1 problem in this country. It is bigger than the tax burden, and we need to deal with it. And thank goodness, the bills that were adopted in the last 8 years are all shells, where the regulator decides what the Volcker Rule rules, what the stress test tests, and that can all be changed. And we need to be relentless in changing it.

And I do believe tax reform will help us. It just cannot make sense for us to have the highest corporate tax rate in the world, when you bring in State rates, 39 percent, when you can operate in Ireland for 13 percent. You are not serving your investors by doing business here.

Senator KENNEDY. I have received more complaints from my business people, small and large in Louisiana, about regulation than I have about the Tax Code.

Senator GRAMM. Oh, yeah.

Senator KENNEDY. Now, that does not mean they are happy with the Tax Code.

In my opinion, some of these are fairly easy fixes. I have introduced a bill that says if you are a financial institution—bank or credit union—and you have less than $10 billion in assets, you no longer have to comply with Dodd-Frank.

I asked Chairwoman Yellen in front of our Banking Committee when it was my turn to ask her questions. I said, "Explain to me what the community banks, defined as less than $10 billion in assets, did wrong in 2008," and she said they did nothing to contribute to the meltdown.

Now, I do not know if that bill will pass, but even former Congressman Frank has been quoted as saying, "We went a little too far on the small institutions." I am not saying all is well with the larger banks, but I am saying that it has been my experience, these community bankers are relationship bankers. They do not do derivatives. They do not do mortgage-backed securities. They loan to small business people, and they are able to monitor their creditworthiness. And the average small bank is less than 100 employees. We have lost 1,700 of them, and the reason is they are having to sell or merge because of the regulatory cost, which ironically is creating institutions that have more assets which Dodd-Frank was supposed to help with.

Senator GRAMM. Yeah. Well, the big banks have gotten bigger.

Senator KENNEDY. Yeah.

Senator GRAMM. And the small banks have gotten fewer. That is true.

Look, anything we can do to reduce this burden will have a big impact, and today, you cannot make a character loan.

Senator KENNEDY. That is right.

Senator GRAMM. Today, it is all formula-driven, and if your loan violates that formula, you are going to get called in one of the four or five audits you do a year. Imagine you are running a little bank, and you get audited four different times. So you have got to prepare for the audit for a week or two, and then you are audited for a week. And then for a week or two, you have got to respond to things they found that you got to correct. When you multiply that times four, you are not knowing your customer very well. You know your regulator real well.

Senator KENNEDY. You mean the commissar?

Senator GRAMM. Yeah. So how did we get into this mess, and how do we get out of it? Well, we got into it because there was an agenda that was waiting to happen.

Senator KENNEDY. Yeah.

Senator GRAMM. Dodd-Frank had nothing to do with the financial crisis. It was an agenda to have the Government dominate the banking system. It has been an agenda of the progressives for a hundred years, and they had the opportunity, and they got it. Now we are paying for it in lower growth.

Now, they had the authority, and they did it, and people voted for them. So did people vote to do this? I guess you can say they did, but they did not know what it was going to cost. That is a point I would argue.

And I think, again, on this regulatory thing, we need to be absolutely relentless. I just cannot state it too strongly. It is more important than anything else.

Now, these other things are important. If we cannot get out of this 1.9 percent growth rate, we are never going to be able to deal with the financial problems of the country. You cannot balance a budget in America with the commitments we have made with a 1.9 percent growth rate. This cannot be done. So we have got to break out of this cycle.

Senator KENNEDY. Thank you, Mr. Chairman.

Chairman ENZI. Senator Johnson has joined us. He is the other accountant, and he is the chairman of the Homeland Security and Government Accountability Committee. And they had a hearing, but theirs had to end because they did not have the same statutory capability that we do, so Senator Johnson.

Senator JOHNSON. We have rules.

[Laughter.]

Senator JOHNSON. Well, thank you, Mr. Chairman. Senator Gramm, real great to see you here.

I am sorry I missed the whole first part of this, but I think I can hop in. When we are talking about economic growth, I know a little bit about what it takes to grow a company. And I think you can kind of take that little micro example right up to a macro example as well.

But from my standpoint, you certainly need security. You need the rule of law. You need to make sure that your physical location is safe and secure. It cannot be vandalized. You need labor. You need people to work, and then you need capital.

Of course, I just came from a hearing on cybersecurity. So from a national level, you need a safe and secure national security and homeland security, but let us concentrate on labor and on capital.

I come from the viewpoint, having come from a manufacturing sector in Wisconsin, in the last 6 years, I have not visited one manufacturing plant in Wisconsin that can hire enough people, not one. We have a real problem in terms of Wisconsin dairy, not having enough people to milk the cows, and they really rely on immigrants to do that.

Can you just kind of address that situation demographically, what your thoughts are in terms of our labor pool, what is happening, why do we have such a low labor participation rate?

Just an article in the *Wall Street Journal* today, even with a very tight labor market, we are not seeing real wage growth, not for years. What is causing that? I would throw a little editorial opinion in there. We have this regulatory burden that translates out to about $14,800 per year per household, might be a drag on wages, but just talk about the whole labor situation in America.

Senator GRAMM. Well, first of all, the work requirement has been waived in virtually every welfare program, every State in the Union. My guess is it has been waived in your State. We need to re-institute those work requirements.

The eligibility standards on food stamps have been reduced dramatically, and the eligibility for disability under Social Security has been reduced dramatically. You have got some unions where 75 percent of their members get disability designation when they retire. This program is clearly abused.

So we need to require people to work, able-bodied people, to get welfare or to at least go to school, and we can do all this stuff by computer. The labor force participation rate is down. I said it earlier—you were not here—that back during when the Reagan program first took hold, one of the most astonishing numbers was the number of people on Social Security disability declined. And I used to say, not totally joking, "People are getting up out of wheelchairs and going to work." So I think that is part of the problem.

I think another part of the problem is we are wasting huge amounts of labor. There are high schools in my State where more people go to prison than go to college.

If we reformed our education system, gave people a choice as to where they spent public money in educating their children, we could revolutionize the labor force in America. I wonder how many people in these schools, these failing schools, have got real ability. My guess is a lot of them, and that is something we could fix. These all require changes in policy.

Senator JOHNSON. Well, also changes in attitude. I have always said we pay people not to work, which you have just addressed. We also tell all our kids, "You have to get a 4-year degree," which implies, being a carpenter or a laborer or somebody in the manufacturing sector, there is something wrong with that. So we need to stop denigrating the trades.

But my final question is, just demographically, when you look at head—there is a great piece written by Nick Eberstadt—I think you are familiar with him—over at AEI. You can take a look at America long term in terms of our fertility rates. What do you think we need in terms of immigration and policies that really do promote people coming to this country to take advantage of the opportunity, but are here, that are coming into this country to work, and provide that labor that we are going to need? That is certainly what I believe we need. What are your thoughts on that?

Senator GRAMM. Well, let me just say one thing about the previous problem, and then I want to answer this question.

There are a lot of things we could do to get Americans to work longer. I do not understand. That does not affect me one way or another, but why should we make somebody over 70 pay Social Security and Medicare taxes if they are still working? Why wouldn't we want them to keep working and get the benefit they have qualified for? So there are a lot of ways that we could get people to work longer by just making it easier.

Look, America cannot be America without immigrants. This is an issue I am hard over on. I do not think people ought to come here illegally. Illegal immigration has a big problem: It is illegal. And I think we ought to gain control of our border.

I am willing to build a wall. I got fences around my ranch. But we need people to come to America, and I think we ought to let people come that can bring things that help us, people that can bring the education they have, can bring the skills they have, can bring the capital they have. I want a vigorous legal immigration program, and I do not buy it. I am sorry. I just do not buy it that some brilliant engineer coming here from wherever is taking a job away from somebody.

Senator JOHNSON. No, we need the best and the brightest, and by the way, I did introduce a piece of legislation that makes that legal immigration system governed by the States. I think States would be a better judge of what sectors they want them working in, what wage rates, to make sure we do not depress American labor, so I am on the same page with that.

Mr. Chairman, you have been very indulgent. I appreciate it. Great hearing.

Thank you, Senator Gramm.

Senator GRAMM. Thank you, Senator.

Chairman ENZI. Thank you for coming, and thank you for all the complementary things that get done in your committee to what we are trying to do here, and we will have to work together on more of those.

Senator Gramm, I cannot thank you enough for being here today, for your outstanding comments, and then your answers to questions.

Incidentally, anybody on the committee that wants to submit questions can until close of business today, and we would hope that you would answer those for us too. Some of them would be more specific. I have some that will deal with a lot more numbers that I would appreciate someone putting together for me because it would be a help.

But I love the ability you have to phrase things. You make it simple. You make it understandable. You even make the numbers seem exciting. Not many people have that talent. So I appreciate you making the case for doing something, doing a lot of things that would keep this country from imploding, and you have made some excellent suggestions, so thank you.

Senator GRAMM. Well, Mr. Chairman, I appreciated coming today. I am sorry that we got this dispute going on and we do not have our Democratic colleagues here.

But let me say that just in conclusion that anybody that is writing off America is making a big mistake. We have stagnation because we have had bad policy. If we change these policies, we are going to change America, and anybody who does not believe that policy matters, all they got to do is look at the history of our country. America had better government, less of it, more efficient markets, and we took the huddled masses yearning to breathe free that nobody else in the world wanted and produced more empirical evidence of what you can do with a good system than any nation in history has ever done.

So I do not understand how people can look you in the face and say, "Well, our poor economy has nothing to do with the policies we followed for the last 8 years," or "The good economy for the previous 60 years on average had nothing to do with the policies we followed there." I guess the Soviet Union did not collapse because of bad policies. Well, what did they collapse from? We have grown faster than Europe for our whole history. Is that just an accident? I do not think so.

So I think these are the points we need to get back to, and you have been very flattering to me, because we are old friends, and I appreciate it. Thank you very much.

Chairman ENZI. Thank you. I have got pages of notes here that I will have to go through some more, and I will be sending some more questions. Thank you very much.

Senator GRAMM. Thank you.

Chairman ENZI. The hearing is adjourned.

[Whereupon, at 11:52 a.m., the committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

Responses of Phil Gramm to Questions For the Record by Senator Enzi

Question #1:
Senator Gramm, your testimony references the limits to CBO and JCT's static scoring. For past tax legislation, JCT has provided Congress with a range of possible macroeconomic effects. For example, they showed GDP growth from then – Ways and Means Chairman Camp's comprehensive tax proposal. Does Congress need a point estimate to utilize this information effectively? How should members weigh outside group's analysis of tax proposals, such as those done by the Tax Foundation, as we debate tax reform?

Response:
With regards to CBO's potential use of point estimates rather than a range of possible economic effects, I believe that what might be useful is a broader discussion of all the potential policy changes that CBO would recommend to ensure that we achieve the upper end of potential macroeconomic effects. Since CBO began consistent revisions of their budget projections for economic, technical and legislative changes back in 1983, we've accumulated a wealth of data to compare their original projections to their revised projections.

Clearly different policies have produced far different economic outcomes yet CBO assumptions don't appear to accurately incorporate the impact of different policies into their model. When CBO's projected macroeconomic benefit of the Balanced Budget Act of 1997 is so vastly understated and when CBO's projected macroeconomic benefit of the 2009 Stimulus is so vastly overstated, Congress will be forced to use a flawed map to guide budget and economic policy and in doing so, make poor decisions that work for the CBO model but not in the economy and not with the budget. It is the underlying assumptions of CBO's economic models that must be judged for their accuracy, and that can only happen if they are available for academic review, private econometric comparisons and public scrutiny. The CEA Director designee, Dr. Kevin Hassett, has pushed for "open modeling" of the CBO econometric model so that what has been shown to work historically can modify the future projections of CBO.

Question #2:
Senator Gramm, our growing federal debt will affect future interest costs, regardless of whether that debt comes from a loss of federal revenue due to stagnation in our economy or from continued overspending by the federal government. Is it possible for tax reform to incentivize increased business investment without an initial loss of revenue? What are the risks to our budget if interest rates rise?

Response:
With regards to whether tax reform can incentivize business investment without an initial loss of revenue, that is unlikely if measured against the present CBO baseline. Yet this is a classic case of penny-wise, pound-foolish. We have endured the weakest postwar recovery, far below the historical average. After the summer of recovery was announced in 2010, repeated economic downgrades have cost federal revenues over $4 trillion in reduced ten-year projections. Such losses dwarf the cost of anything remotely required to spur business investment and get the economy moving again. Further, without increased business investment now, the seeds of future economic growth will not be planted today, further lowering our future economic prospects and

harming their largest single beneficiary, the U.S. Treasury. Paying the price for a strong business investment is not just the only way to generate prosperity, it is the only way to avoid insolvency.

With regards to the risk to our budget of rising interest rates, the doubling of the national debt and quadrupling of the monetary base both pose grave risk to government and the economy if interest rates began to rise in a full-blown recovery. The surge in debt and monetary accommodation under President Obama was largely hidden by ultralow interest rates and the Fed's purchases of government securities. So while the publicly held national debt doubled as a share of gross domestic product, the cost of servicing it dropped to 1.3% of GDP in 2016 from 1.7% in 2008.

If interest costs simply returned to their postwar norms, debt-servicing costs would rise by $4.4 trillion over the next decade. If those costs were simply borrowed, it would increase debt-servicing costs by another $1.3 trillion. By 2027, federal interest costs as a share of GDP would more than triple to 4.9%, exceeding $1.4 trillion annually—roughly equal to that year's projected Medicare spending.

During previous postwar recoveries, annual gross private domestic investment averaged 17.5% of GDP, and yearly Treasury borrowing went up on average by only 1.6% of GDP. But now if interest rates returned to their historic norms, debt-servicing costs in the fifth year of a recovery would cause Treasury borrowing to spiral to 6.6% of GDP. In other words, federal borrowing would represent more than four times the competition for available credit than it did in previous postwar recoveries.

In addition to these headwinds, a full-blown recovery and a return of normal interest rates would force the Fed to sell assets, increasing further the competition for available credit. Recall that the Fed's bloated balance sheet is the mirror image of bank reserves, which have swollen as a result of the central bank's various monetary easing programs. The Fed's purchases of $3.4 trillion in Treasury bonds and mortgage-backed securities have pushed up bank reserves to $13.07 for every dollar they are required to hold.

Even if the Fed had five years to unwind excess reserves, it would still have to dump $590 billion of Treasury bonds and mortgage-backed securities into the markets each year. The combined effect of these asset sales and new Treasury borrowing would generate a massive headwind for the recovery, driving up interest rates faster and higher than has been the postwar norm.

In the six decades before 2007, the Treasury borrowed on average an extra 1.6% of GDP a year. The Fed offset part of that by buying some 0.3% worth of federal debt a year, reducing net new public demand for credit to 1.3% of GDP. But by the fifth year of a full-blown recovery with normal interest rates, the Treasury would have to borrow some 6.6% of GDP. At the same time the Fed would shift from being a buyer to a seller of financial assets, absorbing another 2.6% of GDP of available credit. That totals 9.2% of GDP in new borrowing, seven times the postwar average. This would crowd out private investment at a level never before remotely approached in a postwar-era recovery.

RUNNING THE GOVERNMENT FOR LESS

WEDNESDAY, MAY 17, 2017

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 10:33 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, chairman of the committee, presiding.

Present: Senators Enzi, Grassley, Crapo, Toomey, Johnson, Perdue, Gardner, Kennedy, Boozman, Sanders, Warner, Kaine, King, Van Hollen, and Harris.

Staff present: Eric Ueland, Republican staff director; and Warren Gunnels, minority staff director.

OPENING STATEMENT OF CHAIRMAN MICHAEL B. ENZI

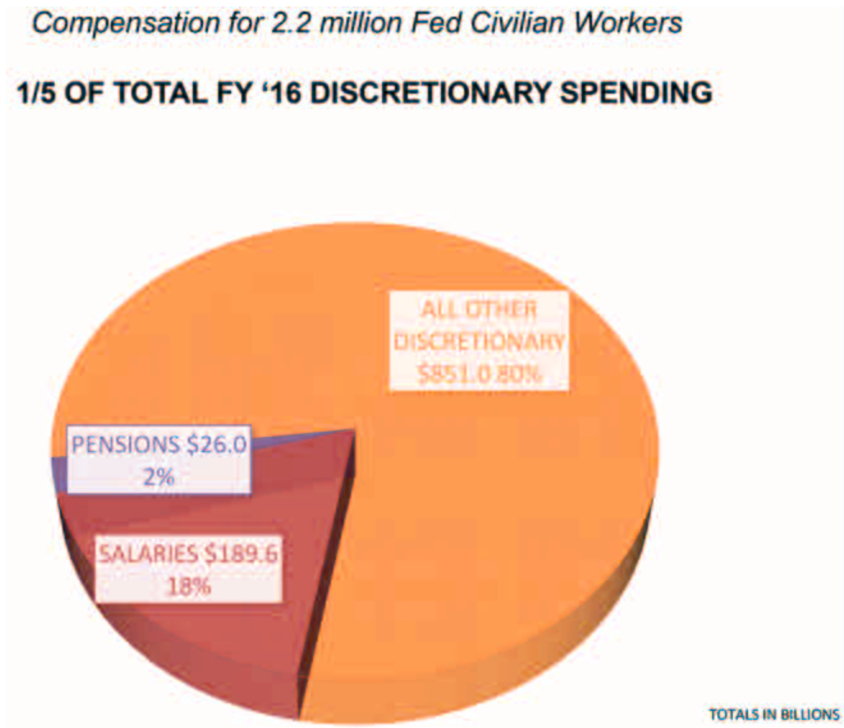
Chairman ENZI. I will call this hearing to order. Good morning, and welcome to all here. A packed house today. I apologize for being 4 minutes late. We had to get a bunch of bills out of Homeland Security today, and we did, I think about 15 bills. That is a lot of roll calls.

We are here today to discuss ways to reduce the operating costs of the Federal Government and make it more efficient and effective for hardworking taxpayers. Budgeteers and the entire Nation eagerly await next week's release of the President's full budget proposal. I expect it will kick off a new round of debates about whether various Federal Government programs should be increased, decreased, or eliminated.

What is sure to get less attention are the numbers in the budget reflecting the overhead costs of running our Government, the hundreds of billions of dollars we spend each year as the cost of doing business. I am talking about the personnel, the procurements, the information systems, the payment processing, and the innumerable other low-profile expenditures that consume a surprisingly big portion of the budget, particularly of the discretionary spending totals that are hotly debated each year. These are costs that we tend to view as fixed and immutable while we debate the relative merits of more visible grant or transfer programs.

But Congress' own support agencies have raised important questions about these operating costs. For instance, as the Nation's largest employer, the Federal Government paid $215 billion last year to compensate a work force of more than 2 million employees, and that is on the non-defense side alone. As the pie chart on the screen indicates, one-fifth of all discretionary spending is in that category.

[Slide 1 follows:]



We will hear today about a new Congressional Budget Office (CBO) report that finds a significant disconnect between the compensation paid to Federal workers and that received by private sector counterparts with similar training and experience.

The Federal Government is also the world's biggest customer, purchasing more than half a trillion dollars of goods and services annually. This includes, for instance, more than $80 billion spent on information technology systems that warehouse and process data. In light of the size and scope of Government purchasing, we should be alarmed by the host of inefficiencies the Government Accountability Office (GAO) has chronicled in Federal procurement practices. The GAO also informs us that in the normal course of business, the U.S. Treasury now issues more than $100 billion in improper payments each year. That is 93 percent of the $144 billion in improper payments issued last year that were overpayments in which we sent money to individuals or entities who either were not supposed to get it or got more than they were supposed to.

As you can see from the chart up on the screen, more than three-quarters of these improper payments governmentwide are issued by just three programs: Medicare, Medicaid, and the Earned Income Tax Credit (EITC). It is important for Congress to ask if we are using taxpayer dollars wisely and operating the Government as efficiently and effectively as the managers of a private sector company would.

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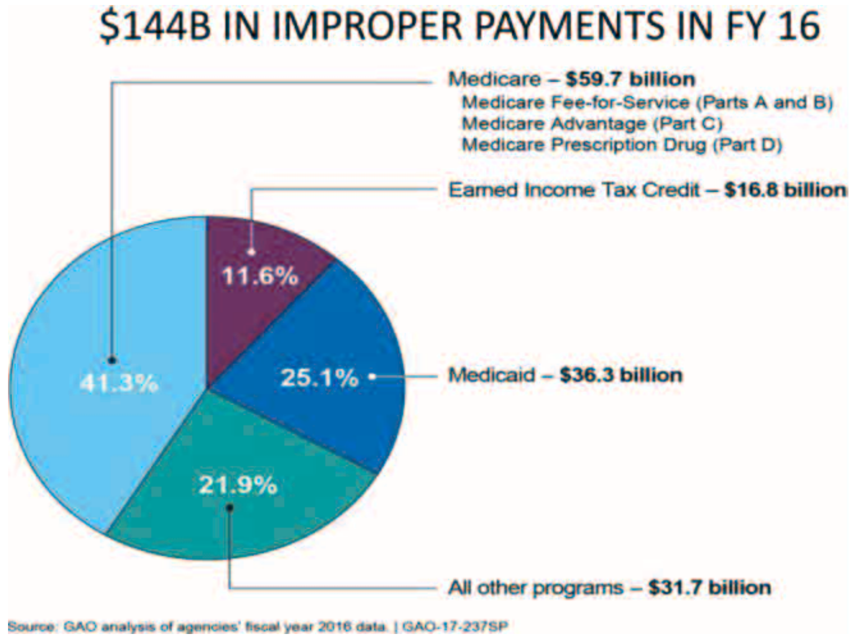


Are the more than $1 trillion in improper payments reported since 2003 just a necessary cost of doing business? Or could we be saving tens of billions annually by reducing the error rate? Is it possible to better align Federal employees' compensation with counterparts in the private sector such that we are neither underpaying nor overpaying different types of Federal employees but, rather, compensating individuals appropriately and in accord with their skills, their training, their experience, and their work product?

How much could we save if the Government effectively leveraged its economies of scale to purchase information systems and various other goods and services?

We are fortunate to have before us today the heads of two major congressional support agencies that have both produced substantial bodies of work identifying ways the Government can operate in a more efficient and cost-effective manner. I hope that we can have a substantial conversation today about the budgetary implications of their findings.

But before we hear from the witnesses, I will turn the floor over to the ranking member for his opening remarks.

Senator Sanders.

OPENING STATEMENT OF SENATOR BERNARD SANDERS

Senator SANDERS. Thank you very much, Mr. Chairman. And let me welcome Dr. Hall and Mr. Dodaro. We thank you very much for being with us.

Mr. Chairman, we very much look forward to the hearings that will be held on the President's budget, and, obviously, at this point we do not know exactly what will be in that budget. But based on some of the information that we have seen from his so-called skinny budget and other proposals, including tax ideas, I believe that what we are going to be looking at are proposals way, way, way out of touch with where the American people are and where they want to go.

These proposals will include hundreds and hundreds of billions of dollars in tax breaks for the top 1 percent at a time when we already have a massive level of income and wealth inequality. And while the President's budget will propose tax breaks for billionaires, the budget will also talk about massive cuts to Pell grants, to Head Start, to after-school programs, for the Meals on Wheels program, to the WIC program, which provides nutrition for low-income pregnant women and their babies.

To my mind, the American people do not believe that the wealthiest families in this country deserve incredible tax breaks while we cut programs that the working people of this country desperately need. So I look forward to those hearings.

Mr. Chairman, I wanted to say a few words this morning on some of the work that Dr. Hall and the folks at CBO have done. And as you know, they did an analysis of the original Trump-Ryan health care bill, which was signed into law, and this is what the CBO estimated would happen. I think it is important that all Americans understand this. This is not from Bernie Sanders. It is not from Tim Kaine. This is from the CBO, and I would hope that if I am making a mistake, Dr. Hall, please jump in and tell me if I am incorrect.

What the CBO reported was that an additional 14 million people would be uninsured in 2018. We are the only major country on Earth not to guarantee health care to all of our people. This legislation will result in an additional 14 million people being uninsured. In other words, we are moving in the wrong direction. Instead of insuring more people, we are throwing people off of health insurance. An additional 24 million people would be uninsured by the year 2026.

Medicaid provides health insurance not just to lower-income Americans but about 60 percent of Medicaid funding goes to nursing homes, so when middle-class people are forced to see their parents enter a nursing home, Medicaid in many cases is paying that bill. Medicaid would see cuts of more than $800 billion over the next decade, denying health insurance to 14 million Americans.

In 2026, as a result of that legislation, the original legislation that was proposed, a 64-year-old with an income of $26,500, an older worker, would see his or her premiums increase from $1,700 under current law to $14,600. This is somebody with an income of $26,000. Preposterous. More than half their annual income.

According to CBO, if Planned Parenthood is defunded, which was in the legislation that was passed, "The people most likely to experience reduced access to care would probably reside in areas without other health care clinics or medical practitioners who serve low-income populations."

So we should also be very clear that the so-called Republican health care plan that the House recently passed really in all honesty is not a health care bill at all. It continues the obsession of our Republican colleagues for tax breaks for the wealthiest people in this country. So we are throwing millions of people off of health insurance, raising premiums for older workers in a significant way.

But here is the good news: If you are in the top 2 percent, the top 2 percent would receive a $299 billion tax break, and hundreds of billions more in tax breaks will go to large insurance companies, drug companies, and other corporate interests. That is what that bill is about.

In my view, that bill—not my view. Poll after poll after poll shows this is exactly what the American people do not want.

So, Mr. Chairman, I look forward very much to holding hearings here on that legislation, to holding hearings on the proposed President's budget, hearings on his tax proposals. And I thank you very much for holding this hearing.

Chairman ENZI. Thank you for your comments, and we will be doing lots of hearings, and doing those, that will be a more proper time to debate some of those things. And it will be after the Senate input on it, too, which is always important.

On today's hearing, we all agree that we need to strive for the most effective, efficient Government possible, and I think we are going to hear evidence from our witnesses in a moment that there is plenty of room for improvement and plenty of potential for budgetary savings. Both of our witnesses this morning have testified before this panel before, so I will make their introduction brief.

Our first witness is the head of the Government Accountability Office, Comptroller General Gene Dodaro, and Mr. Dodaro was confirmed by the Senate back in 2010, and he has worked at GAO in a variety of capacities for more than 40 years. He has probably lost track of how many times he has testified before Congress. But committees keep inviting him back because he is a great witness who always has a lot to teach us.

Our other witness is Dr. Keith Hall, who is the Director of the Congressional Budget Office. Dr. Hall became the ninth Director of CBO a little more than 2 years ago. Before that, he was the Commissioner of the Bureau of Labor Statistics and, before that, the Chief Economist for the White House Council of Economic Advisers.

We look forward to receiving the panel's testimony. Thank you both for joining us and being willing to share your expertise and, of course, any questions that might be submitted later by those who are not here or those who are here.

So welcome, Comptroller General and Director of the CBO. General Dodaro, you can go ahead and present.

STATEMENT OF THE HONORABLE GENE L. DODARO, COMPTROLLER GENERAL OF THE UNITED STATES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. DODARO. Thank you very much, Mr. Chairman. Good morning to you, Ranking Member Senator Sanders, members of the committee. It is a pleasure to be here today to talk about how the machinery of Government could operate more efficiently and effectively.

I will focus my opening remarks on two pervasive government-wide issues that I think should be the subject of this committee's oversight.

First is the area of improper payments in the Federal Government. These are payments that should not have been made or were made in the wrong amounts. Since the Congress has required the executive departments and agencies to estimate the amount of improper payments every year since 2003, the cumulative number of improper payments that has been reported was in excess of $1.2 trillion. So it is a significant amount of money. The annual figures that have been reported have grown over the last 3 years from $125 billion to $137 billion to the most recent estimate in 2016 of $144 billion. This includes estimates for 112 programs at 22 Federal agencies, so it is a pervasive problem.

As you pointed out, Mr. Chairman, in your opening remarks, three large Federal programs constitute the majority of estimated improper payments: Medicare, Medicaid, and the Earned Income Tax Credit. But there are a number of programs across Government where this problem is an issue. There are 14 Federal programs where there is over $1 billion reported in improper payments; 11 programs report estimates of over 10 percent error rates across the Federal Government.

Now, as significant as these numbers are, they are understated. There are 18 risk-susceptible programs—large programs like Temporary Assistance for Needy Families (TANF), and for 2016, the SNAP program, Supplemental Nutrition Assistance Program, that did not report estimates at all. And there are some Federal agencies that do not report that they are susceptible to improper payments.

So for a number of years now, we have identified a material weakness in our audits of the Federal Government's financial statements. This is because the Federal Government really is not able to determine the extent of this improper payment problem across the Government or have a reasonable prospect that it is managing it properly in order to reduce these improper payments.

Now, we have many recommendations to Federal agencies, and some matters for Congress to consider in terms of legislative changes that I would be happy to talk about in the question-and-answer period. So we think this is an area where there could be considerable savings and proper stewardship is needed over these programs.

What I am very concerned about are the high rates in Medicare and Medicaid, which are two of the fastest-growing programs in the Federal Government. So these are areas that I believe require additional and more aggressive congressional oversight.

The second area I wanted to mention is the Federal Government's investment in information technology, which has averaged over the years over $80 billion. In 2015, we designated it one of the high-risk areas across the entire Federal Government, for several reasons.

One, there are continual cost overruns and schedule delays, and often the investments did not produce a material return and added little to mission outcomes of the agencies that have been investing in those IT programs.

Now, the Congress passed the Federal Information Technology Acquisition Reform Act to give additional authorities to Chief Information Officers. It also required more transparency and risk management associated with the Federal Government's investment in information technology, and to reap more savings in consolidating agencies' data centers, and to eliminate duplicative investments in information technology. And so there is a lot that could be done.

A troubling trend is of the $80 billion or so that is invested every year, a significant proportion of it goes into supporting existing legacy systems. Almost three-quarters of the $80 billion goes to support these old systems, some of which are 30, and in some cases almost 50 years old. And these older systems also introduce security risk.

We also have designated cybersecurity across the Government as a high-risk area since 1997 and protecting critical infrastructure protections since 2003. So we identified the information technology area both in investments, not getting a good return on investment, as well as security. Both are disturbing issues that require attention.

So I thank you very much for inviting me, and I look forward to answering questions at the appropriate time.

[The prepared statement of Mr. Dodaro follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on the Budget
U.S. Senate

For Release on Delivery
Expected at 10:30 a.m. ET
Wednesday, May 17, 2017

GOVERNMENT EFFICIENCY AND EFFECTIVENESS

Opportunities to Address Pervasive Management Risks and Challenges while Reducing Federal Costs

Statement of Gene L. Dodaro
Comptroller General of the United States

GAO-17-631T

GAO Highlights

Highlights of GAO-17-631T, a testimony before the Committee on the Budget, U.S. Senate

Why GAO Did This Study

The federal government faces a long-term, unsustainable fiscal path based on an imbalance between federal revenues and spending. To put the government on a more sustainable long-term path, policymakers will need to have a broad fiscal plan that considers reducing spending, increasing revenue, or more likely, a combination of the two. While addressing this structural imbalance will require fiscal policy changes, in the near term, opportunities exist to act in a number of areas to improve this situation.

This statement highlights several areas in which the federal government is facing government-wide management challenges and the opportunities to act: improper payments; IT acquisitions, operations, and cybersecurity; and federal real property. This statement draws from GAO's 2017 High-Risk List, the 2017 annual report on fragmentation, overlap, and duplication, and other related work.

Properly managing government resources can help address the federal government's fiscal challenges by preventing fraud, waste, and abuse and ensuring funds are put to the best possible use. Although these actions alone cannot put the U.S. government on a sustainable fiscal path, they would improve both the fiscal situation and the federal government's operations.

View GAO-17-631T. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov, or Susan J. Irving at (202) 512-6806 or irvings@gao.gov.

May 17, 2017

GOVERNMENT EFFICIENCY AND EFFECTIVENESS

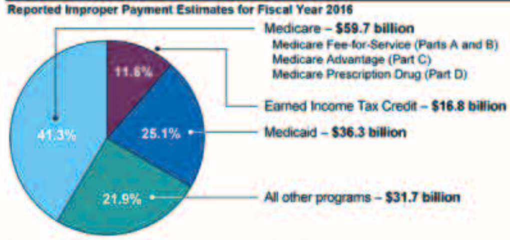
Opportunities to Address Pervasive Management Risks and Challenges while Reducing Federal Costs

What GAO Found

GAO's prior work has resulted in hundreds of billions of dollars in financial benefits over the last decade as agencies and Congress acted on its recommendations. However, there are significant opportunities for further action to address government-wide challenges by implementing GAO's recommendations that would result in billions of dollars in additional benefits.

- **Action Needed to Address Growth in Improper Payments.** Reducing payments that should not have been made or that were made in an incorrect amount could yield significant savings. The reported government-wide improper payment estimate for fiscal year 2016 was over $144 billion. This estimate was attributable to 112 programs spread among 22 agencies. Since fiscal year 2003, cumulative estimates have totaled over $1.2 trillion.

Reported Improper Payment Estimates for Fiscal Year 2016



Source: GAO analysis of agencies' fiscal year 2016 data. | GAO-17-631T

- **Improvements Needed in Information Technology (IT) Acquisition and Operation and in Addressing Cybersecurity Challenges.** The government is projected to invest more than $89 billion on IT in fiscal year 2017. However, historically, these investments have frequently failed, incurred cost overruns and schedule slippages, or contributed little to mission-related outcomes. Better managing IT could result in billions of dollars in savings and much more efficient and effective government. Opportunities also exist to better ensure the security of federal information systems and cyber critical infrastructure and protect the privacy of personally identifiable information.

- **Challenges Remain in Reducing Unneeded Federal Facilities and Managing the Federal Fleet of Vehicles.** Continuing to maintain unneeded facilities puts the government at risk for wasting resources due to ongoing maintenance costs as well as lost revenue from failing to sell surplus property. In addition, in fiscal year 2015, federal agencies spent about $4.3 billion on over 640,000 vehicles that agencies own or lease. In prior work, GAO found that selected agencies were spending over $20 million annually on vehicles that may not have been fully utilized. It is likely that additional cost savings are possible through enhanced agency practices.

Chairman Enzi, Ranking Member Sanders, and Members of the Committee:

Thank you for the opportunity to be here today to discuss opportunities to improve our nation's fiscal sustainability by addressing government-wide management challenges. The federal government faces a long-term, unsustainable fiscal path based on an imbalance between federal revenues and spending. At the end of fiscal year 2016, the debt held by the public as a share of gross domestic product was 77 percent, the highest it has been since 1950.[1] Absent policy changes, debt held by the public will continue to grow and is projected to surpass its historical high of 106 percent within 15 to 25 years.[2]

To put the government on a more sustainable long-term path, policymakers will need to have a broad fiscal plan that considers reducing spending, increasing revenue, or more likely, a combination of the two. While addressing this structural imbalance will require fiscal policy changes, in the near term opportunities exist to act in a number of areas to improve this situation. Properly managing government resources can help address our fiscal challenges by preventing fraud, waste, and abuse and ensuring funds are put to the best possible use. Although these actions alone cannot put the U.S. government on a sustainable fiscal path, they would improve both the fiscal situation and the federal government's operations.

Today, I will discuss several areas in which the federal government is facing government-wide management risks and challenges and opportunities to act: improper payments; information technology (IT) acquisitions, operations, and cybersecurity; and federal real property. To help address these long-standing management weaknesses, we have made hundreds of recommendations over the years, including through our High-Risk List and our work on fragmentation, overlap, and duplication. Our High-Risk List brings attention to government operations that are at high risk of fraud, waste, abuse, and mismanagement, or that need broad-based transformation to address economy, efficiency, or

[1]Debt held by the public is federal debt held by all investors outside the government, including international investors, domestic private investors, the Federal Reserve, and state and local governments.

[2]GAO, *The Nation's Fiscal Health: Action is Needed to Address the Federal Government's Fiscal Future*, GAO-17-237SP (Washington, D.C.: Jan. 17, 2017).

effectiveness challenges of government operations.[3] In addition, for the last 7 years, we have annually presented actions Congress or executive branch agencies could take to reduce, eliminate, or better manage fragmentation, overlap, or duplication; achieve cost savings; or enhance revenue.[4] These efforts combined have led to hundreds of billions of dollars in financial benefits over the last decade. We estimate tens of billions more dollars could be saved by fully implementing our remaining open recommendations.[5] Congress has acted and executive agencies are addressing many of our recommendations and, as a result, progress is being made on a number of these challenges. However, there are further opportunities for Congress and agencies to take action on addressing these management challenges.

My statement is based on our 2017 High-Risk List; the 2017 fragmentation, overlap, and duplication annual report; and other related work. The work upon which this statement is based was conducted in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product. More details on the scope and methodology for our reports can be found in the full reports.[6]

[3]GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others,* GAO-17-317 (Washington, D.C.: Feb. 15, 2017).

[4]GAO, *2017 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits,* GAO-17-491SP (Washington, D.C.: Apr. 26, 2017).

[5]To estimate overall financial benefits and possible savings from actions to address fragmentation, overlap, and duplication, we relied on individual estimates from a variety of sources, which considered different time periods, and utilized different data sources, assumptions, and methodologies. These individual estimates are subject to increased uncertainty, depending on whether, how, and when they are addressed.

[6]A list of related work is included at the end of this statement.

Actions Needed to Address Growth in Improper Payments

Improper payments remain a significant and pervasive government-wide issue.[7] For several years, we have reported improper payments as a material weakness in our audit reports on the consolidated financial statements of the U.S. government.[8] Since fiscal year 2003—when certain agencies began reporting improper payments as required by the Improper Payments Information Act of 2002 (IPIA)—cumulative reported improper payment estimates have totaled over $1.2 trillion, as shown in figure 1.[9]

[7]Under the Improper Payments Information Act of 2002, as amended, an improper payment is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. Office of Management and Budget guidance also instructs agencies to report as improper payments any payments for which insufficient or no documentation was found.

[8]GAO, *Financial Audit: Fiscal Years 2016 and 2015 Consolidated Financial Statements of the U.S. Government*, GAO-17-283R (Washington, D.C.: Jan. 12, 2017).

[9]IPIA—as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)—requires executive branch agencies to (1) review all programs and activities, (2) identify those that may be susceptible to significant improper payments, (3) estimate the annual amount of improper payments for those programs and activities, (4) implement actions to reduce improper payments and set reduction targets, and (5) report on the results of addressing the foregoing requirements. IPIA, Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002), *as amended by* IPERA, Pub. L. No. 111-204, 124 Stat. 2224 (July 22, 2010), *and* IPERIA, Pub. L. No. 112-248, 126 Stat. 2390 (Jan. 10, 2013), and *codified as amended at* 31 U.S.C. § 3321 note. IPIA, as amended, defines "significant improper payments" as gross annual improper payments in a program exceeding (1) both 1.5 percent of program outlays and $10 million of all program or activity payments during the fiscal year reported or (2) $100 million (regardless of the improper payment error rate).

Figure 1: Cumulative Reported Improper Payment Estimates for Fiscal Years 2003 through 2016

Source: GAO. | GAO-17-631T

Note: Generally, the specific programs and total number of programs that constitute the government-wide improper payment estimate vary from year to year. In earlier years, the number of programs included in the government-wide estimate generally increased as programs reported improper payment estimates for the first time.

For fiscal year 2016, agencies reported improper payment estimates totaling $144.3 billion, an increase of over $7 billion from the prior year's estimate of $136.7 billion. The reported estimated government-wide improper payment error rate was 5.1 percent of related program outlays.[10] These figures do not include the Department of Defense's (DOD) Defense Finance and Accounting Service Commercial Pay program because of concerns regarding the reliability of the program's estimate, which I will discuss later in this statement. As shown in figures 2 and 3, the reported improper payment estimates—both dollar estimates and

[10]Reported error rates reflect the estimated improper payments as a percentage of total program outlays.

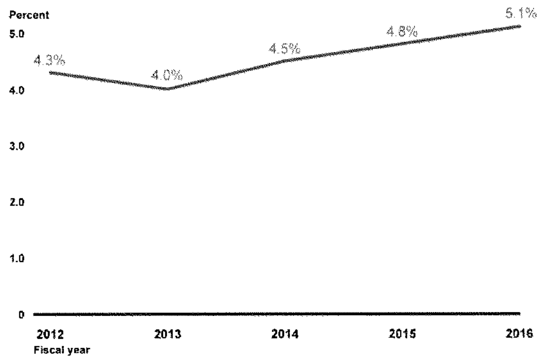
error rates—have been increasing over the past 3 years, largely because of increases in Medicaid's reported improper payment estimates.

Figure 2: Reported Improper Payment Estimates for Fiscal Years 2012 through 2016

Source: GAO analysis of Office of Management and Budget data and *The Financial Report of the United States Government* for fiscal years 2013 through 2016. | GAO-17-631T

Note: Improper payment estimate amounts do not include the Department of Defense's Defense Finance and Accounting Service Commercial pay program because of issues related to the reliability of the program's estimate. Figures may not add up to totals due to rounding.

Figure 3: Reported Improper Payment Error Rates for Fiscal Years 2012 through 2016



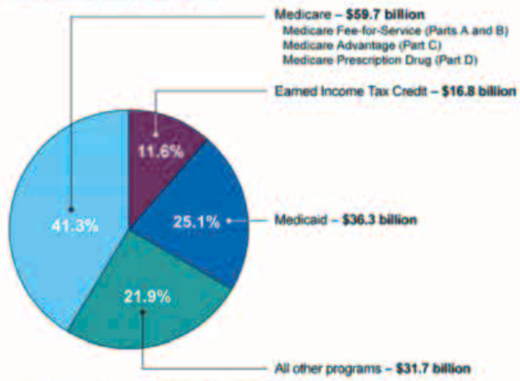
Source: *Financial Report of the United States Government* for fiscal years 2013 through 2016. | GAO-17-631T

Note: Improper payment estimate amounts do not include the Department of Defense's Defense Finance and Accounting Service Commercial pay program because of issues related to the reliability of the program's estimate.

For fiscal year 2016, overpayments accounted for approximately 93 percent of the improper payment estimate, according to www.paymentaccuracy.gov, with underpayments accounting for the remaining 7 percent.

Although primarily concentrated in three areas (Medicare, Medicaid, and the Earned Income Tax Credit), the reported estimated improper payments for fiscal year 2016 were attributable to 112 programs spread among 22 agencies (see figure 4).

Figure 4: Reported Improper Payment Estimates Were Primarily Concentrated in Three Areas for Fiscal Year 2016



Source: GAO analysis of agencies' fiscal year 2016 data. | GAO-17-631T

Note: Improper payment estimate amounts do not include the Department of Defense's Defense Finance and Accounting Service Commercial Pay program because of issues related to the reliability of the program's estimate. Due to rounding, numbers may not add up to 100 percent or match the government-wide improper payment estimate ($144.3 billion).

Agencies reported improper payment estimates exceeding $1 billion for 14 programs, as shown in table 1, and error rates exceeding 10 percent for 11 programs (see table 2).

Table 1: Programs with Reported Improper Payment Estimates over $1 Billion for Fiscal Year 2016

Program	Agency	Fiscal year 2016 reported improper payment estimates	
		Dollars (in billions)	Error rate (percentage of outlays)
Medicare	Department of Health and Human Services (HHS)	59.7	—
Medicare Fee-for-Service	*HHS*	*41.1*	*11.0*
Medicare Advantage (Part C)	*HHS*	*16.2*	*10.0*
Medicare Prescription Drug Benefit (Part D)	*HHS*	*2.4*	*3.4*

Program	Agency	Fiscal year 2016 reported improper payment estimates	
		Dollars (in billions)	Error rate (percentage of outlays)
Medicaid	HHS	36.3	10.5
Earned Income Tax Credit	Department of the Treasury	16.8	24.0
Supplemental Security Income	Social Security Administration (SSA)	4.2	7.4
Direct Loan	Department of Education (Education)	3.9	4.0
Unemployment Insurance	Department of Labor	3.9	11.7
Old Age, Survivors, and Disability Insurance	SSA	3.7	0.4
VA Community Care	Department of Veterans Affairs (VA)	3.6	75.9
Pell Grant	Education	2.2	7.9
National School Lunch Program	Department of Agriculture	1.8	15.2
Rental Housing Assistance Programs	Department of Housing and Urban Development	1.7	5.2
Purchased Long-Term Services and Support	VA	1.2	69.2

Source: GAO summary of agencies' data. | GAO-17-631T

Table 2: Programs with Reported Improper Payment Error Rates over 10 Percent for Fiscal Year 2016

Program	Agency	Reported error rate (percentage of outlays)
VA Community Care	Department of Veterans Affairs (VA)	75.9
Purchased Long-Term Services and Support	VA	69.2
Earned Income Tax Credit	Department of the Treasury	24.0
School Breakfast Program	Department of Agriculture (USDA)	22.5
National School Lunch Program	USDA	15.2
Livestock Indemnity Program	USDA	12.9
Unemployment Insurance	Department of Labor	11.7
Supplemental Revenue Assistance Payments	USDA	11.4
Medicare Fee-for-Service	Department of Health and Human Services (HHS)	11.0
Medicaid	HHS	10.5
Disbursements for Goods and Services	Small Business Administration	10.4

Source: GAO summary of agencies' data. | GAO-17-631T

Multiple Factors Hinder Efforts to Determine the Full Extent of and Reduce Improper Payments

In our audit report on the fiscal year 2016 consolidated financial statements of the U.S. government, we continued to report a material weakness in internal control related to improper payments because the federal government is unable to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them.[11] Challenges include programs that do not report any improper payment estimates or report unreliable or understated estimates, noncompliance issues, fraud, and potentially inaccurate risk assessments.

Programs That Do Not Report Improper Payment Estimates

We found that not all agencies had developed improper payment estimates for all of the programs and activities they identified as susceptible to significant improper payments. Eight agencies did not report improper payment estimates for 18 risk-susceptible programs (see table 3).

Table 3: Agencies Did Not Report Improper Payment Estimates for Fiscal Year 2016 for 18 Risk-Susceptible Programs

Program	Agency
Supplemental Nutrition Assistance Program	Department of Agriculture (USDA)
Child and Adult Food Care Program	USDA
Temporary Assistance for Needy Families	Department of Health and Human Services (HHS)
Advance Premium Tax Credit	HHS
Cost-Sharing Reduction	HHS
Navy Commercial Bill Pay – Singapore	Department of Defense
Single Family Insurance Claims	Department of Housing and Urban Development (HUD)
Community Planning and Development Entitlement Grants	HUD
HOME Investments Program	HUD
Additional Child Tax Credit	Department of the Treasury (Treasury)
American Opportunity Tax Credit	Treasury
Premium Tax Credit	Treasury
Communications, Utilities, and Other Rent	Department of Veterans Affairs (VA)
Medical Care Contracts and Agreements	VA
Prosthetics	VA

[11]GAO-17-283R.

Program	Agency
VA Community Care Choice payments made from the Veterans Choice Fund	VA
Grants	Environmental Protection Agency
AmeriCorps	Corporation for National and Community Service

Source: GAO summary of agencies' fiscal year 2016 agency financial reports. | GAO-17-631T

Because agencies did not report improper payment estimates for these risk-susceptible programs, the government-wide improper payment estimate is understated and agencies are hindered in their efforts to reduce improper payments in these programs. For example, the Department of Health and Human Services (HHS) did not report an improper payment estimate for Temporary Assistance for Needy Families, a program with outlays of over $15 billion for fiscal year 2016. HHS cited statutory limitations prohibiting the agency from requiring states to participate in an improper payment measurement for the program.

Another example is the U.S. Department of Agriculture's (USDA) Supplemental Nutrition Assistance Program (SNAP). Although USDA has reported improper payment estimates for this program in prior years, the agency did not report an estimate for fiscal year 2016.[12] In its fiscal year 2016 agency financial report, USDA stated that it was unable to validate data provided by 42 of the 53 state agencies that administer the program. USDA stated that it could not adjust for this unreliability and calculate a national error rate.

Potentially Unreliable or Understated Estimates

Improper payment estimates for certain programs may be unreliable or understated. For example, in May 2013 we reported that DOD had major deficiencies in its process for estimating fiscal year 2012 improper payments in the Defense Finance and Accounting Service (DFAS) Commercial Pay program, including deficiencies in identifying a complete and accurate population of payments.[13] The foundation of reliable statistical sampling estimates is a complete, accurate, and valid population from which to sample. As of October 2016, DOD was still developing key quality assurance procedures to ensure the completeness

[12]For fiscal year 2015, USDA reported an estimated $2.6 billion—or 3.7 percent of the $70.0 billion in related program outlays—in improper payments for SNAP.

[13]GAO, *DOD Financial Management: Significant Improvements Needed in Efforts to Address Improper Payment Requirements*, GAO-13-227 (Washington, D.C.: May 13, 2013).

and accuracy of sampled populations. Therefore, DOD's fiscal year 2016 improper payment estimates, including its estimate for the DFAS Commercial Pay program, may not be reliable. DFAS Commercial Pay's reported program outlays are significant—approximately $249 billion for fiscal year 2016. Consequently, a small change in the program's estimated error rate could result in a significant change in the dollar value of its improper payment estimate.

Also, flexibility in how agencies are permitted to implement improper payment estimation requirements can contribute to inconsistent or understated estimates. For example, in February 2015, we reported that DOD uses a methodology for estimating TRICARE improper payments that is less comprehensive than the methodology the Centers for Medicare & Medicaid Services (CMS) used for Medicare.[14] Though the programs are similar in that they pay providers on a fee-for-service basis and depend on contractors to process and pay claims, TRICARE's methodology does not examine the underlying medical record documentation to discern whether each sampled payment was supported or whether the services provided were medically necessary. On the other hand, Medicare's methodology more completely identifies improper payments beyond those resulting from claim processing errors, such as those related to provider noncompliance with coding, billing, and payment rules.

As a result, the estimated improper payment error rates for TRICARE and Medicare are not comparable, and TRICARE's error rate is likely understated. In addition, corrective actions for TRICARE improper payments do not address issues related to medical necessity errors—a significant contributor to Medicare improper payments. We recommended that DOD implement a more comprehensive TRICARE improper payment methodology and develop more robust corrective action plans that address the underlying causes of improper payments. In October 2016, DOD requested proposals for claim record reviews—including medical record reviews—to begin the process of incorporating medical record reviews in its methodology for calculating improper payment rates.

[14]GAO, *Improper Payments: TRICARE Measurement and Reduction Efforts Could Benefit from Adopting Medical Record Reviews*, GAO-15-269 (Washington, D.C.: Feb. 18, 2015).

IGs Report Greater Agency Noncompliance

Since fiscal year 2011, the Improper Payments Elimination and Recovery Act (IPERA) has required agencies' inspectors general (IG) to annually report on the respective agencies' compliance under the act.[15] IGs at 15 of the 24 Chief Financial Officers Act (CFO Act) agencies found their respective agencies to be noncompliant under IPERA for fiscal years 2014 and 2015, the highest total since IGs began their annual compliance reviews. Although noncompliance has occurred across all six of the criteria listed in IPERA, the most common issues are noncompliance related to reporting and meeting improper payment reduction targets or reporting an error rate below 10 percent. Continued noncompliance further highlights the need for additional efforts to reduce improper payments.

Improper Payments Involving Fraud

Fraud is one specific type of improper payment and is particularly difficult to identify and estimate. Fraud involves obtaining something of value through willful misrepresentation.[16] Whether an act is fraudulent is determined through the judicial or other adjudicative system, which is one reason why fraud is not likely to be part of agencies' annual improper payment estimates. According to Office of Management and Budget (OMB) guidance, agencies should refer matters involving possible fraudulent activities to the appropriate parties, such as the relevant Office of the Inspector General or the Department of Justice (DOJ).

While improper payment estimates are not a measure of fraud, a lack of sufficient supporting documentation may mask the true causes of improper payments—including fraud. When payments lack the appropriate supporting documentation, their validity cannot be determined. It is possible that these payments were for valid purposes,

[15]IPERA established a requirement for entity IGs to report annually on entities' compliance with criteria listed in section 3 of IPERA. The six criteria are that the entity has (1) published an annual financial statement and accompanying materials in the form and content required by the Office of Management and Budget for the most recent fiscal year and posted that report on the entity website; (2) conducted a risk assessment for each specific program or activity that conforms with IPIA, as amended; (3) published estimates of improper payments for all programs and activities identified as susceptible to significant improper payments under the entity's risk assessment; (4) published corrective action plans for programs and activities assessed to be at risk for significant improper payments; (5) published and met annual reduction targets for all programs and activities assessed to be at risk for significant improper payments; and (6) reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published.

[16]GAO, *Government Auditing Standards: 2011 Revision*, GAO-12-331G (Washington, D.C.: December 2011).

but it is also possible that the lack of documentation could conceal fraudulent activities. For fiscal year 2016, HHS cited documentation errors as a major contributor to improper payments in its Medicare fee-for-service program, such as durable medical equipment and home health claims. We have found that these areas are also vulnerable to fraud, and recent cases continue to raise concerns.[17]

The report on the Health Care Fraud and Abuse Control (HCFAC) program for fiscal year 2016 lists several examples of fraud specifically related to durable medical equipment and home health claims, including one case in which a doctor approved and certified in excess of 11,000 Medicare beneficiaries, who were not home bound, for home health care services between 2006 and 2011, resulting in nearly $375 million in fraudulent claims.[18] For fiscal year 2016, HHS and DOJ reported that the federal government won or negotiated over $2.5 billion in health care fraud judgments and settlements through the HCFAC program. In fiscal year 2016, DOJ opened 930 new criminal health care fraud investigations, and HHS IG investigations resulted in 765 criminal actions and 690 civil actions.[19] Table 4 lists other examples of fraud in various programs.

[17]GAO, *Health Care Fraud: Types of Providers Involved in Medicare, Medicaid, and the Children's Health Insurance Program Cases*, GAO-12-820 (Washington, D.C.: Sept. 7, 2012).

[18]The Health Insurance Portability and Accountability Act of 1996 (HIPAA) established the HCFAC program to help combat fraud and abuse in health care programs, such as Medicare and Medicaid. HCFAC program goals include coordinating federal, state, and local law enforcement efforts to control fraud and abuse associated with health plans; conducting investigations and audits related to health care; and facilitating the enforcement of civil, criminal, and administrative statutes applicable to health care. HHS and DOJ jointly administer the program, and HIPAA requires them to issue a joint report annually to Congress.

[19]Department of Health and Human Services and Department of Justice, *Health Care Fraud and Abuse Control Program Annual Report for Fiscal Year 2016* (Washington, D.C.: January 2017).

Table 4: Recent Examples of Reported Fraud in Government Programs

Program	Description of reported fraud
Social Security Disability	A Kentucky lawyer recently pled guilty to conspiring with a former administrative law judge and multiple doctors to falsify medical documents and grant disability benefits to claimants, irrespective of the claimants' actual physical or mental conditions. The fraudulent submissions as part of this scheme would have resulted in more than $550 million in lifetime benefits to the claimants.
Medicare, Medicaid, and TRICARE	A Florida doctor and his practice recently settled a lawsuit alleging that the doctor billed the government for excessive, medically unnecessary procedures and waived Medicare copayments to help facilitate the false billing scheme.
Earned Income Tax Credit	Two North Carolina tax preparers were recently indicted for falsifying their clients' tax returns by including fake and inflated sources of income to qualify for and maximize the earned income tax credit.

Source: GAO summary of Department of Justice press releases. | GAO-17-631T

Additionally, we have recently reported on antifraud efforts and cases of potential fraud in various programs, including the following examples.[20]

- In April 2017, we reported that the Social Security Administration (SSA) needed to develop a comprehensive strategic approach to help enhance antifraud activities in its disability programs.[21] Although SSA has taken steps in this area, its new antifraud office is still evolving. SSA has worked to identify and address fraud risks in its disability programs, but it has not yet comprehensively assessed these fraud risks or developed a strategic approach to help ensure its antifraud activities effectively mitigate those risks. Although SSA has several prevention and detection activities in place to address known fraud risks in its disability programs, the agency has not developed and documented an overall antifraud strategy that aligns its antifraud activities to its fraud risks.

  Without conducting a fraud risk assessment that aligns with leading practices and developing an antifraud strategy, SSA's disability programs may remain vulnerable to new fraud schemes, and SSA will not be able to effectively prioritize its antifraud activities. Among other

[20]Where appropriate, we referred cases of potential fraud to the appropriate officials for further review.

[21]GAO, *SSA Disability Benefits: Comprehensive Strategic Approach Needed to Enhance Antifraud Activities*, GAO-17-228 (Washington, D.C.: Apr. 17, 2017).

things, we recommended that SSA conduct a comprehensive fraud risk assessment for its disability programs and develop a corresponding antifraud strategy. SSA agreed with the recommendations.

- In August 2014, we identified 28 cases of potential fraud related to Supplemental Nutrition Assistance Program benefits (food stamps).[22] Over 30 days, we detected 28 postings from one popular e-commerce website that advertised the potential sale of food stamp benefits in exchange for cash, services, and goods—including places to live, vehicles, cooking and cleaning services, phones, and beer. We recommended that USDA take steps, such as providing guidance and training, to enhance the consistency of state reporting on their antifraud efforts. Though it has not yet implemented the new form, USDA has revised the form to collect recipient integrity performance information and has provided training to state agency and regional office personnel on the new form.
- In December 2014, we reported approximately $39 million of Hurricane Sandy assistance as at risk for potential fraud or improper payments.[23] Among other issues, these cases included instances in which Social Security numbers were not valid or were used by multiple recipients, rental assistance was received while the recipient was incarcerated, and duplicate payments were not flagged by the Federal Emergency Management Agency (FEMA). Among other things, we recommended that FEMA assess the cost and feasibility of obtaining SSA's full death file to help identify potentially fraudulent or improper applications for assistance. In June 2016, FEMA reported that it was evaluating the cost and feasibility of obtaining the publicly available Death Master File. However, our recommendation refers to SSA's full death file, which is a more comprehensive source of death data. We continue to believe that FEMA should assess the cost and feasibility of obtaining SSA's full death file.
- In May 2015, we found thousands of Medicaid beneficiaries and hundreds of providers involved in potential improper or fraudulent payments in four selected states (Arizona, Florida, Michigan, and New Jersey) during fiscal year 2011, which at the time of our study was the

[22]GAO, *Supplemental Nutrition Assistance Program: Enhanced Detection Tools and Reporting Could Improve Efforts to Combat Recipient Fraud*, GAO-14-641 (Washington, D.C.: Aug. 21, 2014).

[23]GAO, *Hurricane Sandy: FEMA Has Improved Disaster Aid Verification but Could Act to Further Limit Improper Assistance*, GAO-15-15 (Washington, D.C.: Dec. 12, 2014).

most recent year for which reliable data were available.[24] For example, people using the identities of about 200 deceased beneficiaries received about $9.6 million in Medicaid benefits subsequent to the beneficiaries' deaths, and about 90 providers had suspended or revoked licenses in the state where they performed Medicaid services yet received a combined total of at least $2.8 million from those states. We recommended that CMS issue guidance for screening beneficiaries who are deceased and supply more-complete data for screening Medicaid providers. HHS has taken certain actions—such as working with states to address data access issues—but has not provided guidance to states as we recommended.

While fraud can be more difficult to address than other types of improper payments, implementing strategies to reduce improper payments in general may also help to reduce opportunities for fraud. In July 2015, we issued *A Framework for Managing Fraud Risks in Federal Programs* (Framework).[25] The Framework identifies a comprehensive set of leading practices that serve as a guide for program managers to use when developing or enhancing efforts to combat fraud in a strategic, risk-based manner. The leading practices described in the Framework include control activities to prevent, detect, and respond to fraud, with an emphasis on prevention, as well as structures and environmental factors that influence or help managers achieve their objective to mitigate fraud risks. In addition, the Framework calls for managers to conduct monitoring and incorporate feedback on an ongoing basis.

Enacted in June 2016, the Fraud Reduction and Data Analytics Act of 2015 required OMB to establish guidelines for agencies to identify fraud risks and design and implement control activities to prevent, detect, and respond to fraud. The act required OMB to incorporate the leading practices found in the Framework. Further, the act requires agencies to report on their fraud risks and their implementation of fraud reduction strategies as part of their annual financial reports beginning in fiscal year 2017. We will assess these efforts to help Congress monitor agencies' progress in addressing and reducing fraud risks. As stewards of taxpayer dollars, federal managers have the ultimate responsibility in overseeing

[24]GAO, *Medicaid: Additional Actions Needed to Help Improve Provider and Beneficiary Fraud Controls*, GAO-15-313 (Washington, D.C.: May 14, 2015).

[25]GAO, *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 2015).

how hundreds of billions of dollars are spent annually. Thus, they are well positioned to use the leading practices outlined in the Framework, while considering the related fraud risks as well as the associated costs and benefits of implementing the practices, to help ensure that taxpayer resources are spent efficiently and effectively.

Potentially Inaccurate Risk Assessments

Agencies conduct risk assessments to determine which programs need to develop improper payment estimates. However, in IPERA compliance reports for fiscal year 2015—the most current reports available—various IGs reported issues related to agencies' improper payment risk assessments. For example:

- The IG for the General Services Administration (GSA) reported that the agency's risk assessment was flawed because, among other things, the questionnaires in the assessment did not ask if programs actually experience improper payments and were distributed to individuals who did not have direct or specific knowledge of improper payments.[26] Further, the IG found that the agency did not evaluate relevant reports—such as IG reports or our reports—to identify relevant findings, and two of the six questionnaires that the IG reviewed included incomplete information.
- The IG for the Department of Housing and Urban Development (HUD) found that the agency did not assess all of its programs on a 3-year cycle and did not consider all nine of the required risk factors in conducting its risk assessment.[27] The IG also noted instances in which the agency did not rate risk factors in accordance with the agency's own policy.

It is also important to note that 9 of the 24 CFO Act agencies either reported no improper payment estimates or reported estimates for only disaster relief programs funded through the Disaster Relief Appropriations Act, 2013 for fiscal year 2016.[28] The nine agencies were:

- U.S. Agency for International Development

[26]GSA Office of Inspector General, *GSA Did Not Fully Comply with the Improper Payments Acts in FY 2015*, A160018/B/5/F16002 (Washington, D.C.: May 11, 2016).

[27]HUD Office of Inspector General, *Compliance with the Improper Payments Elimination and Recovery Act*, 2016-FO-0005 (Washington, D.C.: May 13, 2016).

[28]The Disaster Relief Appropriations Act, 2013, requires agencies to estimate improper payments for funds received under the act.

- Department of Energy
- Department of State
- National Science Foundation
- Nuclear Regulatory Commission
- Department of Commerce (disaster relief only)
- Department of the Interior (disaster relief only)
- Department of Justice (disaster relief only)
- National Aeronautics and Space Administration (disaster relief only).

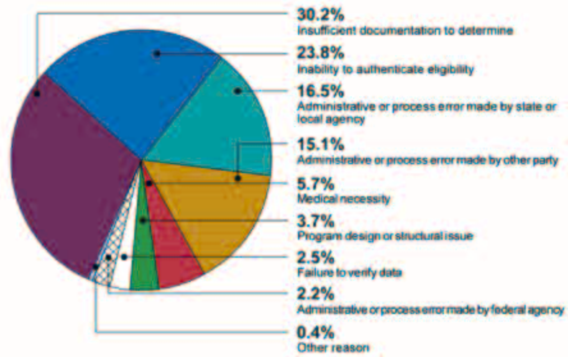
Strategies for Reducing Improper Payments

Agencies can use detailed root cause analysis and related corrective actions to implement preventive and detective controls to reduce improper payments. Collaboration with other relevant entities can also assist federal agencies in reducing improper payments.

Root Cause Analysis

Root cause analysis is key to understanding why improper payments occur and developing effective corrective actions to prevent them. In 2014, OMB established new guidance to assist agencies in better identifying the root causes of improper payments and assessing their relevant internal controls. Agencies across the federal government began reporting improper payments using these more detailed root cause categories for the first time in their fiscal year 2015 financial reports. Further identification of the true root causes of improper payments can help to determine the potential for fraud. Figure 5 shows the root causes of government-wide improper payments for fiscal year 2016, as reported by OMB. We will continue to focus on agencies' efforts to both identify the root causes and take appropriate actions to reduce improper payments.

Figure 5: Reported Root Causes of Improper Payments for Fiscal Year 2016



Source: *Fiscal Year 2016 Financial Report of the U.S. Government.* | GAO-17-631T

Preventive Controls

Implementing strong preventive controls can serve as the frontline defense against improper payments. When agencies proactively prevent improper payments, they increase public confidence in program administration and they avoid the difficulties associated with the "pay and chase" aspects of recovering overpayments.[29] Examples of preventive controls include up-front eligibility validation through data sharing, predictive analytic technologies, and program design review and refinement.[30] For example, we have made the following recommendations

[29] "Pay and chase" refers to the labor-intensive and time-consuming practice of trying to recover overpayments once they have already been made rather than preventing improper payments in the first place.

[30] An example of predictive analytic technologies is CMS's Fraud Prevention System. The system uses different types of models to develop alerts on specific claims and providers, which are then prioritized for review and investigation as appropriate. Among others, these models include anomaly detection models—which identify abnormal provider patterns relative to the patterns of their peers—and predictive models—which use historical data to identify patterns associated with fraud and then identify providers with these billing patterns in current claims data.

and matters for congressional consideration to improve preventive controls in various programs.

- **Using the Do Not Pay (DNP) working system**. Established by OMB and hosted by the Department of the Treasury (Treasury), the DNP working system is a web-based, centralized data-matching service that allows agencies to review multiple databases—such as data on deceased individuals and entities barred from receiving federal awards—before making payments. In October 2016, we found that the 10 agencies we reviewed used the DNP working system in limited ways, in part because OMB had not provided a clear strategy and guidance.[31] Only 2 of these 10 agencies used the DNP working system on a preaward or prepayment basis for certain types of payments. Because the DNP working system offers a single point of access to multiple databases, agencies may be able to streamline their existing data matching processes. Among other things, we recommended that OMB develop a strategy—and communicate it through guidance—for whether and how agencies should use the DNP working system to complement or streamline existing data matching processes. OMB generally agreed with the concept of developing a strategy and said it would explore the concept further.

  Further, we found that the death records offered through the DNP working system do not include state-reported death data. SSA officials stated that sharing its full death file—which includes state-reported death data—would require an amendment to the Social Security Act. We suggested that Congress amend the Social Security Act to explicitly allow SSA to share its full death file with Treasury for use through the DNP working system. Sharing the full death file through the DNP working system would enhance efforts to identify and prevent improper payments.
- **Expanding error correction authority.** The Internal Revenue Service (IRS) has the authority to correct some calculation errors and check for other obvious noncompliance such as claims for a deduction or credit that exceed statutory limits. We have suggested to Congress that such authority be authorized on a broader basis rather than on a piecemeal basis and that controls may be needed to help ensure that

[31]GAO, *Improper Payments: Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended*, GAO-17-15 (Washington, D.C.: Oct. 14, 2016).

this authority is used properly.[32] Also, Treasury has proposed expanding IRS's "math error" authority to "correctible error" authority to permit it to correct errors in cases where information provided by the taxpayer does not match information in government databases, among other things. Providing these authorities could help IRS correct additional errors—including some errors with Earned Income Tax Credit claims—and avoid burdensome audits and taxpayer penalties.

- **Adding prepayment reviews in Medicare fee-for-service.** In April 2016, we found that CMS could improve its claim review programs by conducting additional prepayment reviews.[33] Using prepayment reviews to deny improper claims and prevent overpayments is consistent with CMS's goal to pay claims correctly the first time. It can also better protect Medicare funds because not all overpayments can be collected. CMS uses recovery auditors (RA)–among other types of claim review contractors–and in 2013 and 2014, 85 percent of RA claim reviews were postpayment. Because CMS is required by law to pay RAs contingency fees from recovered overpayments, the RAs can only conduct prepayment reviews under a demonstration.[34] From 2012 through 2014, CMS conducted a demonstration in which the RAs conducted prepayment reviews and were paid contingency fees based on claim denial amounts. CMS officials considered the demonstration a success. However, CMS has not requested legislation that would allow for RA prepayment reviews by amending existing payment requirements and thus may be missing an opportunity to better protect Medicare funds.

  We recommended that CMS seek legislative authority to allow RAs to conduct prepayment claim reviews. HHS did not concur with this recommendation, stating that CMS has implemented other programs as part of its efforts to move away from the "pay and chase" process of recovering overpayments. We continue to believe that seeking authority to allow RAs to conduct prepayment reviews is consistent with CMS's strategy to pay claims properly the first time.

[32]GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, GAO-10-349 (Washington, D.C.: Feb. 10, 2010).

[33]GAO, *Medicare: Claim Review Programs Could Be Improved with Additional Prepayment Reviews and Better Data*, GAO-16-394 (Washington, D.C.: Apr. 13, 2016).

[34]CMS uses demonstrations to study the likely effect of new methods of service delivery; coverage of new types of service; and new payment approaches on beneficiaries, providers, health plans, states, and the Medicare Trust Funds.

Detective Controls

Although preventive controls remain the frontline defense against improper payments, effective detection techniques can help to quickly identify and recover those overpayments that do occur. Detective controls play a significant role not only in identifying improper payments but also in providing information on why these improper payments were made, highlighting areas that need stronger preventive controls. Examples of detective controls include data mining and recovery auditing. The following are examples of recommendations we have made to improve detective controls in various programs.

- **Improvements to recovery efforts in Medicare Advantage.** In April 2016, we reported that CMS needs to fundamentally improve its efforts to recover substantial amounts of improper payments in the Medicare Advantage program.[35] CMS conducts two types of risk adjustment data validation (RADV) audits to identify and correct Medicare Advantage improper payments: national RADV activities and contract-level RADV audits. Both types of audits determine whether the diagnosis codes submitted by Medicare Advantage organizations are supported by a beneficiary's medical record documentation. Contract-level RADV audits seek to identify and recover improper payments from Medicare Advantage organizations and thus to deter them from submitting inaccurate beneficiary diagnoses. However, we found that CMS does not focus its RADV audits on the contracts with the highest potential for improper payments and has not developed specific plans or a timetable for including recovery auditor contractors in the contract-level RADV audit process.

  We made several recommendations, including that CMS modify the selection of contracts for contract-level RADV audits to focus on those most likely to have high rates of improper payments and that CMS develop specific plans and a timetable for incorporating a recovery audit contractor in the Medicare Advantage program. In response to our report, HHS concurred with the recommendations and reaffirmed its commitment to identifying and correcting Medicare Advantage improper payments. By implementing our recommendations, CMS could recover hundreds of millions of dollars in improper payments by improving its processes for auditing payments to Medicare Advantage organizations.

[35]GAO, *Medicare Advantage: Fundamental Improvements Needed in CMS's Effort to Recover Substantial Amounts of Improper Payments*, GAO-16-76 (Washington, D.C.: Apr. 8, 2016).

- **Review of federal determinations of Medicaid eligibility.** In October 2015, we reported that additional efforts were needed to ensure that state spending is appropriately matched with federal funds in Medicaid.[36] States and the federal government share in the financing of the Medicaid program, with the federal government matching most state expenditures for Medicaid services on the basis of a statutory formula. CMS has implemented interim measures to review the accuracy of state eligibility determinations and examine states' expenditures for different eligibility groups, for which states may receive multiple federal matching rates.

  However, some states have delegated authority to the federal government to make Medicaid eligibility determinations through the federally facilitated exchange. CMS has excluded these states from the reviews. This creates a gap in efforts to ensure that only eligible individuals are enrolled in Medicaid and that state expenditures are correctly matched by the federal government. We recommended that CMS review federal Medicaid eligibility determinations to ascertain the accuracy of these determinations and institute corrective action plans where necessary.

  HHS has taken some steps to improve the accuracy of Medicaid eligibility determinations, as we recommended, but has not conducted a systematic review of federal eligibility determinations. For example, in March 2017, HHS reported that it is reviewing federal determinations of Medicaid eligibility in two of the nine states that have delegated eligibility determination authority to the federal marketplace. Although the actions HHS has taken have value, they are not sufficient to identify erroneous eligibility determinations. Specifically, without a systematic review of federal eligibility determinations, the agency lacks a mechanism to identify and correct errors and associated payments.

Collaborating with Other Entities

Agencies may consider collaborating with relevant entities—such as OMB, states, state auditors, and the IG community—to strengthen efforts to reduce improper payments. In November 2016, we held a discussion with various state auditors and federal agencies to identify potential opportunities to strengthen collaboration, focusing on federal and state initiatives related to improper payments. Further, in September 2015, we reported on the Recovery Operations Center's (ROC) significant

[36]GAO, *Medicaid: Additional Efforts Needed to Ensure that State Spending is Appropriately Matches with Federal Funds*, GAO-16-53 (Washington, D.C.: Oct. 16, 2015).

analytical services, provided primarily to IGs to support antifraud and other activities.[37] While funding for the ROC ended in September 2015, officials from some small- and medium-sized IGs stated that they do not have the capabilities to develop independent data analytics or pay for a similar service, thus foregoing the ROC's capabilities. We suggested that Congress may wish to consider directing the Council of the Inspectors General on Integrity and Efficiency to develop a legislative proposal to reconstitute the essential capabilities of the ROC to help ensure federal spending accountability.

Opportunities Exist to Improve the Acquisition and Operation of IT and to Address Cybersecurity Challenges

The federal government is projected to invest more than $89 billion on IT in fiscal year 2017. Our work has found that federal IT investments have too frequently failed or incurred cost overruns and schedule slippages while contributing little to mission-related outcomes. The federal government has spent billions of dollars on failed and poorly performing IT investments, which often suffered from ineffective management in areas such as project planning, requirements definition, and program oversight and governance.[38] In many instances, agencies had not consistently applied best practices that are critical to successfully acquiring IT.

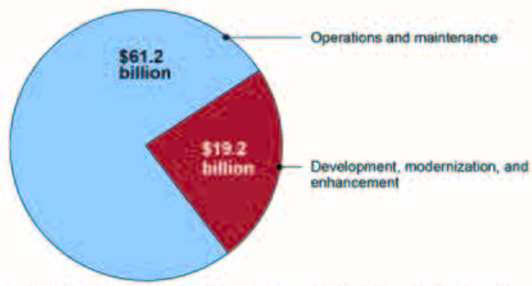
In addition to spending money on new IT development, federal agencies reported spending the majority of their IT funds on operating and maintaining a large number of legacy (i.e., steady-state) investments. Of the more than $80 billion reportedly spent on federal IT in fiscal year 2015, 26 federal agencies[39] spent about $61 billion on operations and maintenance, more than three-quarters of the total amount spent. (See figure 6).

[37] GAO, *Federal Spending Accountability: Preserving Capabilities of the Recovery Operations Center Could Help Sustain Oversight of Federal Expenditures*, GAO-15-814 (Washington, D.C.: Sept. 14, 2015).

[38] GAO, *Information Technology: OMB and Agencies Need to More Effectively Implement Major Initiatives to Save Billions of Dollars*, GAO-13-796T (Washington, D.C.: July 25, 2013).

[39] This $80 billion represents what 26 agencies reported to OMB on planned IT spending. However, this $80 billion figure is understated. This figure does not include spending for Defense classified IT systems; and 58 independent executive branch agencies, including the Central Intelligence Agency. Additionally, not all executive branch IT investments are included in this estimate because agencies have differed on what they considered an IT investment. For example, some have considered research and development systems as IT investments, while others have not.

Figure 6: Fiscal Year 2015 Federal Spending on IT Operations and Maintenance and Development, Modernization, and Enhancement by 26 Federal Agencies



Source: GAO analysis of Office of Management and Budget's Information Technology Dashboard | GAO-17-631T

Further, federal legacy IT investments are becoming increasingly obsolete; many use outdated software languages and hardware parts that are unsupported. Specifically, in May 2016, we reported that many agencies were using systems which had components that were, in some cases, at least 50 years old.[40] For example, we determined that DOD was using 8-inch floppy disks in a legacy system that coordinates the operational functions of the nation's nuclear forces. In addition, Treasury was using assembly language code—a computer language initially used in the 1950s and typically tied to the hardware for which it was developed. Table 5 provides examples of legacy systems across the federal government that agencies report are 30 years old or older and use obsolete software or hardware, and identifies those that do not have specific plans with time frames to modernize or replace these investments.

[40]GAO, *Information Technology: Federal Agencies Need to Address Aging Legacy Systems*, GAO-16-468 (Washington, D.C.: May 25, 2016).

Table 5: Examples of Legacy Investments and Systems

Agency	Investment or system	Description	Agency-reported age	Specific, defined plans for modernization or replacement
Department of the Treasury	Individual Master File	The authoritative data source for individual taxpayers where accounts are updated, taxes are assessed, and refunds are generated. This investment is written in assembly language code—a low-level computer code that is difficult to write and maintain—and operates on an IBM mainframe.	~56	No - The agency has general plans to replace this investment, but there is no firm date associated with the transition.
Department of the Treasury	Business Master File	Retains all tax data pertaining to individual business income taxpayers and reflects a continuously updated and current record of each taxpayer's account. This investment is also written in assembly language code and operates on an IBM mainframe.	~56	No - The agency has general plans to update this system, but there is no time frame established for this transition.
Department of Defense	Strategic Automated Command and Control System	Coordinates the operational functions of the United States' nuclear forces, such as intercontinental ballistic missiles, nuclear bombers, and tanker support aircraft. This system runs on an IBM Series/1 Computer—a 1970s computing system—and uses 8-inch floppy disks.	53	Yes - The agency plans to update its data storage solutions, port expansion processors, portable terminals, and desktop terminals by the end of fiscal year 2017.
Department of Veterans Affairs	Personnel and Accounting Integrated Data	Automates time and attendance for employees, timekeepers, payroll, and supervisors. It is written in Common Business Oriented Language (COBOL)—a programming language developed in the 1950s and 1960s—and runs on an IBM mainframe.	53	Yes - The agency plans to replace it with a project called Human Resources Information System Shared Service Center in 2017.
Department of Veterans Affairs	Benefits Delivery Network	Tracks claims filed by veterans for benefits, eligibility, and dates of death. This system is a suite of COBOL mainframe applications.	51	No - The agency has general plans to roll capabilities into another system, but there is no firm time frame associated with this transition.
Department of Justice	Sentry	Provides information regarding security and custody levels, inmate program and work assignments, and other pertinent information about the inmate population. The system uses COBOL and Java programming languages.	35	Yes - The agency planned to update the system through September 2016.
Social Security Administration	Title II Systems	Determines retirement benefits eligibility and amounts. The investment is comprised of 162 subsystems written in COBOL.	31	Yes - The agency has ongoing modernization efforts, including one that is experiencing cost and schedule challenges due to the complexities of the legacy software.

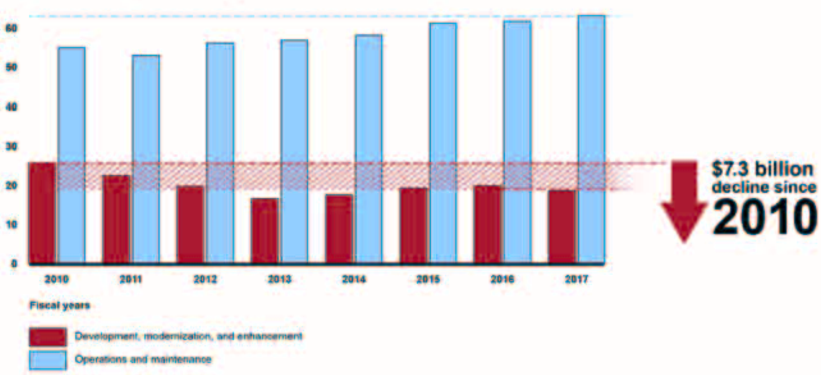
Source: GAO analysis of IT Dashboard data, agency documentation, and interviews. | GAO-17-631T

Note: Age was reported by agencies. Systems and investments may have individual components newer than the reported age.

To address this issue, we recommended that 12 agencies identify and plan to modernize or replace legacy systems, including establishing time frames, activities to be performed, and functions to be replaced or enhanced.[41] Most agencies agreed with our recommendations or had no comment.

The spending on legacy systems has also increased over time. Specifically, between fiscal years 2010 and 2017, operations and maintenance spending has increased, while the amount invested in developing new systems has decreased by about $7.3 billion since fiscal year 2010. (See figure 7.)

Figure 7: Summary of IT Spending by Fiscal Year from 2010 through 2017 (Dollars in Billions)



Source: GAO analysis of agency data. | GAO-17-631T

Note: According to Department of Defense officials, the department's fiscal year 2010 IT expenditures reported to the IT Dashboard includes both classified and unclassified spending, whereas its fiscal year 2011 to 2017 expenditures only include unclassified spending.

[41]These 12 agencies are the Departments of Agriculture, Commerce, Defense, Energy, Health and Human Services, Homeland Security, Justice, State, the Treasury, Transportation, and Veterans Affairs, and the Social Security Administration.

Recognizing the severity of issues related to the government-wide management of IT, in December 2014, Congress enacted IT acquisition reform provisions (commonly referred to as the Federal Information Technology Acquisition Reform Act or FITARA) as part of the *Carl Levin and Howard P. 'Buck' McKeon National Defense Authorization Act for Fiscal Year 2015.*[42] Among other things, the law requires action to: (1) consolidate federal data centers, (2) enhance transparency and improve risk management, (3) enhance agency chief information officer (CIO) authority, (4) review IT investment portfolios, (5) expand training and use of IT acquisition cadres, (6) purchase software government-wide, and (7) maximize the benefit of federal strategic sourcing.

In February 2015, we introduced a new government-wide high-risk area, Improving the Management of IT Acquisitions and Operations.[43] This area highlights several critical IT initiatives in need of additional executive branch and congressional oversight, including (1) reviewing troubled projects; (2) increasing the use of incremental development; (3) providing transparency relative to the cost, schedule, and risk levels for major IT investments; (4) reviewing agencies' operational investments; (5) consolidating data centers; and (6) streamlining agencies' portfolios of IT investments. We noted that agencies have inconsistently implemented these initiatives and that more work remained to demonstrate progress in achieving successful IT acquisitions and operations outcomes.

Further, our February 2015 High-Risk report stressed that, beyond implementing FITARA, OMB and agencies needed to continue to implement our prior recommendations in order to improve their ability to effectively and efficiently invest in IT. Specifically, between fiscal years 2010 and 2015, we made 803 recommendations to OMB and federal agencies to address shortcomings in IT acquisitions and operations, including many to improve the implementation of the critical IT initiatives mentioned earlier and other government-wide, cross-cutting efforts. We noted that OMB and agencies should demonstrate government-wide progress in the management of IT investments by, among other things, implementing at least 80 percent of our recommendations related to managing IT acquisitions and operations within 4 years.

[42]Federal Information Technology Acquisition Reform provisions of the Carl Levin and Howard P. 'Buck' McKeon National Defense Authorization Act for Fiscal Year 2015, Pub. L. No. 113-291, div. A, title VIII, subtitle D, 128 Stat. 3292, 3438-3450 (Dec. 19, 2014).

[43]GAO, *High-Risk Series: An Update*, GAO-15-290 (Washington, D.C.: Feb. 11, 2015).

In February 2017, we issued an update to our High-Risk Series and reported that, while progress had been made in improving the management of IT acquisitions and operations, significant work still remained to be completed.[44] For example, as of December 2016, OMB and the agencies had fully implemented 366 (or about 46 percent) of the 803 recommendations. This was a 23 percent increase compared to the percentage we reported as being fully implemented in 2015. However, in fiscal year 2016, we made 202 new recommendations, thus further reinforcing the need for OMB and agencies to address the shortcomings in IT acquisitions and operations. Our ongoing work has shown that OMB and agencies' implementation of these recommendation will likely result in billions of dollars in cost savings.

To better ensure that IT investments are made in the most effective manner possible, OMB has established several initiatives to improve the acquisition and operations of IT and achieve cost savings. However, these efforts have been implemented inconsistently and additional OMB and agency progress is needed to more effectively and efficiently invest in IT.

- **Incremental development.** OMB has emphasized the need to deliver investments in smaller parts, or increments, in order to reduce risk; deliver capabilities more quickly; increase the likelihood that cost, schedule, and performance goals will be met; and facilitate the adoption of emerging technologies. In 2010, it called for agencies' major investments to deliver functionality every 12 months and, since 2012, every 6 months. Subsequently, FITARA codified a requirement that agency CIOs certify that IT investments are adequately implementing incremental development, as defined in the annual capital planning guidance issued by OMB.[45] However, in August 2016, we reported[46] that approximately 36 percent of active software projects had not planned to deliver usable functionality every 6 months for fiscal year 2016, as required by OMB guidance.

  We also reported that, although OMB had issued guidance requiring covered agency CIOs to certify that each major IT investment's plan for the current year adequately implements incremental development,

[44]GAO-17-317.

[45]40 U.S.C. § 11319(b)(1)(B)(ii).

[46]GAO, *Information Technology Reform: Agencies Need to Increase Their Use of Incremental Development Practices*, GAO-16-469 (Washington, D.C.: Aug. 16, 2016).

only three of seven agencies[47] selected for in-depth GAO review (the Departments of Commerce, Homeland Security, and Transportation) had defined processes and policies intended to ensure that the department CIO certifies that major IT investments are adequately implementing incremental development.[48] Accordingly, we recommended that the remaining four agencies establish a policy and process for certifying that major IT investments' adequately use incremental development. Education and HHS agreed with our recommendation, while DOD disagreed and stated that its existing policies address the use of incremental development. However, we noted that the department's policies did not comply with OMB's guidance and that we continued to believe our recommendation was appropriate. Treasury did not comment on the recommendation. In total, we have made 23 recommendations to OMB and agencies to improve their implementation of incremental development; and as of May 2017, 17 of our recommendations remained open.

- **Federal data center consolidation.** Over time, the federal government's increasing demand for IT has led to a dramatic rise in the number of federal data centers (defined as data processing and storage facilities over 500 square feet with strict availability requirements) and a corresponding increase in operational costs. To improve the efficiency, performance, and environmental footprint of federal data center activities, OMB established the Federal Data Center Consolidation Initiative in February 2010. In a series of reports over the past 6 years, we determined that, while data center consolidation could potentially save the federal government billions of dollars, weaknesses existed in several areas, including agencies' data

[47]These seven agencies are the Departments of Commerce, Defense, Education, Health and Human Services, Homeland Security, Transportation, and the Treasury. These agencies were chosen because they reported a minimum of 12 investments that were at least 50 percent or more in development on the IT Dashboard for fiscal year 2015.

[48]Office of Management and Budget, *FY2017 IT Budget – Capital Planning Guidance.*

center consolidation plans and OMB's tracking and reporting on cost savings.[49]

As of March 2017, the 24 federal agencies participating in OMB's data center consolidation initiative had collectively reported closing 4,679 of the 10,058 total data centers and achieving approximately $2.8 billion in cost savings or avoidances from fiscal year 2012 through 2016. Further, as of December 2016, agencies were planning a total of approximately $378 million in cost savings between fiscal years 2016 and 2018. However, this is significantly less than the approximately $4.0 billion in fiscal year 2016 through 2018 planned savings that agencies reported to us in November 2015 and OMB's $2.7 billion cost savings goal for agencies to achieve by the end of fiscal year 2018. Of the recommendations that we made to 10 agencies in March 2016 to complete their planned data center cost savings targets for fiscal years 2016 through 2018, all remain open.[50] In total, we have made 111 recommendations to OMB and agencies to improve the federal data center consolidation effort. As of May 2017, 45 of our recommendations remained open.

- **IT investment portfolio management.** In March 2012, OMB launched an initiative, referred to as PortfolioStat, to maximize the return on IT investments across the government's portfolio. PortfolioStat is designed to assist agencies in assessing the current maturity of their IT investment management process, making decisions on eliminating duplicative investments, and moving to shared solutions (such as cloud computing) within and across agencies.

  In November 2013, we reported that agencies had identified duplicative spending as part of PortfolioStat and that this initiative had the potential to save at least $5.8 billion through fiscal year 2015; however, weaknesses existed in agencies' implementation of the

[49]GAO, *Data Center Consolidation: Agencies Making Progress, but Planned Savings Goals Need to Be Established [Reissued on March 4, 2016]*, GAO-16-323 (Washington, D.C.: Mar. 3, 2016); *Data Center Consolidation: Reporting Can Be Improved to Reflect Substantial Planned Savings*, GAO-14-713 (Washington, D.C.: Sept. 25, 2014); *Data Center Consolidation: Strengthened Oversight Needed to Achieve Cost Savings Goal*, GAO-13-378 (Washington, D.C.: Apr. 23, 2013); *Data Center Consolidation: Agencies Making Progress on Efforts, but Inventories and Plans Need to Be Completed*, GAO-12-742 (Washington, D.C.: July 19, 2012); and *Data Center Consolidation: Agencies Need to Complete Inventories and Plans to Achieve Expected Savings*, GAO-11-565 (Washington, D.C.: July 19, 2011).

[50]GAO-16-323.

initiative, such as limitations in the CIOs' authority.[51] In April 2015, we reported that, although agencies had achieved approximately $1.1 billion in PortfolioStat savings, inconsistencies in OMB's and agencies' reporting made it difficult to reliably measure progress in achieving savings.[52] In total, we have made 69 recommendations to improve OMB and agencies' implementation of PortfolioStat; and as of May 2017, only 7 of our recommendations had been implemented.

- **Management of software licenses.** In May 2014, we reported on federal agencies' management of software licenses and determined that better management was needed to achieve significant savings government-wide.[53] In particular, 22 of the 24 major agencies did not have comprehensive license policies and only 2 had comprehensive license inventories. As a result, agencies' oversight of software license spending was limited or lacking, thus, potentially leading to missed savings. The potential savings could be significant considering that, in fiscal year 2012, 1 major federal agency reported saving approximately $181 million by consolidating its enterprise license agreements, even though its oversight process was ad hoc. We recommended that OMB issue needed guidance to agencies and made 135 recommendations to the agencies to improve their policies and practices for managing licenses. As of May 2017, 123 of our recommendations have not yet been implemented.

In light of these issues, we convened a forum on September 14, 2016, to explore challenges and opportunities for CIOs to improve federal IT acquisitions and operations—with the goal of better informing policymakers and government leadership.[54] Forum participants, including 13 current and former federal agency CIOs, members of Congress, and private sector IT executives, identified key actions related to seven topics: (1) strengthening FITARA, (2) improving CIO authorities, (3) budget formulation, (4) governance, (5) workforce, (6) operations, and (7) transition planning. For example, participants noted that challenges with

[51]GAO, *Information Technology: Additional OMB and Agency Actions Are Needed to Achieve Portfolio Savings*, GAO-14-65 (Washington, D.C.: Nov. 6, 2013).

[52]GAO, *Information Technology: Additional OMB and Agency Actions Needed to Ensure Portfolio Savings Are Realized and Effectively Tracked*, GAO-15-296 (Washington, D.C.: Apr. 16, 2015).

[53]GAO, *Federal Software Licenses: Better Management Needed to Achieve Significant Savings Government-Wide*, GAO-14-413 (Washington, D.C.: May 22, 2014).

[54]GAO, *Information Technology: Opportunities for Improving Acquisitions and Operations*, GAO-17-251SP (Washington, D.C.: Apr. 11, 2017).

IT operations, such as the use of increasingly obsolete systems, should be addressed by, among other things, using a strategic approach for legacy system migration and migrating more services to cloud computing services.[55] A summary of the key actions, by topic area, identified during the forum is provided in figure 8.

[55]Cloud computing is a means for enabling on-demand access to shared and scalable pools of computing resources with the goal of minimizing management effort or service provider interaction.

Figure 8: Key Actions, by Topic Area, Identified by Forum Participants to Improve IT Acquisitions and Operations

STRENGTHENING FITARA'S IMPACT

- Congressional oversight could be more aggressive
- Office of Management and Budget (OMB) may need to strengthen its role
- The Department of Defense should be required to implement all provisions of the Federal Information Technology Acquisition Reform Act (FITARA)

IMPROVING CIO AUTHORITIES

- Have the Chief Information Officers (CIO) Council play an enhanced role in improving authorities
- Implement collaborative governance
- Evolve the role of the CIO to enable change
- Focus on cybersecurity to change existing cultures

BUDGET FORMULATION

- Use information technology (IT) spend plans to improve budgets
- Examine agency programs to capture additional IT spending
- Simplify the definition of IT
- Work more closely with procurement organizations
- Work with congressional committees to explore budgeting flexibilities

GOVERNANCE

- Obtain support from agency leadership
- Enhance governance at OMB and agencies
- Use security authorities to enhance governance
- Strengthen oversight for IT purchased as a service
- Buy more and develop less
- Evolve procurement processes to align with new technologies

WORKFORCE

- Attract more qualified CIOs by appealing to key missions
- Have the Federal CIO play a more active role in attracting agency CIOs
- Give CIOs more human resource flexibilities
- Focus on attracting and investing in a more holistic IT workforce
- Better integrate private sector talent into the IT workforce

OPERATIONS

- Use a strategic approach for legacy system migration
- Migrate more services to the cloud
- Implement strategies to mitigate the impact on jobs when closing data centers

TRANSITION PLANNING

- Convey IT and cyber issues early to leadership
- Encourage Congress to focus on IT and cybersecurity at confirmation hearings
- Ensure that IT and cyber issues are OMB priorities
- Ensure GAO plays a role highlighting its work and expertise

Source: GAO analysis. | GAO-17-631T

Cybersecurity Presents an Ongoing Challenge

In addition to improving the acquisition and operation of IT, opportunities also exist to better ensure the security of federal information systems and cyber critical infrastructure and protect the privacy of personally identifiable information (PII). Safeguarding federal computer systems and the systems that support critical infrastructures—referred to as cyber critical infrastructure protection—has been a longstanding concern. The security of federal cyber assets has been on our High-Risk List since 1997, the first time we added a government-wide issue to the list. In 2003, we expanded this high-risk area to include the protection of critical cyber infrastructure. In 2015, we added protecting the privacy of PII that is collected, maintained, and shared by both federal and nonfederal entities.

As we reported in our February 2017 High-Risk report, the federal government has taken steps intended to improve the security of its cyber assets. For example, in July 2016, the President released *Presidential Policy Directive (PPD)-41*, which set forth principles governing the federal government's response to cyber incidents involving government or private sector entities.[56] Further, in July 2016, OMB issued a revised Circular A-130, *Managing Information as a Strategic Resource*, to reflect changes in law and advances in technology and to ensure consistency with executive orders, presidential directives, recent OMB policy, and National Institute of Standards and Technology (NIST) standards and guidelines.[57] Most recently, on May 11, 2017, the President issued an executive order titled *Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure*. Among other things, the order is intended to hold department and agency heads accountable for managing cybersecurity risk to their enterprise and support cybersecurity risk management efforts of owners and operators of the Nation's critical infrastructures.[58]

In addition, the Executive Office of the President (EOP) and the Department of Homeland Security (DHS) developed corrective action plans intended to improve the protection of cyber assets and PII. DHS and EOP also took other steps, such as developing and using metrics for

[56]PPD-41, United States Cyber Incident Coordination, July 26, 2016.

[57]OMB, OMB Circular A-130, *Managing Federal Information as a Strategic Resource* (Washington, D.C.: July 28, 2016).

[58]Critical infrastructure includes systems and assets so vital to the United States that incapacitating or destroying them would have a debilitating effect on national security. These critical infrastructures are grouped by the following industries or "sectors": chemical; commercial facilities; communications; critical manufacturing; dams; defense industrial base; emergency services; energy; financial services; food and agriculture; government facilities; health care and public health; information technology; nuclear reactors, materials, and waste; transportation systems; and water and wastewater systems.

measuring agency progress in implementing initiatives on information security regarding continuous monitoring, strong authentication, and anti-phishing and malware defense.

However, securing cyber assets remains a challenge for federal agencies. In prior reports, we made a number of recommendations to federal agencies concerning challenges in the following areas:

- Designing and implementing risk-based cybersecurity programs at federal agencies.
- Providing government-wide intrusion detection and prevention services.
- Strengthening security over industry and public health data at the Food and Drug Administration.
- Improving security controls over high-impact systems.[59]
- Addressing cybersecurity for the nation's critical infrastructures.
- Protecting the security and privacy of electronic health information.
- Ensuring privacy when face recognition systems are used.
- Protecting the privacy of users' data on state-based marketplaces.
- Improving consumer privacy protections.

Until the administration and executive branch agencies implement the approximately 1,000 open recommendations that we have made to address these cyber challenges, resolve identified deficiencies, and fully implement effective security programs and privacy practices, a broad array of federal assets and operations remain at risk of fraud, misuse, and disruption, and the nation's most critical federal and private sector infrastructure systems will remain at increased risk of attack from adversaries. As we have previously stated, Congress should also consider amending privacy laws to more fully protect the PII collected, used, and maintained by the federal government.

[59]NIST Federal Information Processing Standards Publication 199, *Standards for Security Categorization of Federal Information and Information Systems* (FIPS Pub 199) defines how agencies should determine the security category of their information and information systems. Agencies are to consider the potential effect or magnitude of harm that could occur should there be a loss in the confidentiality, integrity, or availability of the information or information system as low, moderate, or high. For high-impact systems, the loss could be expected to have a severe or catastrophic adverse effect on organizational operations, organizational assets, or individuals.

Challenges Remain in Reducing Unneeded Federal Facilities and Managing the Federal Fleet of Vehicles

In 2003, we added Federal Real Property to our High-Risk List, in part due to long-standing challenges federal agencies face in managing federally owned real property, including disposal of excess and underutilized property.[60] Continuing to maintain these unneeded facilities puts the government at risk for wasting resources due to ongoing maintenance costs as well as lost revenue from failing to sell surplus property. Despite past and ongoing efforts, the federal government continues to maintain excess and underutilized property.

Our work has found that significant challenges persist in managing real property in general and underutilized property in particular, including a lack of reliable data to measure the extent of the problem, a complex disposal process, costly environmental requirements, competing stakeholder interests, and limited accessibility of some federal properties. As of May 2017, we have 32 open recommendations to the General Services Administration (GSA) to address these challenges. The experiences of the Department of Veterans Affairs (VA), DOD, DHS, and the GSA illustrate some of these challenges.

- **VA facility alignment.** VA operates one of the largest health care systems in the United States, with 168 medical centers and more than 1,000 outpatient facilities, totaling over 6,000 reported buildings in its portfolio. Of these buildings, VA reported in February 2016 that over 1,000 are unneeded or underutilized, representing 11.5 million square feet of space, requiring an estimated $26 million annually to operate and maintain according to VA (see figure 9). As VA's care model shifts over time from inpatient to outpatient care, this will likely result in additional underutilized space. However, VA has found it difficult and costly to modernize existing facilities. A previous VA effort aimed at modernizing and better aligning facilities was not fully implemented due in part to stakeholder opposition. We recommended in April 2017 that VA improve guidance to effectively communicate with stakeholders and evaluate those efforts.[61] VA agreed with the recommendations.

[60]GAO, *High-Risk Series: Federal Real Property,* GAO-03-122 (Washington, D.C.: Jan. 1, 2003).

[61]GAO, *VA Real Property: VA Should Improve Its Efforts to Align Facilities with Veterans' Needs,* GAO-17-349 (Washington, D.C.: Apr. 5, 2017).

Figure 9: Example of Deteriorating Historic Vacant Buildings at the Kerrville VA Medical Center in Texas

Interior damage of Kerrville Medical Center.

Portions of the ceiling have collapsed, spraying debris on to the floors and walls.

Exterior view of the building shows broken windows, and missing bricks.

Source: GAO. | GAO-17-631T

- **DHS reuse of St. Elizabeths.** DHS efforts to consolidate its headquarters on the west campus of St. Elizabeths has faced numerous delays and cost increases. The west campus of St. Elizabeths, a National Historic Landmark in Washington, D.C., is made up of 61 buildings on about 182 acres. Many of the buildings have been vacant for extended periods of time and are in badly deteriorated condition. (See figure 10.) The Coast Guard has moved into a newly constructed building on the campus, but most of the project has been delayed. The estimated timeline for completing the project has been extended multiple times, from an initial estimated completion date of 2016, to an estimated completion date of 2021 based on a scaled back plan.[62]

[62]GAO, *Federal Real Property: Efforts Made, but Challenges Remain in Reducing Unneeded Facilities*, GAO-16-869T (Washington, D.C.: Sept. 23, 2016).

Figure 10: Images of Vacant Buildings on the St. Elizabeths Campus

Source: GAO. | GAO-17-631T

- **DOD support infrastructure.** DOD manages a global real property portfolio that consists of more than 562,000 facilities. In 1997, we added DOD's support infrastructure management to the High-Risk List and since then, have reported on various obstacles DOD has experienced in reducing excess infrastructure, more efficiently using facilities, reducing base support costs, and achieving efficiencies by consolidating or eliminating duplicative support services.[63] DOD has shown some improvement in managing its infrastructure to better achieve reductions and efficiencies, but challenges remain.

DOD continues to maintain excess facilities, and needs to ensure accuracy of its real property data to better identify potential areas to reduce and consolidate facilities. For example, in March 2016 we found DOD lacked reliable data to effectively assess how it uses leases. We recommended actions to improve the accuracy and completeness of these data, such as breaking out the cost and square footage information on multiple properties included in a single lease. DOD agreed with our findings, but did not agree with our recommendation and has not taken action to implement it. If DOD does not improve the reliability of its data, the department will continue to be limited in its ability to monitor its reduction of excess infrastructure, identify opportunities to consolidate underutilized facilities, and identify opportunities to reduce reliance on costly leased space by moving DOD organizations into excess facilities.

- **GSA warehouses.** In 2014, we found that some GSA warehouses listed as "used" had been vacant for as long as 10 years.[64] GSA only lists warehouses as unused if they are in the process of being disposed, making it difficult to identify which warehouses are actually underutilized or vacant. Two examples located in Washington, D.C. are shown in figure 11. We recommended that GSA improve its data related to warehouses. GSA agreed with the recommendations.

  GSA, however, continues to lack a strategic approach to prioritize warehouses and make long-term, informed decisions about government warehouse space. As a result, GSA may have limited ability to address this potentially growing gap as well as the unique challenges facing GSA's warehouse portfolio. Such a strategy would enable GSA and tenant agencies to prioritize their needs and take a

[63]GAO, *Defense Infrastructure: More Accurate Data Would Allow DOD to Improve the Tracking, Management, and Security of Its Leased Facilities*, GAO-16-101 (Washington, D.C.: Mar. 15, 2016); *DOD Joint Bases: Implementation Challenges Demonstrate Need to Reevaluate the Program*, GAO-14-577 (Washington, D.C.: Sept. 19, 2014); *Defense Infrastructure: DOD Needs to Improve Its Efforts to Identify Unutilized and Underutilized Facilities*, GAO-14-538 (Washington, D.C.: Sept. 8, 2014); and *Excess Facilities: DOD Needs More Complete Information and a Strategy to Guide Its Future Disposal Efforts*, GAO-11-814 (Washington, D.C.: Sept. 19, 2011).

[64]GAO, *Federal Real Property: Strategic Focus Needed to Help Manage Vast and Diverse Warehouse Portfolio*, GAO-15-41 (Washington, D.C.: Nov. 12, 2014).

long-term view of the warehouse inventory to support better informed decisions.

- **GSA high-value leases.** To reduce its overreliance on costly leases, we recommended in September 2013 that GSA develop a long-term, cross-agency strategy that facilitates consideration of targeted investments in ownership.[65] GSA agreed with our recommendation and has taken steps to prioritize lease purchases, but has not yet developed a strategy that considers its full portfolio of high-value leases. Such a strategy would strengthen the business case for stakeholders to increase ownership investments in high-value leased properties—a necessary step for fully addressing GSA's overreliance on leasing in situations where ownership would be more cost effective in the long run.

Figure 11: Vacant GSA warehouses identified as Active and Utilized that had been vacant since 2009 (left) and 2004 (right)

Source: GAO. | GAO-17-631T

The administration and Congress have taken recent steps to reform real property management and address the long-standing challenge of reducing excess and underutilized property. For example, in 2015, OMB implemented our recommendation by issuing government-wide guidance—the *National Strategy for the Efficient Use of Real Property*—which aligns with many of the desirable characteristics of effective

[65]GAO, *Federal Real Property: Greater Transparency and Strategic Focus Needed for High-Value GSA Leases*, GAO-13-744 (Washington, D.C.: Sept. 19, 2013).

national strategies that we have previously identified.[66] In December 2016, two real property reform laws were also enacted that could address the long-standing problem of federal excess and underutilized property.

The Federal Assets Sale and Transfer Act of 2016 may help address stakeholder influence by establishing an independent board to identify and recommend civilian federal buildings for disposal.[67] The President has not yet appointed the board, but GSA has started gathering information from the agencies to support the board once it is constituted. In addition, the Federal Property Management Reform Act of 2016 codified the Federal Real Property Council (FRPC)—a group of senior real property officers from each federal agency— to collaborate to improve real property management and reduce costs to the federal government.[68] For example, the act requires that the FRPC, in consultation with OMB and GSA, update annually a property management plan template with government-wide performance measures to reduce surplus property and achieve better utilization of underutilized property.

Challenges to Managing the Federal Vehicle Fleet

In fiscal year 2015, federal agencies spent about $4.3 billion on over 640,000 vehicles that agencies own or lease. Agencies are responsible for managing their vehicle fleet, which includes making decisions about the number of vehicles the agency needs and deciding when to dispose of a vehicle. In two reviews we conducted between 2015 and 2017, we found that selected agencies were spending over $20 million annually on vehicles that may not have been fully utilized. At six agencies, we found that agencies either had no criteria to determine if a vehicle was used, could not document that the agency applied their utilization criteria, or retained vehicles that did not meet the agency's criteria.

In January 2016 and April 2017, we recommended that specific agencies take actions to identify and eliminate unnecessary vehicles from their

[66]GAO, *Federal Real Property: National Strategy and Better Data Needed to Improve Management of Excess and Underutilized Property*, GAO-12-645 (Washington, D.C: June 20, 2012).

[67]Pub. L. No. 114-287, 130 Stat. 1463 (2016). The act excludes properties on military installations among others.

[68]Pub. L. No. 114-318, 130 Stat. 1608 (2016).

respective fleets.[69] In response to our recommendations, some agencies have taken steps to identify underutilized vehicles in their fleets. However, given the decentralized nature of federal fleets and our analysis of a small sample of agencies, it is likely that additional cost savings are possible through enhanced agency practices.

I recently met with the Director of OMB to discuss a range of issues, including those discussed today. Following that meeting, I sent the Director a letter highlighting open priority recommendations to OMB on important issues. I am also meeting with the heads of the major agencies to discuss the pressing management risks and challenges that confront their agencies, as well as sending them individual letters identifying the priority GAO open recommendations that need their personal attention. We have found in recent years that such letters are helpful in focusing attention on the most important issues.

Ultimately, addressing the federal government's long-term unsustainable fiscal path will require broad fiscal policy changes to address the imbalance between federal revenues and spending. However, by taking immediate action on government-wide management challenges, Congress and the executive branch can begin to address our fiscal situation by preventing fraud, waste, and abuse and ensuring funds are put to the best possible use.

Thank you, Chairman Enzi, Ranking Member Sanders, and members of the Committee, this concludes my prepared statement. I would be pleased to answer questions.

GAO Contacts

For further information on this testimony, please contact J. Christopher Mihm, Managing Director, Strategic Issues, who may be reached at (202) 512-6806 or mihmj@gao.gov, or Susan J. Irving, Director for Federal Budget Analysis, Strategic Issues, who may be reached at (202) 512-6806 or irvings@gao.gov. Contact points for the individual areas listed in our 2017 Fragmentation, Overlap, and Duplication annual report can be found on the first page of each area in GAO-17-491SP. Contact points for

[69]GAO, *Federally Owned Vehicles: Agencies Should Improve Processes to Identify Underutilized Vehicles*, GAO-17-426 (Washington, D.C.: Apr. 25, 2017); and *Federally Leased Vehicles: Agencies Should Strengthen Processes to Reduce Underutilized Vehicles*, GAO-16-136 (Washington, D.C.: Jan. 14, 2016).

the individual high-risk areas are listed in GAO-17-317 and on our high-risk website. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement.

Related GAO Products

Government-wide Management Challenges

- *2017 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits.* GAO-17-491SP. Washington, D.C.: April 26, 2017.
- *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others.* GAO-17-317. Washington, D.C.: February 15, 2017.
- *High-Risk Series: An Update.* GAO-15-290. Washington, D.C.: February 11, 2015.

Improper Payments

- *SSA Disability Benefits: Comprehensive Strategic Approach Needed to Enhance Antifraud Activities.* GAO-17-228. Washington, D.C.: April 17, 2017.
- *Financial Audit: Fiscal Years 2016 and 2015 Consolidated Financial Statements of the U.S. Government.* GAO-17-283R. Washington, D.C.: January 12, 2017.
- *Improper Payments: Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended.* GAO-17-15. Washington, D.C.: October 14, 2016.
- *Medicare: Claim Review Programs Could Be Improved with Additional Prepayment Reviews and Better Data.* GAO-16-394. Washington, D.C.: April 13, 2016.
- *Medicare Advantage: Fundamental Improvements Needed in CMS's Effort to Recover Substantial Amounts of Improper Payments.* GAO-16-76. Washington, D.C.: April 8, 2016.
- *Medicaid: Additional Efforts Needed to Ensure that State Spending is Appropriately Matched with Federal Funds.* GAO-16-53. Washington, D.C.: October 16, 2015.
- *Federal Spending Accountability: Preserving Capabilities of Recovery Operations Center Could Help Sustain Oversight of Federal Expenditures.* GAO-15-814. Washington, D.C.: September 14, 2015.
- *A Framework for Managing Fraud Risks in Federal Programs.* GAO-15-593SP. Washington, D.C.: July 2015.
- *Medicaid: Additional Actions Needed to Help Improve Provider and Beneficiary Fraud Controls.* GAO-15-313. Washington, D.C.: May 14, 2015.

- *Improper Payments: TRICARE Measurement and Reduction Efforts Could Benefit from Adopting Medical Record Reviews*. GAO-15-269. Washington, D.C.: February 18, 2015.
- *Supplemental Nutrition Assistance Program: Enhanced Detection Tools and Reporting Could Improve Efforts to Combat Recipient Fraud*. GAO-14-641. Washington, D.C.: August 21, 2014.
- *DOD Financial Management: Significant Improvements Needed in Efforts to Address Improper Payment Requirements*. GAO-13-227. Washington, D.C.: May 13, 2013.
- *Health Care Fraud: Types of Providers Involved in Medicare, Medicaid, and the Children's Health Insurance Program Cases*. GAO-12-820. Washington, D.C.: September 7, 2012.
- *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*. GAO-10-349. Washington, D.C.: February 10, 2010.

Information Technology

- *Information Technology: Opportunities for Improving Acquisitions and Operations*. GAO-17-251SP. Washington, D.C.: April 11, 2017.
- *Information Technology Reform: Agencies Need to Increase Their Use of Incremental Development Practices*. GAO-16-469. Washington, D.C.: August 16, 2016.
- *Information Technology: Federal Agencies Need to Address Aging Legacy Systems*. GAO-16-468. Washington, D.C.: May 25, 2016.
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Chairman ENZI. Thank you.
Dr. Hall.

STATEMENT OF KEITH HALL, PH.D., DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Dr. HALL. Senator Enzi, Ranking Member Sanders, and members of the committee, thank you for your invitation to testify at today's hearing.

My written testimony is devoted to CBO's recent report on the compensation of Federal employees. The Government's personnel costs reflect the number of workers and average cost to employ them. For the past 30 years, the number of civilians employed by the Federal Government has not changed much but has been a declining share of the growing U.S. labor force. Federal civilian employees now account for just 1.5 percent of total employment.

Our report compared Federal and private sector compensation from 2011 to 2015. We concluded that total compensation was, on average, 17 percent higher for Federal workers than for private sector counterparts, after accounting for geographic location and some other characteristics that affect compensation.

However, the comparison varied by education level. For example, average Federal compensation for workers with a high school diploma or less was 53 percent higher than for similar private sector workers. But for workers with a professional degree or doctorate, compensation was 18 percent lower for Federal workers than in the private sector.

In my remarks this morning, I would like to put personnel costs in a broader context to clarify their impact on the Federal budget. I will focus on potential efficiency gains in the executive branch agencies other than the Postal Service and Defense Department since funding for the Defense Department affects combat power in complex ways that warrant a separate discussion.

To understand the potential for such gains, it is useful to distinguish administrative from programmatic costs. In some cases, efficiency gains might allow for reductions in programmatic costs. For example, new technologies that allow medical services to be delivered more efficiently could lower the cost of health care programs.

More typically, efficiency gains involve reductions in administrative costs. For example, efficiency may be gained by combining the management structures of programs with similar goals. However, efficiency gains cannot eliminate administrative costs entirely. Certain levels of management staffing, for example, are needed to provide oversight and prevent fraud, waste, and abuse.

Administrative costs are a relatively small part of the overall budget. In 2015, 87 percent of direct obligations by executive agencies—that is, spending that is not reimbursed by another entity—were in categories that were mainly programmatic. These categories include benefit payments, grants to States and local governments, and interest on the public debt. The remaining 13 percent of Federal spending fell into three categories, each of which represented a mix of administrative and programmatic costs.

The first category, contractual services and supplies, was just 6 percent of spending. Most of that spending cannot be easily characterized as administrative or programmatic. However, payments for travel, transportation, rent, communications, and utilities were more likely to represent administrative costs.

By comparison, contracts for research and development, the operation and maintenance of equipment, and the operation and maintenance of facilities, notably the Energy's Department National Labs, were more likely to represent programmatic costs.

Members of Congress often ask CBO about the number and cost of people working under Federal contracts; however, the Congress has not required the executive branch to collect that information.

The second category was personnel, which was 5 percent of 2015 spending. Much of that spending for personnel was programmatic rather than administrative. For example, outside defense, the Department of Veterans Affairs (VA) employed the largest share of the Federal civilian work force. About 60 percent of its employees worked in various medical professions, the most common of which was nursing. The Department of Homeland Security employed the next largest share, with the most common job being an inspector for the Transportation Security Agency.

The third category, acquisition of assets and certain trust fund transactions, was 3 percent of spending. Non-defense assets are generally required for use in programmatic activities. The largest acquisitions in 2015 were in the area of international assistance, primarily capital contributions and loans to the International Monetary Fund. Assets can also be acquired for administrative support, such as in the case of software systems for payroll management.

Improving the efficiency of Government is an important objective, but being CBO, I have to mention that given an aging population and rising health care costs, making a significant dent in Federal deficits would require broader changes in Federal tax or spending policies. To make such changes, lawmakers would have to increase revenues above amounts projected under current law, reduce spending for large benefit programs such as Social Security and Medicare, or combine these approaches.

I would be happy to answer any questions you may have about our work on compensation. Thank you.

[The prepared statement of Dr. Hall follows:]

Congressional Budget Office

Testimony

Costs of Federal Civilian Personnel: A Comparison With Private-Sector Employees, 2011 to 2015

Keith Hall
Director

Before the Committee on the Budget
United States Senate

May 17, 2017

This document is embargoed until it is delivered at 10:30 a.m. (EDT) on Wednesday, May 17, 2017. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

Notes

Numbers in the text, tables, and figures of this testimony may not add up to totals because of rounding. For the same reason, the percentage differences shown in some of the tables may not correspond precisely to the dollar amounts shown.

Unless otherwise indicated, the numbers in the tables and figures apply to full-time, full-year workers.

Wages, benefits, and total compensation in this testimony were converted to 2015 dollars using the employment cost index.

www.cbo.gov/publication/52706

Chairman Enzi, Ranking Member Sanders, and Members of the Committee, thank you for inviting me to testify on the Congressional Budget Office's recent report comparing the compensation of federal and private-sector employees during the period from 2011 to 2015.[1] My statement today reprises the summary from that report.

The federal government employs about 2.2 million civilian workers—1.5 percent of the U.S. workforce—spread among more than 100 agencies in jobs that represent over 650 occupations. As a result, the government employs workers with a broad complement of talents, skills, and experience, and it competes with other government and private-sector employers for people who possess the mix of attributes needed to do the work of its agencies.

In fiscal year 2016, the government spent roughly $215 billion to compensate federal civilian employees. About two-thirds of that total was spent on civilian personnel working in the Department of Defense, the Department of Veterans Affairs, or the Department of Homeland Security. Federal employees typically receive periodic increases in their wages on the basis of performance, longevity, and changes in private-sector pay. However, lawmakers eliminated annual across-the-board increases for most federal civilian workers in calendar years 2011, 2012, and 2013.

How does the compensation of federal civilian employees compare with that of employees in the private sector? The answer to that question is complicated by the fact that the federal and private-sector workforces differ in characteristics that can affect compensation, such as experience, education, and occupation. On the whole, federal workers tend to be older, more educated, and more concentrated in professional occupations than private-sector workers. To account for such differences, the Congressional Budget Office has used data for 2011 through 2015 reported by a sample of households and employers to estimate differences between the cost of wages and benefits for federal employees and the cost of wages and benefits for similar private-sector employees, defined as those having a set of similar observable characteristics. Specifically, in its analysis, CBO sought to account for differences in individuals' level of education, years of work experience, occupation, size of employer, geographic location (region of the country and urban or rural location), veteran status, and various demographic characteristics (age, sex, race, ethnicity, marital status, immigration status, and citizenship). This testimony updates a 2012 CBO report that compared the compensation of federal and private-sector employees for the 2005–2010 period.[2]

Even among workers with similar observable characteristics, however, employees of the federal government and in the private sector may differ in other traits, such as motivation or effort, that are not easy to measure but that can matter a great deal for individuals' compensation. Moreover, substantial ranges of compensation exist in both the federal government and the private sector among workers who have similar observable attributes. Therefore, even within groups of workers who have such similarities, the average differences in compensation between federal and private-sector employees do not indicate whether particular federal employees would receive more or less compensation performing a similar job in the private sector.

CBO's analysis focuses on wages, benefits, and total compensation (the sum of wages and benefits). It is intended to address the question of how the federal government's compensation costs would change if the average cost of employing federal workers was the same as that of employing private-sector workers with certain similar observable characteristics.

Wages

During the 2011–2015 period, the difference between the wages of federal civilian employees and those of similar private-sector employees varied widely depending on the employees' educational attainment. The extent of that variation is evident in the differences in wages for workers with a bachelor's degree (the most common level of education in the federal workforce), the least educated workers, and the most educated workers:

- Federal civilian workers whose highest level of education was a bachelor's degree earned 5 percent more, on average, in the federal government than in the private sector (see Figure 1).
- Federal civilian workers with no more than a high school education earned 34 percent more, on average, than similar workers in the private sector.

1. Congressional Budget Office, *Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015* (April 2017), www.cbo.gov/publication/52637.

2. Congressional Budget Office, *Comparing the Compensation of Federal and Private-Sector Employees* (January 2012), www.cbo.gov/publication/42921.

- By contrast, federal workers with a professional degree or doctorate earned 24 percent less, on average, than their private-sector counterparts.

Overall, the federal government would have reduced its spending on wages by 3 percent if it had decreased the pay of its less educated employees and increased the pay of its more educated employees to match the wages of their private-sector counterparts.

Those estimates do not show precisely what federal workers would earn if they were employed in a comparable position in the private sector. The difference between what federal employees earn and what they would earn in the private sector could be larger or smaller depending on characteristics that were not included in this analysis (because such traits are not easy to measure). In addition, the estimated differences depend on how well the observable characteristics were measured in the samples of employees used by CBO and on other factors that are inherent in any statistical analysis.

The span between the wages of high- and low-paid employees was narrower in the federal government than in the private sector, even after accounting for employees' education and other observable traits. The narrower dispersion of wages among federal employees may reflect the constraints of federal pay systems, which make it harder for managers to reward the best performers or to limit the pay of poor performers.

Benefits

During the 2011–2015 period, the federal and private sectors differed much more with regard to the costs that employers incurred in providing current and future benefits—including health insurance, retirement benefits, and paid leave—than they did with regard to wages. Again, the extent of that difference varied according to workers' educational attainment:

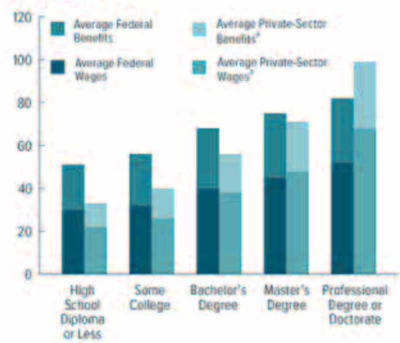
- Average benefits were 52 percent higher for federal employees whose highest level of education was a bachelor's degree than for similar private-sector employees (see Table 1).

- Average benefits were 93 percent higher for federal employees with no more than a high school education than for their private-sector counterparts.

Figure 1.

Average Compensation of Federal and Private-Sector Workers, by Educational Attainment

2015 Dollars per Hour



Source: Congressional Budget Office, using data for 2011 through 2015 from the March Current Population Survey, the Office of Personnel Management, and the National Compensation Survey.

The wages shown here include overtime pay, tips, commissions, and bonuses. The benefits shown here are measured as the average cost, per hour worked, that an employer incurs in providing noncash compensation.

a. Average wages and benefits for private-sector workers who resemble federal workers in occupation, years of work experience, and certain other observable characteristics that are likely to affect compensation.

- Among employees with a doctorate or professional degree, by contrast, average benefits were about the same in the two sectors.

On average for workers at all levels of education, the cost of benefits was 47 percent higher for federal civilian employees than for private-sector employees with certain similar observable characteristics, CBO estimates.

The most important factor contributing to differences between the two sectors in the costs of benefits is the defined benefit pension plan that is available to most

Table 1.

Differences in Average Hourly Compensation Between Federal and Private-Sector Workers, by Educational Attainment

	Difference in 2015 Dollars per Hour			Percentage Difference		
	Wages	Benefits	Total Compensation[a]	Wages	Benefits	Total Compensation
High School Diploma or Less	$8	$10	$18	34%	93%	53%
Bachelor's Degree	$2	$9	$12	5%	52%	21%
Professional Degree or Doctorate	-$16	-$1	-$18	-24%	-3%	-18%

Source: Congressional Budget Office, using data for 2011 through 2015 from the March Current Population Survey, the Office of Personnel Management, and the National Compensation Survey.

CBO compared average hourly compensation (wages, benefits, and total compensation converted to 2015 dollars) for federal civilian workers and for private-sector workers with certain similar observable characteristics that affect compensation—including occupation, years of experience, and size of employer—by the highest level of education that workers attained.

Positive numbers indicate that, on average, wages, benefits, or total compensation was higher in the 2011–2015 period for federal employees than for similar private-sector employees. Negative numbers indicate the opposite.

a. The numbers shown for total compensation may not equal the sum of the numbers for wages and benefits because of rounding to the nearest dollar and because of the composition of the samples used by CBO.

federal employees.[3] Such plans have become less common in the private sector. CBO's estimates of the costs of benefits are much more uncertain than its estimates of wages, primarily because the cost of defined benefit pensions that will be paid in the future is more difficult to quantify and because less-detailed data are available about benefits than about wages.

Total Compensation

As with its components (wages and benefits), total compensation differed by varying degrees between the federal government and the private sector over the 2011–2015 period depending on workers' educational attainment:

- Among workers whose education culminated in a bachelor's degree, the cost of total compensation averaged 21 percent more for federal workers than for similar workers in the private sector.
- Among workers with a high school diploma or less education, total compensation costs averaged 53 percent more for federal employees than for their private-sector counterparts.
- Total compensation costs among workers with a professional degree or doctorate, by contrast, were 18 percent lower for federal employees than for similar private-sector employees, on average.

Overall, the federal government paid 17 percent more in total compensation than it would have if average compensation had been comparable with that in the private sector, after accounting for certain observable characteristics of workers.

Comparison With CBO's Analysis of the 2005–2010 Period

Some of the differences between federal and private-sector compensation have changed since CBO's previous analysis of the issue, which covered the years from 2005 to 2010. For instance, the average total compensation of federal workers without a bachelor's degree exceeded that of their counterparts in the private sector by more between 2011 and 2015 than between 2005 and 2010. Conversely, relative to their private-sector counterparts, federal workers with a master's degree received less average total compensation during the 2011–2015 period than during the 2005–2010 period. The differences in total compensation by educational attainment changed because wages grew more quickly among less educated workers in the federal government than they did among workers in the private sector and because CBO adjusted

3. Defined benefit plans provide retirement income that is based on fixed formulas, and the amount of that income is usually determined by an employee's salary history and years of service.

its approach to determining who is a federal employee. (Except for that adjustment, both analyses used broadly similar approaches.)

Two significant policy changes have affected federal wages since 2010. First, lawmakers eliminated across-the-board salary increases for federal employees from 2011 to 2013, limiting the total increase from 2010 through 2015 to 2 percent. In contrast, salaries increased by about 10 percent in the private sector over the 2010–2015 period. However, in addition to the across-the-board increase of 2 percent, average federal hourly wages were boosted by a decrease in federal hiring—because recently hired federal employees typically have lower salaries than other federal employees—and by a temporary reduction in the number of hours worked by salaried federal employees.

Second, lawmakers increased the share of wages that workers first hired after 2012 must contribute to the federal defined benefit retirement plan. That change will gradually reduce the cost to the federal government of defined benefit pensions beginning in 2017, but it does not factor into this analysis because workers hired after 2012 have not yet accumulated the five years of service needed to receive those benefits.

Scope of the Analysis

CBO's results apply to the cost of employing full-time, full-year workers. The analysis focuses on those workers —who accounted for about 94 percent of the total hours worked by federal employees from 2011 through 2015—because more-accurate data are available for them than for other workers. CBO measured the cost of employing those workers as the present value of providing compensation, some of which may be paid out in the future. (A present value is a single number that expresses a flow of current and future payments in terms of an equivalent lump sum paid today.) Thus, the cost of employing federal or private-sector workers includes an estimate of the cost of retirement benefits to be paid in the future to current employees. That present-value approach differs from the budgetary treatment of retirement benefits for federal workers; the cost of those benefits is recorded as federal outlays when people receive them rather than when the commitment to pay them is incurred.

CBO's analysis is limited to selected benefits (such as health insurance and paid leave) provided to federal and private-sector workers. The analysis excludes certain benefits some workers receive—for example, the above-market rate of return the federal government offers its employees through the G Fund (one of the investment options in their retirement plan) and the stock options that some private-sector firms provide to their employees. In CBO's judgment, the benefits that are not included in this analysis are less costly, on average, than the benefits that are included.

A key consideration in setting compensation is the ability to recruit and retain a highly qualified workforce. But assessing how changes in compensation would affect the federal government's ability to recruit and retain the personnel it needs is beyond the scope of this analysis. Factors other than the amount of compensation can affect that ability. For example, greater job security tends to decrease the compensation that the federal government needs to offer, relative to compensation in the private sector, to attract and retain highly qualified employees. Conversely, the government's cost of total compensation for a federal employee includes a greater share of costs for retirement benefits, which workers may find less valuable than an equivalent amount of cash received today. If so, and if all other things are equal, that mix of compensation would tend to increase the total amount of compensation needed to pay federal workers relative to similar workers in the private sector.

This testimony reproduces the summary of *Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015*, a report written by Justin Falk that CBO released in April 2017. In keeping with CBO's mandate to provide objective, impartial analysis, the testimony and report contain no recommendations.

Robert Arnold, Elizabeth Bass, Jordan Berne, Holly Boras, William Carrington, Heidi Golding, Jeffrey Holland, Nadia Karamcheva, Kim Kowalewski, Amber Marcellino, Carla Tighe Murray, Daniel Ready, Felix Reichling, Chayim Rosito, Stephanie Ruiz, John Seliski, and David Torregrosa provided comments on the report on which this testimony is based. Joseph Kile and Molly Dahl supervised that work, and Wendy Edelberg, Mark Hadley, and Jeffrey Kling reviewed it.

Christine Bogusz edited the testimony, and Jorge Salazar prepared it for publication. An electronic version is available on CBO's website (www.cbo.gov/publication/52706).

Chairman ENZI. Thank you.

We will now go to the questions for the witnesses, and we do this in a particular order, who were here at the time of the gavel, and then order of arrival after that.

I am going to defer my opportunity to ask questions, though, to Senator Grassley, who has some other things to get to.

Senator GRASSLEY. Thank you for that courtesy, Mr. Chairman.

I am going to start with GAO. I always try to thank you publicly for all the hard work you do for the investigations I ask you to do because you give a great deal of credence to the things that we are trying to get information on, and particularly to fight the rest of the Federal bureaucracy.

I have a question that you have already referred to in your comments. It is about some of these programs like SNAP or TANF not reporting. So I will not give the background because you know what it is.

So a very simple question. Why is it that some programs are unable to even estimate improper payments? Is it a structural deficiency or a willful defiance?

Mr. DODARO. In the case of the Temporary Assistance for Needy Families Program, the Department of Health and Human Services (HHS) believes it does not have the statutory authority to ask the States for information to estimate improper payments. Now, the HHS Inspector General has recommended that Congress clarify that and make it clear in statute that they should do an estimate of improper payments, and I agree with that. I think Congress should act statutorily to require the TANF Program to develop an improper payment estimate.

Now, the Supplemental Nutrition Assistance Program had reported improper payment estimates up through 2015, and then the program identified a problem with the quality of the information for State quality assurance programs in 42 of the 53 States, including the territories. So program officials are trying to sort through what those quality assurance problems are right now, Senator Grassley, and I expect that once they do, they will be able to resume making estimates.

Senator GRASSLEY. Well, I think you gave me a job as a member of the Agriculture Committee when we have the next farm bill, which includes a lot with nutrition, to bring up that reporting requirement on the part of the States.

A follow-up. How much improper payments are due to people defrauding the Government as compared to simple mistakes?

Mr. DODARO. It is hard to estimate the amount of fraud. All improper payments are not fraud. But all fraud is an improper payment by definition. And so it is hard to estimate the quantity that is fraud and that that results from errors. But we know there are instances of fraud, particularly in the health care area, and it is very important that the agencies have appropriate controls over payments. In some cases they identify the cause of the improper payments is insufficient documentation. It may be a paperwork problem, but it might be something disguising fraud. Just under 24 percent of improper payments are made because the agency has not been able to authenticate eligibility properly. That is a problem. And I think that agencies need to make more of an effort to ensure the payment is right in the first instance.

Senator GRASSLEY. And one question for you, sir. I appreciate the work that CBO does and has done to study the compensation of Federal employees compared to the private sector. This is what I find troubling, not about your work but about the report, the results. According to your analysis, the Federal Government is actually overpaying for low-skilled labor and underpaying for professional or high-skilled workers compared to the private sector. Much of the difference in total compensation is due to the cost of benefits, specifically defined benefit pension.

Do you have any thoughts on how to undo this divergence? Do you have any suggestions to reverse the trend going forward?

Dr. HALL. Sure, I appreciate the question. But, you know, CBO is very careful not to make recommendations, so we could talk about some possible proposals. If we had some proposals to work through, we could tell you how it would affect compensation, whether it would get you to where compensation was closer in the Federal Government to what is in the private sector. As far as recommending something, like I say, we would shy away from that because of our role.

Senator GRASSLEY. OK.

Dr. HALL. Let me just say one thing, though, from what we have got as well. There have already been some changes in the defined benefit program that are going to have effect in the future going forward that are likely to reduce this discrepancy. It is the contributions by new employees on defined benefit. That contribution is now going up, and that is not having much of an effect yet. But once those people get into a decade or two decades to retirement, it is going to have an effect then, and that will by itself close the gap a little bit.

Senator GRASSLEY. OK. Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Sanders.

Senator SANDERS. Thanks, Mr. Chairman. And, gentlemen, thank you both for your very informative presentations. I think we can say whether we are progressives or conservatives, we do not want to see Government wasting money. We want programs run efficiently.

Mr. Dodaro, let me begin with you. I did find it interesting that you did not say much about the largest discretionary program in the country, the Department of Defense (DOD). The Pentagon currently has a $1.4 trillion acquisition portfolio, which currently suffers from more than $469 billion in contractor cost overruns. A cost overrun is a contractor promises a product at a certain price, ends up costing two or three times more.

Furthermore, as I understand it, virtually every major defense contractor in the United States has reached a settlement with the U.S. Government because of allegations of fraud or have been outright convicted of fraud.

So you have got huge cost overruns, and we are dealing with mega billion-dollar defense contractors who in many cases have been charged with fraud and reached settlements or been convicted of fraud.

This is what the GAO said last May about the Pentagon's inability to manage its finances. It has "adversely affected DOD's ability to control costs, ensure basic accountability, anticipate future costs, measure performance, prevent and detect fraud, waste, and abuse, address pressing management issues, and prepare auditable financial statements."

Tell me about the audit of the Department of Defense. Do we have one?

Mr. DODARO. No.

Senator SANDERS. Isn't that a little bit of a problem when you are dealing with a $600 billion-plus agency?

Mr. DODARO. It is a very significant issue. It is one of the main reasons we cannot give an opinion on the consolidated financial statements of the Federal Government. Senator, I would say that the business practices of the Defense Department need to be improved, and there is a lot of room for efficiency, not only in financial management; but also in weapons systems acquisition, inventory management, supply chain management, and business system modernization. All these areas are on the High-Risk List that GAO keeps of programs across the Federal Government.

Now, with regard to improper payments, we have found that DOD is not properly sampling and making good estimates of improper payments at the Department. We have made some recommendations to DOD. I think DOD needs to do a better job in that area.

One of the biggest problems DOD has is they cannot identify all of its transactions.

Senator SANDERS. I understand that. But what I am hearing you say—and correct me if I am wrong—is this is a very, very significant issue that Congress needs to take a hard look at. We are talking about many billions of taxpayer dollars.

Mr. DODARO. Definitely. And I have been urging that for a number of years.

Senator SANDERS. Thank you very much.

Dr. Hall, let me pick up maybe from a different perspective what Senator Grassley was talking about. As I understand it, your study indicates that lower-income workers are better compensated at the Federal level, but people with more education are not as well compensated as the private sector.

Dr. HALL. That is correct.

Senator SANDERS. OK. Let me just make what is an obvious point. In this country today, we have a $7.25 Federal minimum wage. To my mind, and I think to most people's minds, that is a starvation wage. So we have got millions of workers flipping hamburgers, we have millions of workers all over this country earning 8 or 9 bucks an hour, and you know what? You cannot survive on 8 or 9 bucks an hour.

So the Federal Government, for a number of reasons, says that we are going to hire lower-income workers, people at the bottom of the work chain, so to speak; we are going to try to pay them a little bit more so maybe they can pay rent and take care of their food.

So I do not think this is all that shocking. The answer is not to lower, in my mind, wages for Federal workers. It is to raise the wages of lower-income workers all over this country, which is why

I have proposed, with a lot of support, a $15-an-hour minimum wage.

And in terms of pensions, the goal, again, should not be to cut pensions for Federal workers. It should be to raise pensions and create a system where workers in this country, when they reach retirement age, know they have something in the bank. Today almost half of workers in America, Mr. Chairman, when they reach retirement, have no money in the bank when they retire, and this is a national crisis. We should not be talking about cutting pensions. We should be talking about a program to guarantee that when people retire they can live in dignity.

Thank you.

Chairman ENZI. Senator Kennedy.

Senator KENNEDY. Gentlemen, what do we do about it?

Mr. DODARO. Well, there are a number of recommendations that we have, and some of them require legislative solutions. For example, there is a Do Not Pay working system at the Treasury Department that a number of agencies can use. But they currently do not have access to the full death file that Social Security has. Social Security says it does not have the authority to give the Treasury Department the file that includes all State-reported data, so there are opportunities for matching that are lost.

In the Medicare area——

Senator KENNEDY. Excuse me. You mean they do not have the legal authority?

Mr. DODARO. Yes, that is what the Social Security Administration (SSA) asserts. SSA does not have the legal authority to give the full death file to the Treasury Department because Treasury is not "a benefit-paying agency." But we believe Treasury should have it and——

Senator KENNEDY. What would happen to them if they did? They would get put on double secret probation or something?

[Laughter.]

Mr. DODARO. Well, some——

Senator KENNEDY. Why don't they just give it to them?

Mr. DODARO. SSA believes it does not have the legal authority. I recommend that Congress clarify that authority question.

I have had running battles with a lot of agencies about them not feeling they have the legal authority to give GAO information. Fortunately, the Congress' act just clarified that in a bill that was signed into law this year to give us access to the National Directory of New Hires at the HHS Department that has the most current wage information so that we can compare it to programs that require eligibility based on income, to make sure people are self-reporting the right information.

On Medicare and Medicaid——

Senator KENNEDY. May I interrupt you? I do not mean to. I just want to understand.

Mr. DODARO. Sure.

Senator KENNEDY. What are they afraid of? Since nobody ever gets fired around here, what are they afraid of?

Mr. DODARO. Well, you would have to ask Social Security directly about it. Social Security officials just will not share the data because they do not believe they have the authority to do it.

Senator KENNEDY. Excuse me for interrupting.

Mr. DODARO. That is OK. I am perplexed as well by the whole situation, and I empathize with your view. But I cannot compel Social Security to give the information. Only Congress can compel Social Security to give the information, and I have urged Congress to act in that regard.

There are many things that could still be done. The Medicaid program in particular—there are a lot of recommendations that we have. The data that the Centers for Medicare and Medicaid Services (CMS) has to oversee that program is usually 2 or 3 years out of date. CMS needs better data. CMS could provide more information to the States from databases they use for Medicare matching that the States could also use for Medicaid matching. Also the managed care providers on Medicaid have not been under a regular system of audit. We have recommended that. CMS is supposed to start it this summer.

With regard to the Earned Income Tax Credit, which is about a 24 percent error rate, we have recommended that——

Senator KENNEDY. That means—excuse me for interrupting.

Mr. DODARO. Sure.

Senator KENNEDY. That means that 24 percent of the people receiving checks should not receive them?

Mr. DODARO. That is the improper payment rate. Either they should not receive them at all, or they are not in the right amount, one of the two things. That is one of the higher error rates in the Federal Government.

There are several things that could be done in this regard. One, Congress could lower the requirement for electronic filing of W–2 data. This past year, based on our recommendation, Congress required employers to provide W–2 information earlier to the Internal Revenue Service (IRS), in January. Previously, they were not getting it until March or April, which was too late to use for verifying tax returns. Congress also extended the deadline and instructed IRS not to pay refunds until February.

Senator KENNEDY. Let me stop you one more time. I am going to run out of time.

Mr. DODARO. OK.

Senator KENNEDY. And I do not want to go over.

Mr. DODARO. Well, I can give you a list for the record of all our recommendations.

Senator KENNEDY. Would you mind if I came to see you 1 day at your convenience and we could talk about this further?

Mr. DODARO. Sure. You can come see me; I will come see you. I would be happy to talk about it.

Senator KENNEDY. In the 40 seconds I have, I want to be sure I understand. I want to follow up on Senator Sanders' point. On defense spending, we do not have any idea about any improper payments because they are not providing it, the information?

Mr. DODARO. DOD has made some estimates. The estimates, in our view, are not accurate estimates. And in other cases, DOD is not making improper payment estimates. We have made recommendations along those lines. But, also——

Senator KENNEDY. That is extraordinary.

Mr. DODARO. Also, DOD is the only major department or agency that cannot pass a financial audit, and so that is something else that needs to be attended to. That is one of the reasons why DOD is having problems making improper payment estimates. They cannot document the full universe of transactions or provide documentation to support a lot of the transactions.

One clarification, Senator Kennedy, on the Earned Income Tax Credit. The 24 percent is the amount of money, not 24 percent of the people.

Senator KENNEDY. So it is even worse.

Mr. DODARO. That is one way to look at it.

Senator KENNEDY. Thank you, Mr. Chairman.

Chairman ENZI. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair, and thanks to the witnesses. There is a lot of meat in the written testimony that we will use. A couple of things.

First, I wanted to say to the chair I appreciated your comments, Mr. Chair. The ranking member, Senator Sanders, was addressing comments to you, Dr. Hall, about the CBO report on the American Health Care Act (AHCA), and the chair in response—and I appreciate this—said we will be doing lots of hearings after the Senate input, which is important. And I just wanted to underline that because a huge concern on this side of the aisle about the health care effort right now is that we not repeat what was done in the House. The bill that was put up before the House, there were not meaningful hearings on the bill where experts could testify, where patients, doctors, hospitals, small businesses could testify. Democrats did not get an opportunity to amend the bill.

Contrast that with the Affordable Care Act in 2010, the extensive hearings, extensive opportunities for testimony. The Senate version of it had 145 Republican amendments that were accepted. And so I think a fear that we have had on our side is that in the Senate it would be done the same way, that there would be a small process, there would be a bill pushed to the floor, hopefully for a 51 vote, without hearing from patients, doctors, hospitals, insurance companies, small businesses, without letting the public see the debate, without allowing opportunities for amendments. This is the most important expenditure that anybody ever makes in their life, and it is also the largest segment of the American economy.

So we recognize we are in the minority. We just want to, on behalf of our constituents and the American public, have an opportunity to see a CBO report, for gosh sakes, and hear from people and try to make sure we get this right. And so the comments of the chair that we are going to be having hearings—and I think "we" meant generally in the Senate—hopefully the Health, Education, Labor, and Pensions (HELP) Committee on which I serve, hopefully the Finance Committee, possibly this committee, too, and we would do those after Senate input so that we do not make mistakes. I was very heartened by that, number one.

A second question for each of you. When the 2017 budget deal was reached recently, the President said we might need a good shutdown of the Government in September. He said that via a tweet.

Could either of you tell me whether you think a shutdown of the Government of the United States of America is a good thing?

Mr. DODARO. I would not endorse that at all. We looked at the shutdown that occurred in 2013, here are a couple observations that we made.

One, the Bureau of Economic Analysis issued a report later saying it reduced the fourth quarter gross domestic product (GDP) by about 0.3 percent, so it had a short-term impact. A longer-term economic impact was not able to be determined because it just lasted, a 16-day period.

We also looked at a number of agencies. The National Institutes of Health (NIH) had to close down clinical trials right away so people could not sign up for them. NIH eventually rectified that. A number of grant applications were put on hold. The Department of Energy had to lay off some contractor employees at their environment management facilities because the Department stopped work orders. So there were disruptions that occurred during that period of time.

So I think it is better to keep the Government open, operating, and serving the American people.

Senator KAINE. Dr. Hall.

Dr. HALL. First, I would not want to offer an opinion even on something like that because of our role. But we have not done anything, exactly calculated the cost of a shutdown. We could do that at some point, but I would echo actually a lot of what Gene said. It did seem to have some small effect in the short run, economic effect that kind of faded over time. But it all depends, of course, on how long it lasts.

Senator KAINE. Right. Thank you. Well, I would hope that we would all, having taken an oath to be part of this enterprise, we would all embrace the wisdom of the first Republican President, Abraham Lincoln, at Gettysburg, who said government by, of, and for the people shall not perish from the Earth, and I do not think that means perish for a minute or a day, much less 16 days or longer. So the notion of a good shutdown I find offensive.

Let me ask you, Dr. Hall, could I have your written testimony here, but your verbal testimony, can you read me the last two sentences of it again? There was a point I wanted to ask you about, and I want to make sure I heard it correctly.

Dr. HALL. I am guessing it was the part before, "I would be happy to answer questions."

Senator KAINE. Yeah, you can skip that.

[Laughter.]

Senator KAINE. We do not view that as a sincere statement.

[Laughter.]

Dr. HALL. We will skip over that.

Well, I will read you the last paragraph: "Improving the efficiency of Government is an important objective, but given an aging population and rising health care costs, making a significant dent in Federal deficits would require broader changes in Federal tax or spending policies. To make such changes, lawmakers would have to increase revenues above amounts projected under current law, reduce spending for large benefit programs such as Social Security and Medicare, or combine these approaches."

Senator KAINE. And I thought that is what you said, and I think that is just an important point to underline. If we are going to deal meaningfully with budgetary issues, especially debt and deficit, there are a lot of good ideas in both this testimony about the way we can be more efficient, but these are big policy decisions, the taxes, the revenues, the programs, big policy decisions. And if we are going to deal with the debt and deficit, that is the way we are really going to deal with it.

And with that, I do not have any other questions, Mr. Chair.

Chairman ENZI. Thank you.

Senator Perdue, followed by Senator Van Hollen.

Senator PERDUE. Thank you, Mr. Chairman, and thank you both for being here again. You are right in the vortex of probably the most critical crisis in American history, in my opinion, and that is this $20 trillion debt. Our Federal Government has grown from $2.4 trillion in 2000, the last year under President Clinton, to $3.9 trillion last year. As a percentage, it is 21.6 percent of our GDP, outlays. We are only collecting about 18.5 percent in revenue, which although is an all-time high relative in aggregate dollars.

My questions, I have two things. I want to go to the HR personnel issues, but first, General, your report for years has been outlining excess spending, wasting spending, and all that. Government has proven that it is not very efficient. If you look at the VA, the Postal Service, Fannie Mae, Freddie Mac, the lack of an audit in DOD, the poverty rate today is about the same as it was in the mid-1960s. So some of these big, sweeping programs just have not worked, and part of it is the inefficiency inside the control that we are spending.

You have identified somewhere between $200 and $400 billion over time relative to excess spending out of that $4 trillion. Is that a fair statement directionally?

Mr. DODARO. Yes. I would say——

Senator PERDUE. Can you give some granularity on that?

Mr. DODARO. Sure, sure.

Senator PERDUE. And here is my specific question. How much of that is mandatory, which is the $3 trillion we spend, and how much is discretionary, the $1 trillion? Can you break it out that way?

Mr. DODARO. First, in the reports you are referring to on overlap, duplication, fragmentation, cost savings, we have made in the first 6 years 645 recommendations; 51 percent of those have been implemented, and so far that has saved or will save $136 billion. So Congress has acted on a number of our recommendations. I am very pleased. There are, including new ones we added this year, about 300 or 400 open recommendations, and 61 specific recommendations to the Congress. Fully addressing the remaining recommendations could save an additional tens of billions of dollars. Some of that is in the entitlement programs, in Medicare and Medicaid. Some is in discretionary spending. I would have to go back and sort that through.

Senator PERDUE. What is the current outstanding potential reduction?

Mr. DODARO. Senator, I cannot give you a fixed number. It depends on what Congress and the agencies do in implementing the recommendations. All I could say is there are tens of billions of dollars in potential savings for sure. So far there has been $136 billion in savings. That gives you some order of magnitude of what could be achieved in the future, but I cannot put a number on it.

But I also endorse what Keith has said. The real crux of dealing with our debt and deficit issue is dealing with the mandatory spending.

Senator PERDUE. Which is very interesting. Inside our budget process, which this committee sits over, that is not within our purview.

Mr. DODARO. I know.

Senator PERDUE. Our purview is the $1.1 trillion discretionary, and that is the reason for the question.

Mr. DODARO. Right.

Senator PERDUE. The potential is in the tens, maybe hundreds of billions of dollars of not waste but all the errors that we have in how we run the Government.

Mr. DODARO. Right.

Senator PERDUE. And the question is: How much is in the purview of the Budget Committee and how much is outside? I would love to come sit with you, and we will do that.

Mr. DODARO. Right.

Senator PERDUE. I will get on your calendar to follow up on this.

Dr. Hall, it is interesting. The ranking member made a comment that the overpayments seemed to be—his implication was that it was mostly on high school and below, but let me ask you a question: Half the people that work for the Federal Government are GS–11, –12, and –13. Is that pretty much correct?

Dr. HALL. Yeah, that sounds about right.

Senator PERDUE. That is exactly correct. It is your number.

[Laughter.]

Senator PERDUE. So the question is: GS–11, –12, and –13, are they at minimum wage?

Dr. HALL. No.

Senator PERDUE. They are not, are they? These are bachelor's, master's, generally people with some training. Is that correct?

Dr. HALL. That is right.

Senator PERDUE. So their difference between the public sector and the private sector is about 21 percent in your study, if I remember correctly, with a bachelor's degree, just a bachelor's degree. And most of that difference was in non-salary. It was in benefits.

Dr. HALL. Right.

Senator PERDUE. Mostly the defined benefit plan. Most of corporate America has converted to a defined contribution plan.

Dr. HALL. Right.

Senator PERDUE. And the Government is still in a defined benefit environment. That is one of the big differences between the two. My question is: What can be done relative to that potential, some $37 billion estimated? But I do not look at it that way. That is hard to get at. You have to have turnover, and when you replace people, they are coming into the same system.

So my question is this: Are we able to compete for quality talent, A? B, do we have the wherewithal to continue to have the best and brightest? And what I mean is in corporate America if you do not perform, you do not stick around long. Do we have the ability in the Federal Government to continue to weed out nonperformers and adapt to this level of pay?

Dr. HALL. I think those are exactly the right questions. You know, this study gives you some idea of where we are in comparison.

Senator PERDUE. Yes, sir. And it is very good, by the way; I have to say.

Dr. HALL. But the bigger issue is are we able to recruit effectively and retain people who are high quality and that sort of thing. And I think this is a piece of that——

Senator PERDUE. Sorry to interrupt. Subtly different.

Dr. HALL. Right.

Senator PERDUE. Not only those two things, but the third is are we able to—does the system always have the best and brightest move to the top? And are we able to remove people who are not productive?

Dr. HALL. Right. That is probably an issue. We have not—I do not want to speak too much because we have not looked specifically about what if we changed some things, what would be the likely effect? But that is an important part of having an efficient Government, right? That people who are top performers get rewarded for that, and they stick around. You know, that is the issue of retention, I think.

Senator PERDUE. Are we able to incent outside of salary and benefits for people in specific situations for specific outcomes?

Dr. HALL. Yeah, it is hard——

Senator PERDUE. I am thinking about an audit in the DOD, for one, by the way.

Dr. HALL. Right. Yeah, I mean, it is hard to generalize, and this was just sort of one look. But I certainly think there are instances like that where it is difficult. I think particularly if you start looking at some occupations where it is already hard to hire people, it can be hard to keep people. And part of what I am saying is my personal experience. You know, I have had a lot of years in the Federal Government, and it is sometimes hard to keep really good people. That is probably true everywhere.

Senator PERDUE. It is. Well, thank you both. I am over my time. Thank you, Mr. Chairman. Thank you both for what you do.

Chairman ENZI. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. I thank both of you for your testimony.

Dr. Hall, I want to drill down a little bit on some of the comments you made about Federal employee compensation. You made the point that those with professional degrees were actually undercompensated relative to their peers. And Senator Sanders made the point with respect to pensions. And you indicated yourself that part of the difference in compensation—in fact, the largest component—is with respect to pensions.

You also noted that this Congress has reduced the Federal contribution to pensions for new employees. If you are a Federal employee joining the work force just 2 years ago, you are at a much lower Federal contribution rate.

So all the figures you have provided here are for the current work force in aggregate. Is that right?

Dr. HALL. That is right.

Senator VAN HOLLEN. OK. It would be very helpful, I think, at least for me, if you could provide what those numbers would be in comparison, once this worked through the entire work force. Because if we are talking about long-term deficits and debt, as more people get hired at the lower pension rates, you are going to have a much lower differential. Isn't that right?

Dr. HALL. That is right. And I think that is why it would be useful probably for us to look through——

Senator VAN HOLLEN. Right, I mean, the alternative would be, based on what you said, that we were cutting the pensions for current Federal employees, and this Congress made a very clear decision not to do that but to apply it on a forward-looking basis, which is what we did, right?

Dr. HALL. Right. That is right.

Senator VAN HOLLEN. OK. Let me ask you about contractors, because I noted you made a comment that we are not collecting information on the compensation that we are paying to contractors. Is that correct?

Dr. HALL. That is right, although, for our purposes, contractors are recruited in the private sector and paid by the private sector. So it is not relevant for our particular study.

Senator VAN HOLLEN. Sure. But these are people doing the work of the Federal Government. They are being contracted—their work is being contracted for by the Federal Government. And we have no idea, you are saying, what their compensation levels are, do we?

Dr. HALL. That is correct. We do not.

Senator VAN HOLLEN. Because there is lots of evidence that the folks doing the work for the Federal Government in the private sector are getting much higher compensation than Federal employees. Have you seen any of that work?

Dr. HALL. I have not. We have not looked at that.

Senator VAN HOLLEN. Let me ask you about the deficits and debt. CBO's March *Long-Term Budget Outlook* said, and I quote: "Large and growing Federal debt over the coming decades would hurt the economy and constrain future budget policy." You go on to cite a number of other problems that would create.

So my question to you is very simple, which is: Do you agree it would be best for the economy if Congress' budget and tax decisions do not increase the Federal debt relative to the current baseline?

Dr. HALL. The answer is without providing a recommendation, but yes, the sooner you start to work on this problem, the less dramatic a solution you are going to have somewhere down the line.

Senator VAN HOLLEN. Right, and I know a lot of my colleagues mentioned things like Medicare and Social Security. But isn't it the case that one of the largest categories of mandatory expenditures, according to CBO, is in the category of tax expenditures?

Dr. HALL. That is correct.

Senator VAN HOLLEN. That is right. And, in fact, Mr. Chairman, on an annual basis we pay more in tax expenditures than we do on Social Security. Isn't that the case?

Dr. HALL. That is correct.

Senator VAN HOLLEN. All right. My last question, Mr. Chairman, goes to something Senator Sanders raised with respect to analyzing the discretionary budget. It is a fact that the Defense Department budget is more than half of our discretionary budget. Isn't that the case?

Dr. HALL. Yes.

Senator VAN HOLLEN. And you pointed out, Dr. Hall, that when you look at the compensation levels, $215 billion of that Federal civilian employee compensation is going to the Defense Department, and the next largest categories are in national security-related areas—veterans and homeland security. Isn't that right?

Dr. HALL. That is right. Those combine for about 60 percent.

Senator VAN HOLLEN. Right. So when you actually look at what we call "the national security budget," it is even higher, right?

Dr. HALL. Yes.

Senator VAN HOLLEN. Now, Mr. Dodaro, we have not seen the Pentagon pass an audit in recent memory, if ever. Isn't that the case?

Mr. DODARO. The Department or none of the major services, that is correct. Ever.

Senator VAN HOLLEN. Right. Well, they have been on GAO's High-Risk List since 1995. Isn't that the case?

Mr. DODARO. That is correct, the financial management aspects of DOD.

Senator VAN HOLLEN. And you are aware of a 2015 report by the Defense Business Board that found, and I quote, "We can see a clear path to saving over $125 billion in the next 5 years." Are you familiar with that?

Mr. DODARO. I am familiar with that report, yes.

Senator VAN HOLLEN. So I think all of us would like to see us spend what we need on our national defense and national security. We also all, I would hope, do not want to see money wasted there more than anywhere else.

Can you talk about your assessment of how much taxpayer money is wasted at the Pentagon?

Mr. DODARO. I think there are a lot of opportunities for savings. For example, in strategic sourcing, we looked at private sector companies. They put about 90 percent of their spending on their strategic sourcing. That is where you look at spending patterns and you use leveraged buying power. The last time we looked at the Defense Department, less than 10 percent, maybe 6 percent was under that approach.

Headquarters functions have grown for the functional commands over 50 percent over the few years. There are a lot of opportunities. Congress has already mandated reductions of $10 billion in headquarters staffing functions over time.

So there are a lot of opportunity for savings in DOD functions. I talked earlier about trying to get DOD to evaluate its payment processes for contractor pay and other areas. I think DOD needs to be able to come up with estimates on the amount of improper payments in areas of known risk.

The compensation area needs to be looked at too. It is a big driver of cost.

Health care expenditures are a big problem for DOD as well. In the TRICARE program, for example, DOD is not making improper payment estimates in the same way Medicare is doing it. DOD is not looking at whether TRICARE is paying only for services that are medically necessary. We have recommended that TRICARE improve its estimating methods.

So there are a lot of opportunities for savings at the Defense Department.

Senator VAN HOLLEN. Thank you.

Thank you, Mr. Chairman.

Chairman ENZI. Yes, and now it is Senator Johnson's turn. He should have been much earlier because he was chairing a committee meeting that is the one that made me late, but probably the most——

Senator JOHNSON. Sorry about that.

Chairman ENZI. Probably the most efficient markup that I have ever seen, did about 15 bills in 30 minutes.

Senator JOHNSON. That is what accountants bring to the table here. We bring efficiency, right?

Chairman ENZI. Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman.

Our committee is embarking on a new oversight project. We are looking at—I think this is based on an Office of Management and Budget (OMB) report—unexpended funds at the end of fiscal years, both obligated and unobligated. And I think where we have hard data was for fiscal year 2015 we had $1.4 trillion of obligated funds, $896 billion of unobligated funds at the end of the fiscal year.

When they presented this to me, I was pretty well shocked. I am trying to—as long as I have got you both here, I just want to ask: Is there some explanation to this before we get too far into the weeds on this in terms of committee work? I will start with you, Dr. Hall.

Dr. HALL. I do not know of any obvious explanation for it. I mean, certainly it makes sense to look at this sort of thing. But we have not looked hard enough——

Senator JOHNSON. So you are not really aware of what all this is compromised of?

Dr. HALL. No.

Senator JOHNSON. General Dodaro, do you know what I am talking about here?

Mr. DODARO. Definitely. Every year once a President submits a budget, we review what certain agencies have in unobligated funds or carryover funds. Now, some of the time there is multi-year money that is available for obligation and expenditure over multiple years.

Senator JOHNSON. Again, that would be obligated, right? I mean, I can understand that. That would be we have approved a weapons program, and it is obligated over the next 10 years, correct? That would be the obligated portion, right?

Mr. DODARO. Well, sometimes there is multi-year money where the agencies have 2 or 3 years to expend the money; unobligated and obligated funds can be carried over into the next year. That is particularly true in the Defense Department and other areas.

Senator JOHNSON. That would be obligated, right?

Mr. DODARO. No, not necessarily. The budget authority would still be available, but they have up to 2 or 3 years to actually obligate the money. So some of the carryover might be those sorts of authorities and funds.

But we look and scrub certain agency budgets every year. In fact, one of the recommendations, when I testified before your committee last month, was about the Advanced Technology Vehicles Manufacturing Loan Program. We are suggesting there is about $4.2 billion, I believe, in that program that is still unobligated and that Congress could rescind that money.

So in some cases where we identify the fact that the money is no longer going to be used, and Congress can rescind that money. And then sometimes if agencies have carryover money but are also asking for the same money for the next year, Congress can reduce the next year's spending on that program.

Senator JOHNSON. Of the $896 billion of unobligated at the end of 2015, do you have any sense of how much that would be considered just sort of like a slush fund?

Mr. DODARO. Well, no, off the top of my head, I do not.

Senator JOHNSON. We will be doing that oversight, and we will be——

Mr. DODARO. Well, we are very aware of the issue. We look at it systematically, and we would be happy to work with you in this area. I think it is a potential area that needs attention.

Senator JOHNSON. So, Dr. Hall, I kind of want to get into one of my favorite topics, 30-year deficit, and I appreciate the work CBO does in doing projections. You always present it as a percent of GDP, which I think is a very relevant and important figure. But we do not buy hamburgers with a percentage sign. So, my staff has always worked, tried to work pretty closely with you to try and turn that into dollars.

Dr. HALL. Right.

Senator JOHNSON. Now, you do not do this every year, so I have been operating for the last couple of years saying the 30-year projected deficit in dollars was about $103 trillion. Your most recent long-term projection we have converted into dollars, about $129 billion. And I do a one-page income statement on this, pretty well three components: about $18.5 trillion of Social Security deficit in terms of what we pay out in benefits versus what we bring in in the payroll tax; $39 trillion of deficit in Medicare; $64.5 trillion of interest on the debt.

Just kind of comment. Is that roughly accurate in terms of dollars?

Dr. HALL. That sounds right. I do not have the numbers in my head, but that sounds right.

Senator JOHNSON. That is quite shocking, isn't it? And I would just point out that if you need more revenue, rather than looking to increase taxes, we need to grow the economy. I do not think it is widely known that, even with the meager economic growth we have had since 2009, revenue to the Federal Government has increased by about $1.1 trillion per year with meager economic growth. Correct?

Dr. HALL. That is right.

Senator JOHNSON. So, Mr. Chairman, from my standpoint we have to look at what can we do—and, of course, we had an excellent hearing here with former Senator Phil Gramm. You know, what is impeding that economic growth in our market? We talked about regulatory reform. It would be nice if we could get a bipartisan commitment to actually reduce that massive regulatory burden. We have to rationalize our tax system simplify it, make it pro-growth. And I would like to use our energy resources as well.

But, again, I appreciate you for your good work. And, General Dodaro, we will definitely be working with you to figure out these unobligated balances which are, to my mind, pretty shocking.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Warner.

Senator WARNER. Thank you, Mr. Chairman. And, Dr. Hall, it is great to see you. Gene, it is great to see you. I also want to recognize that we have got a number of students from Woodson High School in Northern Virginia here. Maybe they can see some of the cooperation and ideas that we wrestle with.

I would simply point out, before my friend Senator Johnson leaves the room, that we have had this debate a number of times, and I do believe we need to deal with our entitlements. But I would simply again point of the 34 industrial nations in the world, America ranks 31st in terms of total revenues as a percent of GDP. So I actually believe we have a combination of the worst: we have the worst, most complicated Tax Code with highest nominal rates, yet we on a relative basis, compared to all of our competitors, many of which have at least lower corporate rates, are way behind them in terms of revenues collected.

But I want to try to drill down from the global to a little bit more of the mundane, and one of the areas that I get very, very frustrated with, Dr. Hall—and this is a CBO scoring change that took place I think around 2012, 2013, and it deals with the Veterans Administration leasing of facilities. Up until that time, the way those were scored was whatever the least cost happened to be that year, that would be what would be budgeted. That would be charged against the Government. Now CBO has changed the scoring mechanism where you have to, in effect, aggregate at least the budget authority for the whole 10- or 20-year lease. I do not know any business around that would say you have to collect all of your 10- or 20-year lease payments before you enter into an agreement to provide in this case veterans' health care in areas that are desperately needed. There are 15-odd different VA facilities that have fallen into this category in a whole series of States—Maine being one. I know in Virginia we have got the fastest-growing veterans population down in Hampton Roads. This is down Virginia Beach and Hampton. Our VA facility is one side of the water. The growth is mostly on the other side, called the "South Side." We have been anxiously awaiting this new facility, 155,000-square-foot facility, for years.

It is hard for me to explain to students, or anybody else for that matter, why rationally we cannot get those facilities, provide that health care, short of aggregating together 10 years' worth of lease payments on the front end. No rational business would do that.

So, Dr. Hall, I guess my biggest question is: Hopefully you are aware of this, and if you are not aware of this, will you commit to working with us so that we do not have to go through a whole legislative process to change your scoring framework, a scoring framework that did not exist prior to 2012, in a way that makes some rational approach to this?

Dr. HALL. Yeah, we would be happy to follow up and talk with you.

Senator WARNER. Well, I want more than a follow-up commitment. I want a commitment that we are going to work this out and we are going to work through this issue, because we increased the spending on the VA, yet if we do not translate that into service for in this case veterans' health care, there is no way I can go back straight-faced and say we have got this facility, we have got to aggregate literally tens and tens of millions of dollars on the front end, when the actual lease payments on an annual basis do not affect the budgetary obligations of the Government in any bigger way.

So I will take that as a commitment that we are going to work through this.

Dr. HALL. Sure.

Senator WARNER. And the next time we visit, the legislation that Senator King and I and others, bipartisan, are working on, we will not need this because CBO will come to a rational conclusion.

Dr. HALL. OK. We are happy to work with you.

Senator WARNER. I am going to take that as a yes.

Gene, let me move to you for a minute. I really appreciate the fact that you raised the issue on IT modernization and legacy systems, and I think your testimony pointed out that this is, again, one of the things that people scratch their heads. This is almost the reverse of the VA issue. We spend $88 billion a year on IT at the Federal Government level, I think your numbers, of which $75 billion of that are basically patching old legacy systems. Senator King and I sit on the Intel Committee. We had a brief yesterday on vulnerabilities in cyber. Every time you patch, beyond the fact that you have an old legacy system that is out of date, but every time you patch you create more cyber vulnerability.

So, you know, Gene, I would love to hear from you. What do you think ought to be the ratio in terms of actually investment in new systems in IT versus simply patching? And we have got, again, some bipartisan legislation that would allow us to kind of—again, the reverse, aggregate the dollars so you can go ahead and buy those new legacy systems rather than simply patch—junk some of those legacy systems and buy new IT systems rather than patching.

Mr. DODARO. Well, in some cases some of those systems are not even supported by the vendors anymore, so I am not sure they are even being patched, which is an additional problem. I think you ought to have at least about a third in new systems and investments to get the best use out of technology. I will go back and look at it and give you a better number based on private sector practice. But these legacy systems are a millstone around the agencies' necks, and are creating a lot of cyber problems.

I mentioned in my statement that we identified cybersecurity as a high-risk issue in 1997. This is the 20-year anniversary. I have been trying to get agencies to focus——

Senator WARNER. That is when you were still young.

[Laughter.]

Mr. DODARO. That is right.

Senator WARNER. You were only a lieutenant general at that point.

Mr. DODARO. We have over 1,000 open recommendations that we have made to agencies to fix their cybersecurity issues, and they have not yet attended to those issues. And this is in the face of all these known breaches and other cybersecurity problems. We need a cultural change in dealing with these activities, and I am very concerned about them because I think we remain highly, highly vulnerable. But we have got to get out of the legacy systems mode.

In my statement there is a table of the oldest systems in the Government. Some are over 50 years old. You talked about VA. The system used for scheduling of VA patients for appointments right now is over 30 years old. And we have got to go to commercial solutions for a lot of these areas, which I think will result in new technologies coming in faster. And the Government cannot build them anymore. They ought to buy more in that area.

Senator WARNER. Thank you Mr. Chairman.

Chairman ENZI. In regard to your leasing problem, you and I need to get together on capital budgeting.

Senator WARNER. I support that.

Chairman ENZI. Senator Boozman.

Senator BOOZMAN. Thank you, Mr. Chairman, and thank you all for being here. We appreciate your hard work.

Mr. Dodaro, I was really pleased in your testimony in regards to improper payments. As you said, in fiscal year 2016 those added up to more than $144 billion with around 93 percent of those being overpayments. When you look at the deficit for that same fiscal year, it was $587 billion. Would it be accurate to say that this means that closer to a quarter of our deficit in fiscal year 2016 could be attributed to improper payments?

Mr. DODARO. The numbers work out that way. I am not sure you could save all $144 billion at once. I do not think we can solve our deficit by reducing improper payments alone.

Senator BOOZMAN. No, no, no. But I guess my point and your point—and I think it is a point that we need to emphasize—is that, you know, that is something that being more aggressive in that area, that is something that would save a lot of money.

Mr. DODARO. Oh, definitely. I think you would save a lot of money. It would make it easier to deal with our long-term problems. It will not solve it.

But on the other side, we have a tax gap of over $400 billion on an annual basis of revenue that should be coming in that is not. So we have money going out the door that should not and revenue not coming in that should. Both of those things would help.

Senator BOOZMAN. Let me ask you a follow-up on cyber, which is so important. One of the things in dealing with Homeland, I hear reports that perhaps we make a contract, and then with the procurement process that goes on, we are getting this up-to-date version of whatever we need to do, OK? But with the procurement process the way it is, it might be 4 or 5 years until that works out, and then what we wanted, which was up to date at that point, is no longer up to date. Is that a fair statement?

Mr. DODARO. There is a lag time in that area that I think is important, and I think——

Senator BOOZMAN. Any lag time—and, again, I do not mean to interrupt, but any lag time in that area, with the technology, we simply have to figure out with things like that how to have a more efficient process, or we waste a tremendous amount.

Mr. DODARO. Right. What we have suggested—and this is the policy of the administration now for a while—is incremental development where an IT project is delivering functionality every 6 months. If agencies use that approach, they can stay more up to date rather than have these multi-year procurement efforts to try to purchase a system that by the time they get it, it is out of date. So if agencies use more incremental development, they can stay more up to date.

Senator BOOZMAN. Now, I am hearing even with software updates that it might take 2 years to get a software update on a piece of equipment in the sense of——

Mr. DODARO. That seems awful long to me. I would have to go back——

Senator BOOZMAN. It seems awful long to me.

Mr. DODARO. I am not sure that that is always an accurate statement. Agency officials might say that. But they could purchase a lot of this software and updates off the General Services Administration (GSA) list. So, I would have questions about the procurement strategy first. But if that is the case, it is too long.

Senator BOOZMAN. OK. Very good.

One of the charts in your report points out a 76 percent error rate within the VA Community Care Program. As a member of the Senate Veterans' Affairs Committee, that is bothersome. As we focus on the future of these programs and undertake the consolidation of community care, are there specific reforms you believe could be helpful in getting these improper payments under control?

Mr. DODARO. Yes.

Senator BOOZMAN. What do we need to do about it?

Mr. DODARO. Well, VA needs to follow the Federal Acquisition Regulations. That is really the reason why many payments in that program are improper payments judged by the Inspector General at the VA. So VA has to follow the rules like we require everybody else to.

Senator BOOZMAN. Very good. Well, that is simple enough.

[Laughter.]

Senator BOOZMAN. Thank you, Mr. Chairman.

Chairman ENZI. The ever patient Senator King.

Senator KING. Thank you, Mr. Chairman.

First, I want to say you two gentlemen are unsung heroes. You do your job professionally, straightforward. In a sea of partisan politics, you manage to go through it with grace and aplomb, and I appreciate that—except, Dr. Hall, your hero designation has an asterisk. We have got to fix this lease problem with the VA that Senator Warner talked about. If we can get that straightened out—because we have got veterans in Maine that want and need care, and we have got a program ready to go, and I think this is an accounting issue, and we ought to be able to resolve that. So if you want to get your full hero status, work with us to get that taken care of.

[Laughter.]

Senator KING. Mr. Dodaro, you and I talked about this sometime before. It is not in your report today, but as I recall, there is also a figure for undercollection of taxes.

Mr. DODARO. Yes.

Senator KING. What is that number?

Mr. DODARO. That number, the net tax gap is $406 billion. That is an——

Senator KING. A year?

Mr. DODARO [continuing]. Annual estimate. A year.

Senator KING. So $406 billion a year of undercollections, about $145 billion of improper payments, add those together, interestingly enough, it is almost—well, it is slightly above this year's projected deficit.

Mr. DODARO. Yeah, both are significant issues, and we have many recommendations to address both.

Senator KING. And I appreciate that, and I have seen your recommendations. Let me skip to what was going to be my last question. You have got all these recommendations. How do we systematically be sure that they are implemented? You mentioned slight frustration that you have made the recommendations; you have got all these agencies. Don't we need somebody in the Government whose job it is to wake up every morning and be sure that these things are done, somebody in OMB or the White House or someplace?

Mr. DODARO. I have met with Director Mulvaney. I have sent him a letter of open recommendations. I am meeting with all the new heads of departments and agencies. I am sending them a letter with open GAO recommendations that required priority attention of their agencies.

Senator KING. My experience is that unless someone has the responsibility for making these things happen——

Mr. DODARO. Right.

Senator KING. If it is only eighth on their list of everything else they have got to do, it is not going to happen.

Mr. DODARO. I agree with that. And you could charge OMB with doing it within the executive branch. With all due respect and at risk of losing my hero status, a lot of this has to be done by the Congress.

Senator KING. Well, I would like your recommendation as to how we might further—not in detailed implementation, but is there some structural way that we can get at the problem of lack of implementation of your very good suggestions?

Does the $144 billion of improper payments, or what we call them, does that include any estimate of the same thing in the Defense Department?

Mr. DODARO. Only to a limited extent.

Senator KING. It does not. So I assume there is another fairly large number there.

Mr. DODARO. There could be. And you could have a small error rate with the size of DOD's payments and have a very significant number.

Senator KING. Yeah, their total budget is about equal to the rest of the Federal Government budget.

Mr. DODARO. For discretionary spending.

Senator KING. Right, right. Roughly, yeah.

Mr. DODARO. Right.

Senator KING. I am interested to note that your estimate on improper payments, 75 percent are in three areas: Medicare, Medicaid, and the EITC. So that suggests that that is where we should be concentrating our attention to get 75 percent of the savings.

Mr. DODARO. Right. And we have recommendations for the EITC, for example, and Congress can act on this. Number one would be to give Treasury authority to require more electronic filing of W–2s. In mid-February, there were still 17 million paper W–2s sitting at SSA that had not gotten to the IRS yet, and they could have used such information to review EITC claims.

Second would be to give IRS correctable error authority. This would allow IRS to correct tax returns that do not match a database that is already in the Government.

And third is to give the IRS the authority to regulate unenrolled tax preparers. For tax returns prepared by an unenrolled tax preparer, the error rate for refundable tax credits——

Senator KING. I noticed that was one of the big——

Mr. DODARO [continuing]. Is higher than people who file their own returns themselves. And it is a big part of the issue.

Senator KING. Well, not to mention the fact that processing an electronic return is about a tenth as expensive as a paper return.

Mr. DODARO. Right.

Senator KING. I remember when we switched in Maine to electronic, and it made a huge difference just in the overhead of the department.

Procurement. I am on the Armed Services Committee, and procurement is one of our biggest issues, particularly in Armed Services, but throughout the Government. You mentioned it. I would say that the Federal procurement system is Byzantine, except I would not want to insult the Byzantium Empire.

[Laughter.]

Senator KING. We have really got to have some kind of systematic review of how we do procurement, because my sense is it has built up over the years in a kind of accretion way, all the rules, regulations, safeguards, prohibitions, to the point where—well, for example, we have learned in Armed Services that Silicon Valley will not deal with the Pentagon. The small and innovative companies just do not want to be bothered because it is such a hassle, even though they could be contributing significantly to our national security.

My time is up, but better IT investments, that gets to the procurement piece, I think. And as I say, I think in the end we have got to have some systematic way—there has got to be somebody whose job it is, the saving czar or something—I do not know what you want to call them—whose job it is to chase these things on a consistent basis. Otherwise, it will just fall down into the nether world of various agencies.

Oh, I had one more question. Do you have a number for return on investment in the IRS in terms of undercollection? In other words, for $1 invested in the IRS in enforcement, what is the return to the Treasury?

Mr. DODARO. The Commissioner of IRS says 1:4. You know, for every $1 invested, $4 are returned. The caveat I would give on that is that IRS does not have enough return on investment (ROI) information for specific types of enforcement strategies.

Senator KING. Right.

Mr. DODARO. Providing IRS with additional money will eventually produce more revenue. But is IRS really maximizing the investment that the Congress is making in them to maximize that return on the investment? We have said they could do better in that regard.

Also, on enforcement of our recommendations, there is a bill that Senator Johnson and Senator McCaskill are working on with a lot of our open recommendations for cost savings, and so I would just mention that to you as well. They have committed to follow up on those recommendations that are addressed to Congress.

Senator KING. Thank you very much. Thank you for your testimony.

Mr. DODARO. Sure.

Senator KING. Mr. Chairman, thank you, and I am looking forward to working with you on capital budgeting.

Chairman ENZI. Thank you. Thank you for your variety and excellent questions.

As an accountant, I am always interested in that number of how many dollars are collected versus how much is spent. And it does not do any good if you spend just as much as you collect.

Senator KING. I would like to see it go toward Federal deficit reduction.

Chairman ENZI. The accounting firms usually have a much better return, but as the Comptroller said, it is because they are more selective in who they are auditing. And we have more general rules on how they have to do this audit, which means we are not going after the worst first, which I think could increase it.

I will not always be leaving my time until last, even though I always have to stay for the end of the hearing.

[Laughter.]

Chairman ENZI. But I am always pleased with the variety of questions that we get and the variety of information that you folks have at your fingertips.

On the Federal IT, we did pass in 2014 the Federal Information Technology Acquisition Reform Act, which we were hoping would take care of some of the problems. What is the status of that implementation? Has it resulted in cost reductions yet for the Federal Government? Any estimates on how much?

Mr. DODARO. There are not any estimates yet on how much has been saved, but it is being implemented. If effectively implemented, I think it would lead to a lot of improvements.

One thing I am concerned about, Senator, in this regard is that that legislation was to give the Chief Information Officers more authority to make sure that they approved the IT budgets, and they had a role in the procurements, and that is a little bit of a mixed record so far. We are looking at that. I think that requires some more oversight by the Congress.

Also, data center consolidations were supposed to improve and lead to cost savings. So far it has saved a couple billion dollars. There are more savings to be had there, but the agencies are not setting aggressive numbers. We think there could be more savings in data center consolidations.

Also, on portfolio management, there has been a little bit of a retrenchment of what agencies think they could save. So we are looking at that issue, and it is a very important part of what GAO is doing.

So we will provide you regular status reports, but so far it is off to sort of a mixed start, and it is to be determined how much will be saved.

Chairman ENZI. Well, sometimes those things just need a little bit of emphasis. Maybe we need to add the emphasis.

Mr. DODARO. That would help.

Chairman ENZI. Thank you. I am going to switch over to the pension system now because some people have recommended that the pension system be changed to a defined-contribution-only plan. Very few private sector companies continue to offer defined benefit plans for new employees. How might such a conversion score in a budget window? This is for Dr. Hall, of course. I assume that the current scoring rules would be a problem because any savings would appear outside the budget window.

Dr. HALL. Right, sure. In this case, of course, details matter, sort of how it is phased out and how defined contributions are set and that sort of thing. But you are right, in defined benefit, the savings would take place once people retire, so it would be often outside the 10-year budget window, while the drop in revenues would occur now. So on the 10-year budget window, phasing out a defined benefit plan would look like a loser over 10 years when, in fact, some of the benefits would occur outside the 10-year window, and over a long time period it would not look that way.

Chairman ENZI. One of the reasons we are looking at pensions in general is that we require private firms to invest money and we have requirements on how much so that there is relative assurance that when their employees retire, they will get what they were owed. And we discovered that in the Federal Government, very little money is contributed by the employees, and none of it is invested. So as we run out of money in the Federal Government, our pensions, our employees' pensions, the administrative branch's pensions, your pensions are not really guaranteed. So we need to be taking a look at the entire pension system for the Federal Government, and I guess that would include the military as well, because we really do not budget anything in a mandatory way. We do it out of discretionary. And that could create a few problems.

Again, for the Comptroller General, in the improper payments, they could get worse before they get better. Are there lessons that we can learn from the private sector, such as using some enhanced data analytics to prevent the improper ones? Are agencies making the best use of the Do Not Pay initiative that was designed for this purpose?

Mr. DODARO. First, there are definite lessons that the Federal Government can learn from the private sector. Over the past several years, I have convened forums that involve various people from the Federal, State, and local level as well as private sector to get ideas about doing this.

There is a Health Care Fraud Prevention Partnership that involves private sector insurance firms along with HHS and others. They have identified hundreds of potential fraud schemes and also have led to savings in the Federal Government.

So I think the private sector definitely has a lot to offer, and it is very good to have partnerships. For example, the American Council on Technology and Industry Advisory Council is a nonprofit educational organization that includes private sector entities. We are going to be working with them to focus on health care fraud and ideas that the private sector has to resolve that. OMB is participating and Treasury as well.

Now, with regard to the Do Not Pay working system, we have found that it was only used in limited circumstances. It could be used more. We made recommendations to OMB to have a strategy to get agencies more involved in using the Do Not Pay working system. And we also made a recommendation to the Congress in order to amend the Social Security Act so Social Security could give all the death records to Treasury's Do Not Pay program to match against.

Chairman ENZI. Thank you. Thank you, both of you, for all of your answers today. Comptroller General, on those open recommendations that you have, if you could supply us with a copy of that as well.

Mr. DODARO. I would be happy to, Mr. Chairman.

[The referenced information follows:]

USE OF THE DO NOT PAY WORKING SYSTEM

(1) To help ensure that agencies use the Do Not Pay (DNP) working system—a centralized data-matching service—to help reduce improper payments, we recommended that OMB:

—develop guidance that clarifies whether the use of DNP's payment integration functionality is required and—if required—the circumstances and process in which agencies may obtain an exemption from this requirement.

—develop a strategy—and communicate its strategy through guidance—for how agencies should use the DNP working system to complement existing data matching processes and whether and how agencies should consider using the DNP working system to streamline existing data matching. Such guidance may cover how agencies should demonstrate that their data matching processes meet the requirements in the Improper Payments Elimination and Recovery Improvement Act of 2012, whether agencies can decide on their own which specific databases to use, and how agencies should use the functionalities available through the DNP working system.

—provide additional guidance that outlines when and how agencies should verify DNP matches against a secondary source and provide individuals an opportunity to contest before taking adverse actions as a result of DNP matches.

—develop and implement monitoring mechanisms—such as goals, benchmarks, and performance measures—to evaluate agency use of the DNP working system.

(2) We also suggested that Congress should consider amending the Social Security Act to explicitly allow SSA to share its full death file with Treasury for use through the DNP working system, which could strengthen agencies' efforts to prevent improper payments to deceased individuals.

Chairman ENZI. Thank you.

And I would remind members of the committee, even the ones that are not here—I do not know how they hear it, but if they have questions or if anybody has additional questions, if they submit them by close of business today, we will pass those on to you for additional information or clarification.

Thank you very much for your participation. This hearing is adjourned.

[Whereupon, at 12:01 p.m., the committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

CHAIRMAN ENZI'S QUESTIONS FOR THE RECORD
BUDGET COMMITTEE HEARING:

RUNNING THE GOVERNMENT FOR LESS

Date: Wednesday, May 17rd, 2017
Location: 608 Dirksen
Time: 10:30 AM

Question #1: Secretary of Defense Jim Mattis wants to maximize the combat power of the military by reinvesting savings from better management of the Pentagon. Today, the Defense Department clearly spends too much on its support functions and overhead. For instance, a 2015 Defense Business Board study mapped out a plan to achieve $75-150 billion in savings over 5 years by applying private-sector best practices to the Pentagon's core business processes.

What are the major opportunities for savings you see in the department's support functions?

GAO Response:

We see significant opportunities for savings from headquarters reductions and business systems modernization.

Department of Defense (DOD) headquarters reductions. DOD headquarters functions have significantly grown over the years. For example, headquarters positions at the Functional Combatant Commands increased by about 84 percent from fiscal year 2004 to fiscal year 2013. DOD does not conduct periodic and systematic reviews of its headquarters requirements at the DOD elements we reviewed. In addition, up until 2015, DOD did not have a comprehensive definition of what constituted a major headquarters activity, but has since developed a definition and is working to establish a baseline for some of its organizations, as we had recommended.

The National Defense Authorization Act for Fiscal Year 2016 required DOD to implement a plan to ensure it achieves not less than $10 billion in cost savings from headquarters, administrative, and support activities for fiscal year 2015 through fiscal year 2019. We are reviewing DOD's efforts to do this. Preliminarily, we are finding that DOD does not have plans to achieve the required cost savings by fiscal year 2019, and there is limited support for the approximately $8 billion in cost savings they have identified to date. For example, about $5.3 billion of the approximately $8 billion was self-reported cost savings from subordinate organizations that DOD itself has deemed "not auditable" because the baselines for reductions were not established.

We have five priority recommendations related to DOD headquarters management that the department has not yet addressed. These recommendations are related to (1) collecting reliable information on the costs associated with functions within headquarters organizations; (2) determining requirements to identify opportunities for more efficient use of resources; (3) establishing a baseline to improve the management of headquarters reduction efforts; (4) ensuring that headquarters organizations are properly sized to meet assigned missions; and (5) improving DOD's ability to identify how many headquarters personnel it has, including contractors. DOD has recently undertaken initiatives intended to improve the efficiency of headquarters organizations and identify related cost savings, but these efforts are in the early stages and it is unclear to what extent these initiatives will be fully implemented and result in meaningful savings.

Our body of work in this area has found that over the past decade, authorized military and civilian positions have significantly increased within DOD headquarters organizations. Data provided by five geographic combatant commands, excluding U.S. Central Command, reveal that authorized military and civilian positions increased by about 50 percent from fiscal years 2001 through 2012, to about 10,100 authorized positions. In addition, mission and headquarters support costs at the combatant commands more than doubled from fiscal years 2007 through 2012, to about $1.1 billion. DOD has also increasingly relied on contractors to perform headquarters functions, but their identification and inclusion in headquarters reporting is incomplete.

The size of these organizations has recently leveled off or begun to decline. However, DOD's plans for future reductions are not finalized. For example, the Office of the Secretary of Defense experienced a 20 percent net increase in its authorized military and civilian positions from fiscal years 2001 through 2013. By more appropriately sizing DOD's headquarters activities, DOD could potentially save billions. We will continue to monitor DOD's progress in this area and implementation of our outstanding recommendations, which we have designated as a priority for the department to address.

DOD Information Technology Investments. DOD relies heavily on the use of information technology (IT) to meet its missions, and opportunities exist for DOD to make more efficient investments. For fiscal year 2017, DOD reportedly planned to spend $38.6 billion on IT investments. Data center consolidation could potentially save the federal government billions, but weaknesses exist in DOD's execution of this initiative. We recommended that DOD report cost savings from data center consolidation to OMB. DOD has taken initial steps to do this, but has not yet fully reported its savings, and savings estimates have declined sharply since last year. DOD has assessed some IT programs for potential duplication and overlap, but has not demonstrated that it is actively and consistently conducting these assessments to eliminate duplicative systems, risking continuing to make investments in potentially duplicative systems. As discussed below, strategic sourcing—a process that moves agencies away from numerous individual procurements of goods and services to a broader aggregate approach—is also a significant source of potential savings for DOD.

What recommendations do you have for better workforce management at DoD?

GAO Response:

DOD's workforce consists of more than 3.4 million people (military, civilian and contractor). We have identified several areas that DOD can work on to improve its workforce management:

- DOD is required by Congress to address the appropriate mix of its military, civilian and contractor personnel in its strategic workforce plans, but has not yet done so. To do so DOD needs to identify job functions that are inherently military, inherently governmental, or neither—which could be contracted out.
- DOD's military compensation system has become a complex and piecemeal addition of pays, allowances and benefits that have evolved over the years, costing over $200 billion each year. DOD needs a total compensation approach to balance appropriateness, affordability and sustainability of personnel-related costs.
- DOD can better manage its special and incentive pays, which it spent over $3.4 billion on for active duty service members in fiscal year 2015. These pays are used to recruit and retain for occupations that are dangers, less desirable, or require special skills. For example, services do

not routinely assess whether non-monetary incentives could be used versus less costly approaches.

- DOD has taken some steps to evaluate whether some military pay and benefits effectively help the department meet its recruitment and retention goals. However, the assessments have not been comprehensive, and DOD has not used the results to develop a compensation strategy.

DoD now spends more on services contracts than on weapons contracts, yet we spend most of our time addressing the latter. How can we rein in the cost of services contracts?

GAO Response:

A key element to being more strategic in acquiring services is knowing how and where service acquisition dollars are currently being spent and how those dollars will be spent in the future. We found in February 2016 that program offices within each of the military departments that we met with maintained data on current and estimated future spending needs for contracted service requirements, but they did not identify service contract spending needs beyond the next year, as they were not required to do so.[1] We recommended that the military departments revise their programming guidance to collect information that is already available on how contracted services will be used to meet requirements beyond the budget year. We also recommended that DOD establish a mechanism, such as a working group of key stakeholders, to coordinate these efforts. DOD partially concurred with these two priority recommendations, citing challenges in estimating future spending, but as of May 2017, had generally not taken action to address them.

Further, increasing DOD's use of strategic sourcing approaches could produce cost savings. As the federal government's largest procurement agency, DOD has opportunities to leverage its buying power to reduce prices, improve quality, and otherwise enhance supplier management and performance. We have found that leading commercial companies often manage 90 percent of their spending using strategic sourcing and generate 10 to 20 percent savings in doing so.

In contrast, we have reported that DOD components (Navy, Air Force, and Army) managed between 10 and 27 percent of their $8.1 billion in spending on information technology services through their preferred strategic sourcing contracts in fiscal year 2013. By awarding hundreds of potentially duplicative contracts, these components diminished the department's buying power.[2] Further, the low utilization rate of federal strategic sourcing initiatives contracts by DOD and other federal agencies resulted in missed opportunities to leverage buying power. In this case, the Federal Strategic Sourcing Initiatives reported an estimated savings of $470 million between fiscal years 2011 and 2015, an overall savings rate of about 25 percent. In fiscal year 2015, however, the seven large agencies that comprised the Leadership Council—a cohort of large federal agencies responsible for federal strategic sourcing initiatives—directed less than 10 percent of their spending on the types of goods and services offered under federal strategic sourcing initiatives in fiscal year 2015, resulting in a missed opportunity to potentially have saved over $1 billion.[3]

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[1]GAO, *DOD Service Acquisition: Improved Use of Available Data Needed to Better Manage and Forecast Service Contract Requirements*, GAO-16-119 (Washington, D.C.: Feb. 18, 2016).

[2]GAO, *Strategic Sourcing: Opportunities Exist to Better Manage Information Technology Services Spending*, GAO-15-549 (Washington, D.C.: Sept. 22, 2015).

[3]GAO, *Federal Procurement: Smarter Buying Initiatives Can Achieve Additional Savings, but Improved Oversight and Accountability Needed*, GAO-17-164 (Washington, D.C. Oct. 26, 2016).

Question #2: Your testimony mentions that Federal Real Property has been on the GAO High-Risk list since 2003. How much money do we spend each year maintaining properties that the Government no longer uses or needs? Why does the General Services Administration (GSA) lease so much expensive property, if it is often more cost-effective to purchase space? Do we have a good sense of the size and value of the federal government real property inventory? Do we know how much of the property is used, and how much is not used, or is underutilized?

GAO Response:

As of 2016, the Federal Real Property Profile (FRPP) listed 4,256 domestic, civilian buildings as unutilized or underutilized. According to FRPP, these buildings cost over $100 million annually to operate. We have not verified these statistics. However, we have found that key data elements for answering this question – utilization and annual operating cost – were not defined and reported consistently and accurately. GSA's efforts to improve the reliability of real property data are ongoing. In April 2016, we recommended that GSA take additional steps to improve the quality of real property data. That recommendation remains open and is considered one of seven high priority recommendations for GSA.

Managing Federal Real Property has remained a High Risk Issue since 2003 in part because the federal government relies too heavily on costly leasing in cases when ownership would be less costly in the long run. In past work, we have found that GSA relies heavily on costly operating leases to meet new long-term needs because it typically lacks upfront funding needed to purchase buildings or space. Operating leases were intended for short-term needs, and thus, under the budget scorekeeping rules[4], only the amount needed to cover the first year's lease payments plus cancellation costs needs to be recorded in the budget. In September 2013 we recommended that GSA create a long-term strategy for targeted ownership investments in particularly costly leases. The recommendation remains open and is considered one of seven high priority recommendations for GSA.

The federal government's real estate portfolio is vast and diverse—including approximately 112,000 buildings that are federally owned and managed by civilian agencies. In addition, DOD manages a global real property portfolio that consists of more than 562,000 facilities, located on about 4,800 sites worldwide, and covering more than 25 million acres. DOD estimates the infrastructure replacement value of this property at about $880 billion.

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[4]Budget scorekeeping rules were established based on the Budget Enforcement Act of 1990. The purpose of these rules is to ensure that the House and Senate Budget Committees, the Congressional Budget Office, and OMB measure the effects of legislation consistently and meet specific legal requirements. They are also used by OMB for determining amounts to be recognized in the budget when an agency signs a contract or enters into a lease. Upfront funding is the best way to ensure recognition of commitments embodied in budgeting decisions and maintain governmentwide fiscal control. Under these rules, for a construction or purchase project or a capital lease, the full cost of the project must be recorded in the budget in the year in which the budget authority is to be made available.

Question #3: Please describe the status of the PortfolioStat initiative, which is intended to maximize the return on IT investments across the Government.

<u>GAO Response</u>:

In 2012, the Office of Management and Budget (OMB) launched the PortfolioStat initiative, which required federal agencies to perform annual reviews of their information technology (IT) portfolios to reduce duplicative, low-value, and wasteful investments and identify cost savings and avoidances. The reviews were to be performed by the Federal Chief Information Officer (CIO) and agency CIOs and Deputy Secretaries (or equivalent). Recognizing their importance, Congress codified the reviews into IT reform legislation commonly referred to as the Federal Information Technology Acquisition Reform Act or FITARA, in December 2014.[5] As of June 2017, the Office of Management and Budget (OMB) reported that agencies had achieved about $2.6 billion in cost savings and avoidances.

However, our work has highlighted concerns with both OMB's and agencies' implementation of the PortfolioStat initiative that have made it difficult to determine the extent to which the initiative is achieving its goals. We have made recommendations to address these concerns, which could help agencies identify additional opportunities for savings and cost avoidances and ensure these savings and avoidances are realized. For example:

- In April 2015, we reported that OMB did not track agencies' progress against their planned savings.[6] OMB stated that this was because agencies kept changing their plans, making it difficult to track progress against them. We noted that it was important to have a baseline to hold agencies accountable for implementing their planned initiatives and also to ensure there were no missed opportunities for achieving additional savings. Accordingly, we recommended that OMB track agencies' progress against planned savings. As of March 2017, however, OMB stated that it still did not track planned savings and it did not provide any plans to do so.
- In addition, we reported that agencies had significantly revised their planned savings estimates for fiscal years 2013 through 2015, from $5.8 billion to about $2 billion, with DOD accounting for the largest decrease. We also identified inconsistencies in agencies' reporting of their actual savings. Thus, we recommended that OMB ensure its reports on agencies' IT reform efforts accurately reflect savings generated from all PortfolioStat initiatives. OMB has taken action to address this recommendation, including requiring that agencies report separately on data center optimization efforts; however, we have not yet determined whether agencies' reporting has improved as a result of these actions.

In light of these concerns and other related ones we have reported on, we recently highlighted streamlining agencies' portfolios of IT investments as one of several areas needed to improve the management of IT acquisitions and operations warranting the OMB Director's personal attention.

[5]Federal Information Technology Acquisition Reform Act provisions of the Carl Levin and Howard P. 'Buck' McKeon National Defense Authorization Act for Fiscal Year 2015, Pub. L. No. 113-291, div. A, title VIII, subtitle D, 128 Stat. 3292, 3438-3450 (Dec. 19, 2014).

[6]GAO, *Information Technology: Additional OMB and Agency Actions Needed to Ensure Portfolio Savings Are Realized and Effectively Tracked,* GAO-15-296 (Washington, D.C.: Apr. 16, 2015).

SENATOR HARRIS'S QUESTIONS FOR THE RECORD
BUDGET COMMITTEE HEARING:

RUNNING THE GOVERNMENT FOR LESS

Date: Wednesday, May 17rd, 2017
Location: 608 Dirksen
Time: 10:30 AM

Question #1: As you know, the Trump administration plans to cut the State Department and USAID budget by more than 30%. Secretary Tillerson has reportedly conveyed that he may not spend funds appropriated by Congress for the State Department if that amount exceeds the President's request. If true, could this present a violation of U.S. law – such as the Impoundment Control Act (ICA) of 1974, which requires the approval of Congress to defer or rescind appropriated funds?

GAO Response:

To determine whether such an action is an impoundment would require consideration of the following legal elements. The Impoundment Control Act of 1974 (ICA) provides authority for agencies to "impound," or withhold, the obligation of funds in certain circumstances. Pub. L. No. 93–344, title X, 88 Stat. 297, 332 (July 12, 1974), *classified at* 2 U.S.C. §§ 681–688. The ICA separates impoundments into two exclusive categories: deferrals (temporarily withholding) and rescissions (permanent withholding). The President must send a "special message" to notify both Houses of Congress. An agency may only withhold funds from obligation if the President avails himself of the procedures under the ICA. B-307122, March 2, 2006.

The President may defer the obligation of funds only to provide for contingencies, to achieve savings made possible by or through changes in requirements or greater efficiency of operations, or as specifically provided by law, but not for policy reasons. (OGC-94-17, Nov. 5, 1993; OGC-91-3, Feb. 5, 1991; B-237297.7, June 28, 1990.) Congress may enact a law to disapprove of a deferral and compel the President to release the funds for obligation. *See, e.g.,* Pub. L. No. 101-519, § 125, 104 Stat. 2240, 2247 (Nov. 5, 1990) ("The Congress disapproves the deferrals relating to the Department of Defense as set forth in the message from the Comptroller General transmitted to the Congress on June 28, 1990 (H. Doc. 101-210)."

The President may propose a rescission to Congress for any reason, including policy reasons. Any amount of budget authority proposed to be rescinded must be made available for obligation unless Congress, within 45 legislative days, completes action on a rescission bill.

Question #2: What agency actions would constitute a violation of the Impoundment Control Act (ICA)? What agency actions would violate the ICA?

GAO Response:

- An agency withholds funds for an authorized reason, like to improve program efficiency, but fails to send a special message. (OGC-94-17, Nov. 5, 1993; OGC-91-3, Feb. 5, 1991; B-237297.7, June 28, 1990.)
- An agency refuses to obligate funds for policy reasons. *Train v. City of New York*, 420 U.S. 35 (1975) (President Nixon improperly directed EPA to disburse to the States only about half of funds appropriated for water pollution assistance).
- An agency sets aside funds or intentionally slows down spending in anticipation of proposed cancellations or rescissions of previously appropriated funds. (B-308011, Aug. 4, 2006; B-307122, B-307122.2, Mar. 2, 2006.)
- An agency proposes a deferral but the timing is such that "funds could be expected with reasonable certainty to lapse before they could be obligated, or would have to be obligated imprudently to avoid that consequence." 54 Comp. Gen. 453 (1974) (discussing our reporting responsibilities when a deferral is misclassified). We have called these "de facto rescissions."

What agency actions would not violate the ICA?

GAO Response:

- An agency delays obligating funds for programmatic reasons. GAO, *Budget Issues: Reprogramming of Federal Air Marshal Service Funds in Fiscal Year 2003*, GAO-04-577R (Washington, D.C.: Mar. 31, 2004) (congressional consideration of reprogramming notification); OGC-90-4, Mar. 6, 1990 (design modification); B-115398.51, Sept. 28, 1976 (low number of loan applications).
- An agency chooses to reprogram amounts under a lump-sum appropriation. *Lincoln v. Vigil*, 508 U.S. 182 (1993) (agency use of its lump-sum appropriation is wholly committed to its discretion, notwithstanding indicia in legislative history).
- An agency delays obligating funds or budget authority expires because of ineffective or unwise program administration. B-229326, Aug. 29, 1989 (an unlawful impoundment must be accompanied by clear intent to withhold budget authority).
- An agency improperly obligates funds, although this may violate other statutes. 64 Comp. Gen. 359 (1985) (NIH would violate the *bona fide* needs statute by using fiscal year appropriations for multiyear grants).

Question #3: Just two weeks ago, with the passage of the FYI7 Omnibus, Congress appropriated more funding for the State Department and USAID than requested by the administration. Is GAO examining the State Department's operating and spending plans to ensure all such FYI7 funds are obligated, and if not, are properly notified to Congress?

GAO Response:

We are examining impoundment issues as part of our ongoing budget justification review (BJR) of the President's fiscal year 2018 international affairs budget request. We conduct BJRs annually to assist Congress in its deliberations on the President's budget request. As part of our ongoing BJR work, we will identify any international affairs accounts with large unobligated balances for fiscal year 2017, particularly accounts that received appropriations greater than the President's request. We will determine the period of availability for unobligated funds in these accounts to identify any funds that will expire at the end of fiscal year 2017. We also will obtain information from the Department of State (State) and the U.S. Agency for International Development (USAID) about the factors that contributed to these accounts' unobligated balances and the agencies' plans for obligating these funds during their period of availability.

If we identify potential unreported impoundments, we will work with our Office of the General Counsel to determine what, if any, violations of the ICA may have occurred. The Comptroller General must report to Congress on any impoundment which the President has failed to report.[7] 2 U.S.C. § 686.

Question #4: We have heard that State Department leadership is proposing, and in some cases has initiated first steps toward the closing of some USAID missions overseas without proper coordination with Congress. Has this come to GAOs attention? If so, what is your response, and does this-under some circumstances-constitute a violation of the Impoundment Control Act (ICA)?

GAO Response:

We have not been informed of any State plans to close a USAID mission. To investigate potential unreported impoundments, we would need to review USAID's appropriations structure and its recent obligational records, among other things.

Question #5: Finally, Secretary Tillerson announced he is proposing to cut the State Department workforce by 9%, at the expense of 2,300 jobs. The loss of these jobs has already begun with Secretary Tillerson's refusal to lift the now-expired federal hiring freeze at his agency, reported attrition from the State Department since the beginning of this administration, and significant delays on the part of the Trump administration in filling vacant positions at every level of the State Department, including critical leadership positions.

Is GAO examining workforce issues at the State Department, including the impact of the hiring freeze, retention, and vacancies? Under what circumstances would the failure of the State Department to address attrition, including the implementation of the hiring freeze, violate the ICA?

[7] Our practice has been to review withholdings brought to its attention by concerned Members or Committees of Congress, intended recipients, or auditors. *See, e.g.*, B-320091, July 23, 2010; OGC-92-11, June 3, 1992.

GAO Response:

We have planned work to examine the impact of the governmentwide hiring freeze based on a request from the Senate Homeland Security and Governmental Affairs Committee. However, it is too early to know whether this work will include the Department of State. At several recent meetings, State officials have confirmed that Secretary Tillerson did not lift the hiring freeze and plans to seek a 9-percent reduction in State staffing—with the majority of this reduction to be achieved through attrition and buyouts. Based on our prior work on hiring freezes and workforce reductions,[8] it will be important for State to precede its downsizing efforts with sound strategic and workforce planning to help ensure they do not adversely affect State's capacity to carry out its mission. We also have planned work on State Department staffing and experience gaps at hardship posts overseas.

USAID was one of the case study agencies in our 2015 report on how the Office of Personnel Management (OPM) and agencies were addressing skills gaps in mission critical occupations.[9] We included USAID in this work partly because of the large number of people it had in mission critical occupations identified by OPM with skills gaps. We found that OPM, USAID, and the other agencies in our review could improve efforts to address skills gaps by strengthening their use of quarterly data-driven reviews, known as HRstat meetings. We have not conducted any follow-up work related to State's or USAID's workforces.

Our Office of the General Counsel has addressed the application of the Impoundment Control Act to specific hiring freezes. For example, in 1981, we found that a statute precluded the administration from withholding the obligation of funds during a hiring freeze when the agency was otherwise statutorily required to maintain a certain hiring level. B-198103, Feb. 19, 1981.

[8]GAO, *Federal Employee Retirements: Expected Increase Over the Next 5 Years Illustrates Need for Workforce Planning*, GAO-01-509 (Washington, D.C.: Apr. 27, 2001); *Federal Downsizing: Effective Buyout Practices and Their Use in FY 1997*, GAO/GGD-97-124 (Washington, D.C.: June 30, 1997); *Federal Downsizing: Better Workforce and Strategic Planning Could Have Made Buyouts More Effective*, GAO/GGD-96-62 (Washington, D.C.: Aug. 26, 1996).
[9]GAO, *Federal Workforce: OPM and Agencies Need to Strengthen Efforts to Identify and Close Mission-Critical Skills Gaps*, GAO-15-223 (Washington, D.C. Jan. 30, 2015).

SENATOR WARNER'S QUESTIONS FOR THE RECORD
BUDGET COMMITTEE HEARING:

RUNNING THE GOVERNMENT FOR LESS

Date: Wednesday, May 17rd, 2017
Location: 608 Dirksen
Time: 10:30 AM

Question #1: The Government Accountability Office's High Risk List from earlier this year listed a number of continuing challenges related to information technology security. One in particular that's especially relevant in light of this past week's ransomware outbreak is a call for "better patch management."

In 2016, GAO reported that agencies were routinely missing National Institute of Standards and Technology (NIST) deadlines to install critical updates, and in many cases were using software that was no longer supported by vendors.

A. Can we be confident that agency CIOs are making progress on these issues?

GAO Response:

We are not confident that agency CIOs are making sufficient progress with installing critical updates and updating software to versions supported by vendors. Our audits have determined that federal agencies consistently fail to apply critical security patches on their systems in a timely manner, sometimes doing so years after the patch becomes available. We also have consistently identified instances where agencies use software that was no longer supported by their vendors. These shortcomings often placed agency systems and information at significant risk of compromise, since many successful cyberattacks exploit known vulnerabilities associated with software products. Using vendor-supported and patched software will help to reduce this risk.

B. Are OMB and DHS taking appropriate steps to ensure agencies are implementing and following appropriate security policies and practices?

GAO Response:

OMB and DHS are taking appropriate steps that are intended to ensure agencies are implementing appropriate security policies and practices, but additional actions are needed. The steps OMB and/or DHS have taken or are taking to assist agencies include the following.

- OMB updated cybersecurity and privacy policies for agencies in OMB Circular A-130, *Managing Information as a Strategic Resource*, to reflect changes in law and advances in technology and to ensure consistency with executive orders, presidential directives, recent OMB policy, and National Institute of Standards and Technology standards and guidelines.
- OMB also established cross-agency priority goals for agencies to implement key cybersecurity controls and, in the *Cybersecurity Strategy and Implementation Plan*, identified specific objectives for agencies to achieve in protecting their information systems and information.

- OMB and DHS developed metrics for gauging agency performance in implementing key security controls and activities, and monitors performance data reported by agencies through the CyberScope reporting system.
- OMB, in close coordination with DHS, expanded its program of CyberStat reviews that engage agency leadership to facilitate their agencies' progress toward achieving FISMA performance goals. For these reviews, OMB and DHS work with agencies to develop action items that address information security risks, identify areas for targeted assistance, and track performance throughout the year.
- DHS also provides security tools and services to agencies through its Continuous Diagnostics and Mitigation (CDM) program and National Cybersecurity Protection System.[10]

However, OMB and DHS can take additional actions to bolster agency security policies and practices. Over the past several years, we have made about 2,500 recommendations to agencies aimed at improving the security of federal systems and information. These recommendations identified actions for agencies to take to strengthen their information security programs and technical controls over their computer networks and systems. Many agencies continue to be challenged in safeguarding their information systems and information, in part because many of these recommendations have not been implemented. As of April 2017, about 1,000 our information security-related recommendations had not been implemented. OMB and DHS can step up their efforts to monitor agency progress with—and hold agencies accountable for—implementing these recommendations.

DHS can also enhance or expand its capabilities to share information on cyber threats with federal agencies. As we reported in May 2016, 15 of 18 federal agencies that we surveyed indicated that a lack of government-wide information sharing mechanisms limited their ability to identify cyber threats to a great or moderate extent. DHS, in its role as the federal civilian interface for sharing cyber threat indicators and cybersecurity risks among federal and nonfederal entities, manages the Automated Indicator Sharing program which was created to provide real-time sharing of cyber threat indicators and defensive measures. As we reported in February 2017, DHS officials stated that seven federal agencies were connected to the program as of August 2016. Expanding this program to all 24 federal agencies covered by the Chief Financial Officers Act, which DHS officials said they were doing, could improve the cyber threat information available to those agencies.

In addition, DHS can issue binding operational directives that require agencies to take specific actions to safeguard federal systems and information from a known or reasonably suspected information security threat, vulnerability, or risk. The Federal Information Security Modernization Act of 2014 (FISMA) authorizes the Secretary of Homeland Security to administer the implementation of agency information security policies and practices for information systems, including developing and overseeing the implementation of binding operational directives. The directives are compulsory directions to an agency to implement policies, standards, and guidelines developed by the Director of the Office of Management and Budget and can include requirements for the mitigation of exigent risks to information systems. As of June 2017, 30 months after receiving this authority, DHS has issued four directives.

Further, DHS can provide operational and technical assistance to agencies in implementing policies, principles, standards, and guidelines on information security by developing and conducting targeted operational evaluations, including threat and vulnerability assessments, on the agencies' information

[10]The Continuous Diagnostics and Mitigation (CDM) program provides commercial off-the-shelf tools and services to federal agencies to strengthen their IT network security posture. The National Cybersecurity Protection System, operationally known as EINSTEIN, provides intrusion detection and prevention services.

systems. Authorized by FISMA, these assessments can provide agencies with information on how to harden their security and identify the signs that an attacker is on their network.

C. Are agencies taking appropriate steps to ensure that contractors are following appropriate security policies and practices?

GAO Response:

Agencies are not taking all appropriate steps to ensure that contractors are following appropriate security policies and practices. In August 2014, we reported that 5 of 6 agencies reviewed were inconsistent in overseeing the execution and review of security assessments that were intended to determine the effectiveness of contractor implementation of security controls, resulting in security lapses.[11] In 2016, agency chief information security officers we surveyed reported that they were challenged to a large or moderate extent in overseeing their IT contractors and receiving security data from the contractors. This challenge diminished their ability to assess how well agency information maintained by the contractors was protected.[12]

Question #2: Another challenge identified by GAO on its High Risk List relates to legacy IT systems. GAO noted, for instance, legacy mainframes at the Department of Treasury that were over 30 years old and systems at the Department of Defense still relying on 8 inch floppy disks.

More than 75 percent of the federal government's $88 billion IT budget is used for operations and maintenance. Only 25 percent is available for development, modernization, and enhancement. As the co-sponsor the past two Congresses of legislation to modernize our legacy IT systems, I've long said we need to devote resources to replacing outdated systems.

[11]GAO, *Information Security: Agencies Need to Improve Oversight of Contractor Controls*, GAO-14-612 (Washington, D.C.: Aug. 8, 2014).

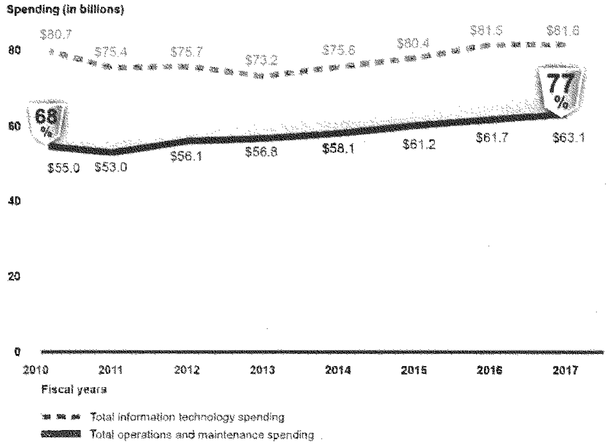
[12]GAO, *Federal Chief Information Security Officers: Opportunities Exist to Improve Roles and Address Challenges to Authority*, GAO-16-686 (Washington, D.C.: Aug. 26, 2016).

A. What percent of agency IT budgets do you think should be devoted to modernizing and replacing IT systems?

GAO Response:

While there is no reported benchmark that agencies should spend on modernizing and replacing information technology (IT) systems, agencies current spending demonstrates that they are not innovating and improving mission performance to the extent needed. For example, we reported in May 2016 that, in fiscal year 2010, operations and maintenance (O&M) spending was 68 percent of the federal IT budget, while in fiscal year 2017, agencies planned to spend 77 percent of their IT funds on O&M.[13] (See figure 1.) Overall, federal agencies' spending on operating and maintaining their legacy systems had steadily increased, while the amount invested in developing new systems had decreased by about $7.3 billion.

Figure 1: Percentage of Information Technology Spending on Operations and Maintenance from Fiscal Year 2010 to Fiscal Year 2017



Source: GAO analysis of agency data. | GAO-16-468

We also reported that OMB had created draft guidance that would require agencies to identify and prioritize legacy information systems that are in need of replacement or modernization. However, OMB had not committed to a firm time frame for when the policy would be issued.

[13]GAO, *Information Technology: Federal Agencies Need to Address Aging Legacy Systems*, GAO-16-468 (Washington, D.C.: May 25, 2016).

One of the key parts of the Modernizing Government Technology (MGT) Act that I'm a cosponsor of is establishment of "IT working capital funds" at the 24 CFO Act agencies so that IT modernization is something that can potentially be on the chopping block every appropriations cycle.

B. How important is it for organizations and agencies to be able to deliver "incremental development in IT modernization?

GAO Response:

It is critically important that agencies deliver investments in smaller parts, or increments, to improve the likelihood of successful outcomes. To this end, OMB has emphasized the need to deliver investments in increments in order to reduce risk; deliver capabilities more quickly; increase the likelihood that cost, schedule, and performance goals will be met; and facilitate the adoption of emerging technologies. In 2010, OMB called for agencies' major investments to deliver functionality every 12 months and, since 2012, every 6 months. Subsequently, the December 2014 IT acquisition reform law, commonly referred to as FITARA,[14] codified a requirement that agency chief information officers (CIO) certify that IT investments are adequately implementing incremental development, as defined in the annual capital planning guidance issued by OMB.[15]

Our prior work has also shown that delivering investments in increments can lead to more successful outcomes. For example, we previously reported on seven successful investment acquisitions and nine common factors critical to their success.[16] Notably, all of these were smaller increments, phases, or releases of larger projects. For example, among these investments, the Department of Defense was in the seventh increment of an ongoing acquisition; the Department of Energy system was in the first of two phases; the DHS investment was rolled out to two locations prior to deployment to 37 additional locations; and the Department of Transportation investment had been part of a prototype deployed to four airports.

However, while agencies have made progress on efforts to ensure that the government's major acquisitions deliver incrementally, additional work is needed. For example, in August 2016, we reported[17] that approximately 64 percent of active software projects had planned to deliver usable functionality every 6 months for fiscal year 2016, as required by OMB guidance. However, we determined that only three of seven agencies[18] selected for in-depth review (the Departments of

[14]Federal Information Technology Acquisition Reform Act (FITARA) provisions of the Carl Levin and Howard P. 'Buck' McKeon National Defense Authorization Act for Fiscal Year 2015, Pub. L. No. 113-291, div. A, title VIII, subtitle D, 128 Stat. 3292, 3438-3450 (Dec. 19, 2014). FITARA generally applies to the 24 Chief Financial Officers Act agencies.

[15]40 U.S.C. § 11319(b)(1)(B)(ii).

[16]GAO, *Information Technology: Critical Factors Underlying Successful Major Acquisitions*, GAO-12-7 (Washington, D.C.: Oct. 21, 2011).

[17]GAO, *Information Technology Reform: Agencies Need to Increase Their Use of Incremental Development Practices*, GAO-16-469 (Washington, D.C.: Aug. 16, 2016).

[18]These seven agencies are the Departments of Commerce, Defense, Education, Health and Human Services, Homeland Security, Transportation, and the Treasury. These agencies were chosen because they reported a minimum of 12 investments that were at least 50 percent or more in development for fiscal year 2015.

Commerce, Homeland Security, and Transportation) had defined processes and policies intended to ensure that the department CIO certifies that major IT investments are adequately implementing incremental development.

Accordingly, we recommended that the other four agencies establish a policy and process for the certification of major IT investments' adequate use of incremental development. The Departments of Education and Health and Human Services agreed with our recommendation, while the Department of Defense disagreed and stated that its existing policies address the use of incremental development. However, we noted that the department's policies did not comply with OMB's guidance and that we continued to believe our recommendation was appropriate. The Department of the Treasury did not comment on the recommendation.

Question #3: In the GAO High Risk List, GAO noted that agencies were doing a bad job at accurately estimating the cost savings from data center consolidation.

In a different but related vein, one of the major undertakings today is moving agency data and services to commercial cloud environments.

A. **While commercial cloud has enormous cost and security advantages, are you confident that agencies are accurately estimating cost-savings from that transition?**

GAO Response:

Our prior work has shown that agencies have faced difficulties in estimating the costs associated with transitioning to cloud computing solutions and the resulting cost savings. For example, we previously reported[19] on problems with 19 of the 20 planned cloud implementations that we reviewed,[20] 7 of which did not include estimated costs. We noted that developing cost estimates and performance goals, among other things, would enable agencies to determine whether cloud-based solutions are cost effective and ensure that savings generated from retiring systems are realized. Accordingly, we made 14 recommendations to 7 agencies to develop key planning information, such as estimated costs and performance goals, for existing and planned cloud services.

The Departments of Agriculture, Homeland Security, and Treasury, and the General Services Administration agreed with our recommendations; the Department of State agreed with one recommendation and did not agree with another; and the Department of Health and Human Services and the Small Business Administration did not state whether they agreed or disagreed with them. In our response to the Department of State's comments, we noted that the department lacked performance goals for one of its cloud-based services and maintained that our recommendation was applicable and relevant.

As part of our prior reviews of federal agencies' data center consolidation efforts, which included

[19]GAO, *Information Technology Reform: Progress Made but Future Cloud Computing Efforts Should Be Better Planned*, GAO-12-756 (Washington, D.C.: July 11, 2012).

[20]These 20 cloud implementations were at seven selected agencies: the Departments of Agriculture, Health and Human Services, Homeland Security, State, and Treasury; the General Services Administration and the Small Business Administration.

transitioning to cloud computing solutions, we identified weaknesses in establishing planned cost savings estimates. For example, in September 2014, we determined that six agencies[21] that had completed significant consolidation work had reported limited or no cost savings from their efforts.[22] This was due to the agencies' encountering challenges, such as difficulties with obtaining costs and related savings information from component agencies. Accordingly, we recommended that these agencies complete action plans for addressing their challenges in reporting cost savings. As of May 2017, two agencies—the General Services Administration and the National Aeronautics and Space Administration—had addressed our recommendation.

While agencies have experienced difficulties in estimating the resulting cost savings from the transition to cloud computing solutions, we have previously reported[23] that these initiatives can help agencies to improve efficiency and better deliver services. For example, the Department of Agriculture stated that it used cloud services to host most of its major applications, which resulted in increased server utilization and reduced operating costs, among other things. The department specifically reported that its cloud environments operated at average server utilization rates of 55 to 65 percent versus the 10 to 20 percent average utilization rates it typically found across its legacy server environments. In addition, the Environmental Protection Agency stated that it had consolidated its e-mail services to its private cloud, reducing the number of e-mail servers from over 180 to 20 and standardizing its e-mail data and archive management practices.

B. Are agencies equipped to negotiate long-term competitive prices and service tiers with cloud providers?

GAO Response:

OMB has issued guidance to strengthen the relationship between agencies' acquisition offices and agency CIOs, which could help agencies as they negotiate pricing and service levels with cloud providers. For example, agencies' chief acquisition officers are to work with CIOs in the planning, programming, and budgeting of programs that include IT resources.

Additionally, when acquiring cloud computing services, a service level agreement defines the level of service and performance expected from a cloud provider, how that performance will be measured, and what enforcement mechanisms will be used to ensure the specified performance levels are achieved. In April 2016, we identified ten key practices to be included in service level agreements, which, if properly implemented, could help agencies ensure services are performed effectively, efficiently, and securely. However, we found that only 7 of 21 cloud service contracts had incorporated all of the key service level agreement practices we identified, 13 had incorporated most of the practices, and 1 had not incorporated any of the practices.[24] We made recommendations to address these deficiencies, and the agencies either had no comment or concurred with our recommendations.

[21]These six agencies are the Departments of Health and Human Services, Interior, Justice, and Labor, the General Services Administration, and the National Aeronautics and Space Administration.

[22]GAO, *Data Center Consolidation: Reporting Can Be Improved to Reflect Substantial Planned Savings,* GAO-14-713 (Washington, D.C.: Sept. 25, 2014).

[23]GAO-14-713.

[24]GAO, *Cloud Computing: Agencies Need to Incorporate Key Practices to Ensure Effective Performance,* GAO-16-325 (Washington, D.C.: Apr. 7, 2016).

Question #4: DHS's Continuous Diagnostics and Monitoring tools helped identify a large amount of so-called 'shadow IT' that agencies didn't even know was operating on their networks.

Are you optimistic that the CDM program is producing meaningful results?

GAO Response:

We believe that the tools and capabilities available under the Continuous Diagnostics and Mitigation (CDM) program, when effectively used by agencies, can produce meaningful results and help agencies to diagnose and mitigate vulnerabilities to their systems. However, our work identified areas for improvement in its deployment of the CDM program. For example, CDM tools include sensors that perform automated searches for known cybersecurity vulnerabilities, the results of which can feed into a dashboard that alerts network managers. Because of the rapidly evolving nature of cyber threats and the continual discovery of new vulnerabilities in information systems, DHS needs to ensure that CDM tools can be refreshed or updated on a regular basis to reflect the current state of cyber threats and vulnerabilities. Further, DHS should ensure that there is a mechanism for delivering system updates to the tools that have been deployed at federal agencies. By continuing to make these tools and capabilities available to federal agencies, DHS can have additional assurance that agencies are better positioned to protect their information systems and information.

Question #5: As you know, last week we saw the first reporting deadline for the DATA Act, a bill I authored back in 2011. GAO has a critical role in overseeing implementation of that law and I have appreciated GAO's continued vigilance.

A. Once fully implemented, how will the DATA Act help in addressing the subject of this hearing –finding ways to make the federal government work more efficiently?

GAO Response:

When fully and effectively implemented, the Digital Accountability and Transparency Act of 2014 (DATA Act) holds great promise for improving the efficiency of the federal government. One way it can achieve this is by improving the information congressional decision makers use to make decisions on how federal resources should be allocated and the potential budget trade-offs involved.[25] A lack of government-wide data standards has limited the ability of such decision makers to measure federal investments and hampers efforts to share data across agencies. Our previous work examining fragmentation, overlap, and duplication in federal government programs has demonstrated the need for more reliable and consistent federal data, which the DATA Act should produce.[26]

In addition, effective implementation of the program inventory provisions of both the DATA Act and the GPRA Modernization Act—especially the ability to crosswalk spending data to individual programs—

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[25]GAO, *DATA Act: Progress Made in Initial Implementation but Challenges Must be Addressed as Efforts Proceed,* GAO-15-752T (Washington, D.C.: July 29, 2015).

[26]GAO, *Government Efficiency and Effectiveness: Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits,* GAO-14-478T (Washington, D.C.: Apr. 8, 2014).

could provide vital information to assist federal decision makers in addressing significant challenges the government faces. Currently, there is not a comprehensive inventory of all federal programs and agencies often lack reliable budgetary and performance information about their programs. Effective implementation of data standards across the federal government, as required under the DATA Act, offers the promise of reliable and consistent agency program information. The lack of program comparability also hampers decision makers' ability to identify duplicative programs and accurately measure the cost and magnitude of federal investments. We have work underway on this issue and expect to report later this year approaches OMB might consider as it develops such a program inventory.

Finally, the DATA Act's promise to expand the quality and availability of federal spending data should better enable federal program managers to make data-driven decisions about how they use government resources to meet their agency's goals.

B. How will the DATA Act assist policymakers, watchdogs, and others identify waste, fraud, and abuse?

GAO Response:

The open data provisions of the DATA Act also will enhance the federal government's emerging use of data analytics capabilities to conduct incisive analysis to support oversight—including the detection and prevention of fraud, waste, and abuse as well as the analysis of improper payments. For fiscal year 2016, agencies reported improper payment estimates totaling $144.3 billion. Under the Improper Payments Elimination and Recovery Improvement Act of 2012 federal agencies must verify benefit eligibility by checking multiple existing databases before making a payment to a person. But to maximize the efficacy of data matching, it is important that the data used are comparable, complete, and accurate. We have previously reported on the challenges presented by the lack of uniform data standards across agencies and how this can make it more difficult for both oversight and law enforcement entities to share available data.[27] If effectively implemented, the DATA Act's provisions for establishing government-wide data standards and requiring that such data be provided in open, machine-readable formats could help address this challenge.

In addition, the DATA Act's provisions for improving the quality of federal spending data also promises to enhance government oversight. Our prior work has found that unclear guidance and weaknesses in executive branch controls contributed to persistent challenges with data on USAspending.gov. These challenges impacted the quality and completeness of data submitted by federal agencies. For example, in June 2014, we reported that roughly $619 billion in assistance awards were not properly reported in fiscal year 2012.[28] Among its provisions for improving the quality of data submitted to USAspending.gov, the DATA Act requires both GAO and Inspectors General to periodically assess and report on the completeness, timeliness, quality, and accuracy of spending data.

[27]GAO, *Highlights of a Forum: Data Analytics for Oversight and Law Enforcement*, GAO-13-680SP (Washington, D.C.: July 15, 2013).

[28]GAO, *Data Transparency: Oversight Needed to Address Underreporting and Inconsistencies on Federal Award Website*, GAO-14-476 (Washington, D.C.: June 30, 2014).

C. Have OMB and Treasury appropriately listened to GAO's concerns? Do you get a sense that they have responded with due attentiveness?

GAO Response:

OMB and Treasury have taken action to close several of our recommendations and are addressing others. In the three years since passage of the DATA Act we have identified a variety of issues and concerns regarding implementation of the act. Our recommendations have addressed several broad areas including the need for a more strategic and comprehensive approach to monitoring implementation by agencies, the design and implementation of a required pilot program aimed at reducing recipient reporting burden, and the development and maintenance of clearly defined government-wide data standards. In May 2017, we highlighted eight open DATA Act recommendations as priority recommendations in a letter to OMB.

One concern we have repeatedly raised in our DATA Act work is the need for effective and robust data governance. Creating a formal framework for providing data governance throughout the lifecycle of developing and implementing standards is critical for ensuring that the integrity of data standards is maintained over time. OMB has taken some actions to improve its data governance framework, but efforts to establish a fully functioning data governance structure are at an early stage with many specifics yet to be worked out. In July 2015, we recommended that OMB, in collaboration with Treasury, establish a set of clear policies and procedures for developing and maintaining data standards that are consistent with leading practices. OMB and Treasury generally agreed with our recommendation.

In September 2016, OMB took the step of establishing a Data Standards Committee to focus on clarifying existing data element definitions and identifying the need for new standards. According to OMB staff, this committee has held several meetings and plans to produce operating procedures to guide its work but has not yet done so. In addition, the committee has not yet made any recommendations nor has it produced a work plan or timetable for addressing known challenges related to any data standards. In April 2017, we recommended that the Data Standards Committee improve its transparency by making information about the topics of the committee's proceedings and any resulting outcomes available.[29] Although some steps have been taken, additional action is needed to address our 2015 recommendation that OMB and Treasury establish a data governance structure consistent with leading practices.

D. How do we ensure that agencies aren't merely looking at DATA Act implementation as a "compliance exercise" but rather are internalizing the objectives of the Act to make agency operations and spending more transparent and streamlined?

[29]GAO, *DATA Act: As Reporting Deadline Nears, Challenges Remain That Will Affect Data Quality*, GAO-17-496 (Washington, D.C.: Apr. 28, 2017).

GAO response:

Beginning with the passage of the DATA Act in 2014, Congress has played a key role in ensuring its effective implementation. Although the full promise of the act will not be realized for several years, multiple hearings and other active oversight by Congress have helped identify implementation challenges early in the process and focus attention on the need to address them. In addition, the DATA Act requires GAO and federal agencies' Inspectors General (IGs) to regularly review the quality of the data submitted under the act, as well as the implementation and use of established data standards. Further, the law requires that GAO and the IGs periodically report out on these reviews until 2021. This focus on data quality accompanied by mandated, ongoing oversight sends a clear message of the importance of agencies adopting real reforms.

In the 3 years since DATA Act became law, OMB, Treasury, and federal agencies have taken significant steps to make more complete and accurate federal spending data available to the public. Toward that end, agencies began reporting data responsive to the DATA Act's requirements in April 2017 and Treasury posted these data on a public website—Beta. USASpending.gov—on May 9, 2017.

Agencies have begun to report positive impacts of the DATA Act on agency operations. At a recent meeting of agency officials hosted by Treasury's DATA Act Program Management Office, agency officials reported that implementation of act has helped them improve reporting process; address long-standing data quality issues, and provided a tool for better decision-making for improving organizational efficiency.

E. What are the long-term obstacles to standardized financial data management and reporting stemming from legacy IT systems?

GAO Response:

As we reported in April 2017, issues with legacy and current financial management systems present risks to agencies' abilities to submit quality data as required by the DATA Act.[30] Such risks include long-standing challenges with disparate or antiquated financial management systems that affect financial reporting. For example, some of these challenges include system infrastructure and integration issues such as systems that do not consolidate transaction level financial data or do not capture required data elements such as award identifiers used to link financial and non-financial data. Also, issues involving IT security and ineffective controls could limit management's ability to provide assurance over the completeness and accuracy of recorded transactions.

In addition, long-standing financial management systems weaknesses at several large Chief Financial Officers Act of 1990 (CFO Act) agencies, along with the size and complexity of the federal government, continue to present a formidable management challenge in providing accountability to the nation's taxpayers and have contributed significantly to certain of the material weaknesses and other limitations discussed in our audit report on the U.S. government's consolidated financial statements for fiscal year 2016.[31] Specifically, auditors for 9 of 22 CFO Act agencies reported in fiscal year 2016 that agencies' financial management systems did not substantially comply with one or more of the requirements in

[30] GAO, *DATA Act: As Reporting Deadline Nears, Challenges Remain That Will Affect Data Quality*, GAO-17-496 (Washington, D.C.: Apr, 28, 2017).

[31] GAO, *Financial Audit: Fiscal Years 2016 and 2015 Consolidated Financial Statements of the U.S. Government*, GAO-17-283R (Washington, D.C.: Jan. 12, 2017).

section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA) related to (1) federal financial management systems requirements; (2) applicable federal accounting standards; and (3) the U.S. Standard General Ledger (USSGL) at the transaction level.

Finally, accounting and financial management challenges exist that increase the risks to presenting standardized financial data. These issues and challenges relate to internal controls over financial reporting and financial management operations, properly recorded and reconciled accounting balances and transactions, and other issues related to the proper use of accounting practices in accordance with U.S. generally accepted accounting principles. Issues in this area could result in misstatements in budgetary balances, obligations, and undelivered orders—which are part of the information to be posted on USASpending.gov. By not implementing effective internal controls over financial management systems and not adequately implementing requirements in section 803(a) of FFMIA, agencies will be challenged to provide consistent financial and non-financial information across component entities and functions, which increases the risk that agencies may not be able to submit quality data for DATA Act reporting.

Question #6: In the wake of the budget deal reached in Congress a few weeks ago, President Trump said that "our country needs a good shutdown in September to fix [this] mess." I find that statement extraordinarily reckless and shortsighted.

Over 170,000 federal workers call Virginia home. A shutdown is not just a temporary inconvenience for them. A government shutdown means they don't get a paycheck. It means that small businesses that contract for the government aren't paid. Shutdowns hurt our economy and negatively affect all Americans.

Furthermore, when government employees are diverted to planning for and executing shutdown and startup activities, thousands of employee hours are wasted. This hearing is titled "Running the Government for Less." I believe simply keeping our government running instead of shutting it down or going to the brink of a shutdown is one way to reduce costs.

A: What sort of impact does a government shutdown have on our economy and on the costs of running the federal government?

B: Does the mere threat of a shutdown have an impact on the U.S. economy?

GAO Response:

In January 2014, the Bureau of Economic Analysis (BEA) estimated the direct effect of the October 2013 shutdown on the real gross domestic product (GDP) growth in the fourth quarter of 2013—which included the time of the 2013 shutdown—to be a reduction of 0.3 percentage points.[32] According to BEA, the shutdown did not have an impact on current-dollar federal compensation since Congress authorized retroactive compensation for furloughed workers.[33]

[32]GDP changes from one period to another because of change in quantity as well as price. The quantity-change element in GDP is referred to as the constant-dollar increase, or sometimes as the change in the real component of GDP or in real GDP.

[33]Continuing Appropriations Act, 2013, Pub. L. No. 113-46, § 115, 127 Stat. 558, 561(Oct. 17, 2013).

BEA derived this estimated effect on real GDP from real federal government compensation, one of the components of GDP. BEA adjusted real federal government compensation estimates based on the number of furloughed employees and the number of furlough days, for the reduction in hours worked by federal workers to account for a reduction in services.[34] Thus, BEA estimates showed a decline in real GDP based on the lost productivity of the furloughed workers. BEA could not quantify the effects of the shutdown on other components of GDP and the national income and product accounts, such as personal consumption expenditures or private wages and salaries, since they were embedded in the source data that underlie BEA estimates and could not be separately identified.

In October 2014, we reported on what was known at that time about the effects of the October 2013 shutdown on national economic activity.[35] We did not analyze how the threat of the 2013 shutdown or any other threats of shutdowns since then potentially affected the national economy. As part of our report on the 2013 shutdown, we identified and reviewed the analysis of several economic forecasters who predicted the effects of the 2013 shutdown on the national economy. These forecasts were conducted either during or soon after the shutdown ended. The forecasters we identified predicted the effect of the shutdown on the real GDP growth in the fourth quarter of 2013 to be from 0.2 to 0.6 percentage points as a result of lost productivity of federal workers. BEA's estimate for fourth quarter GDP fell within this predicted range. The economic forecasters we interviewed for our report did not anticipate the 2013 shutdown having any longer-term effects on national economic activity. We are not aware of any studies that analyzed the potential impact of a shutdown on the U.S. economy.

[34]The timing of when the back pay was actually paid out to furloughed federal employees does not affect the estimates because compensation of government employees is measured on an accrual basis (when the compensation is earned) in the national income and product accounts. The furlough was represented as a reduction in the level of government services but the same costs of these services were maintained in BEA's estimates for the fourth quarter GDP.

[35]GAO, *2013 Government Shutdown: Three Departments Reported Varying Degrees of Impacts on Operations, Grants, and Contracts*, GAO-15-86 (Washington, D.C.: Oct. 15, 2014).

Congressional Budget Office

JUNE 16, 2017

Answers to Questions for the Record Following a Hearing Conducted by the Senate Committee on the Budget on "Running the Government for Less"

On May 17, 2017, the Senate Committee on the Budget convened a hearing at which Keith Hall, Director of the Congressional Budget Office, testified about the costs of operating the federal government.[1] After the hearing, Chairman Enzi, Senator Van Hollen, and Senator Warner submitted questions for the record. This document provides CBO's answers. It is available at www.cbo.gov/publication/52817.

Chairman Enzi

Question. You mentioned at the hearing that converting the defined benefit portion of the federal pension plans into a defined contribution would likely entail an up-front cost in the budget window, with savings achieved only beyond the budget window.

Do you believe that having the federal defined benefit pension plans (under both FERS and CSRS) scored on a cash-flow basis—instead of a long-term accrual basis—is the best way to capture the budgetary impact of these pension programs?

Do you think the current scoring methodology dissuades policy makers from appropriately considering the long-term impact of changes to these pension programs?

Answer. There is no single best way to capture the budgetary effects of federal pension plans. As required by law, the Congressional Budget Office estimates the budgetary effects of federal defined benefit pension plans on a cash basis—that is, transactions are recorded when annuity payments are made or revenues are received. Although that method recognizes the cost of outlays when they occur, it does not reflect the cost of expected future outlays when the commitment to make those outlays occurs.

Relative to cash estimates over a 10-year projection period, an accrual measure would offer three advantages:

- The cost of providing defined benefit annuities in the future would be recognized as employees earned those benefits. By contrast, cash-based measures do not recognize such costs until after workers leave federal service, making it difficult

1. See Congressional Budget Office, "CBO Director's Statement on the Cost of Government," *CBO Blog* (May 17, 2017), www.cbo.gov/publication/52729, and testimony of Keith Hall, Director, Congressional Budget Office, before the Senate Committee on the Budget, *Costs of Federal Civilian Personnel: A Comparison With Private-Sector Employees, 2011 to 2015* (May 17, 2017), www.cbo.gov/publication/52706.

to implement new policies that would change those costs without altering prior commitments.

- All forms of current and deferred compensation would be measured on a consistent basis, making the trade-offs between defined benefit pension plans and defined contribution pension plans clearer to policymakers.

- By summarizing long-term budgetary effects up front, an accrual measure would give policymakers a more accurate sense of whether proposed changes to deferred compensation would increase or decrease the deficit. That is particularly important when considering modifications to defined benefit pension plans because such plans involve commitments over long periods.

However, an accrual measure would also have some disadvantages:

- Cost estimates can vary substantially depending on the discount rate used for the accrual measure, which may make them less transparent than a cash-based measure.

- Accrual accounting also depends on decades of projections for future wages and inflation—which are highly uncertain. The farther into the future such projections extend, the greater the uncertainty.

- It generally requires more time and additional resources to provide the initial estimate of future costs and the periodic reestimates that would be required to reconcile actual cash flows with the initial estimate.

Senator Van Hollen

Question. In CBO's April 25, 2017, report *Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015*, the increase in employees' contributions to their defined benefit pensions does not factor into the comparisons of benefits presented in this report because workers first hired after 2012 had not yet accumulated the five years of service needed to receive the defined benefit pension.[2] Could you tell us how much smaller the difference between the sectors would have been if all federal workers over the 2011 to 2015 period were subject to the higher contribution rate of 4.4 percent?

Answer. The government's cost of total compensation—the sum of wages and benefits—for federal employees would have been about 2 percent lower if, during the 2011–2015 period, all of those workers had contributed 4.4 percent of their salaries to the Federal Employees Retirement System (FERS) annuity. Under the laws in place during that period, most employees contributed 0.8 percent of their salaries to the annuity, so the higher contribution rate would have reduced their compensation by an amount equal to about 3.6 percent of their salary. Because such wages represent about 60 percent of total compensation, on average, the government's cost would have fallen by about 2 percent. The percentage reduction in federal employees' total compensation would be slightly larger for more educated workers

2. See Congressional Budget Office, *Comparing the Compensation of Federal and Private-Sector Employees, 2011 to 2015* (April 2017), www.cbo.gov/publication/52637.

than for less educated workers because salaries are typically a larger percentage of total compensation for more educated workers.

The difference between the compensation of federal employees and that of similar private-sector workers varies widely depending on workers' educational attainment. If federal workers had been subject to higher contribution rates, the difference between their compensation and that of private-sector employees would have been about 2 percentage points less than indicated in CBO's April 2017 report. In particular:

- Among workers whose education culminated in a bachelor's degree, the cost of total compensation would have averaged 19 percent more for federal workers than for similar workers in the private sector.

- Among workers with a high school diploma or less education, total compensation costs would have averaged 51 percent more for federal employees than for their private-sector counterparts.

- Total compensation costs among workers with a professional degree or doctorate, by contrast, would have been 20 percent lower for federal employees than for similar private-sector employees, on average.

Overall, the federal government would have paid 15 percent more in total compensation than it would have if average compensation had been comparable with that in the private sector, after accounting for certain observable characteristics of workers.

CBO's estimate of the effect of higher employee contributions on compensation is uncertain for at least two reasons. First, if federal workers had been subject to the higher contribution rate between 2011 and 2015, employees who stopped working for the federal government might have been more likely to have their contributions refunded to them instead of eventually receiving an annuity. For some of those workers, the forgone annuity payments would have been less than the additional contributions they made. Other workers who highly value having more money to spend before retirement might have decided to forgo larger annuity payments that would have cost the government more than the refunded contributions.

Second, if federal workers had been subject to the higher contribution rate, some of them might have left federal employment, which might have increased or decreased total compensation, on average. Most of those workers would probably have left earlier because the higher contributions would have made federal employment less attractive when compared with nonfederal jobs, retirement, or other alternatives. Other federal employees might have extended their service because the higher contributions would make an earlier retirement harder to afford. The way in which those shifts in retention changed average compensation would depend on the characteristics of the affected employees because the cost of the FERS annuity varies considerably with the worker's age and years of service.

The increase in contributions made by employees hired after December 31, 2013, will eventually lead to a reduction in compensation for federal employees, holding all else equal, but it is unclear how their compensation will compare with that of their private-sector counterparts in the future. The full reduction in federal compensation will not be realized for several decades (that is, until the entire federal workforce consists of people hired after

December 31, 2013). Forecasts of differences between federal and private-sector compensation that far into the future are subject to considerable uncertainty.

Senator Warner

Question. In the wake of the budget deal reached in Congress a few weeks ago, President Trump said that "our country needs a good shutdown in September to fix [this] mess." I find that statement extraordinarily reckless and shortsighted.

Over 170,000 federal workers call Virginia home. A shutdown is not just a temporary inconvenience for them. A government shutdown means they don't get a paycheck. It means that small businesses that contract for the government aren't paid. Shutdowns hurt our economy and negatively affect all Americans.

Furthermore, when government employees are diverted to planning for and executing shutdown and startup activities, thousands of employee hours are wasted. This hearing is titled "Running the Government for Less." I believe simply keeping our government running instead of shutting it down or going to the brink of a shutdown is one way to reduce costs.

A. What sort of impact does a government shutdown have on our economy and on the costs of running the federal government?

B. Does the mere threat of a shutdown have an impact on the U.S. economy?

Answer. CBO has not explicitly calculated the costs of shutdowns, continuing resolutions, or near breaches of the debt ceiling. However, the Congressional Research Service (CRS) and the Government Accountability Office (GAO) have both produced useful material relating to government shutdowns.[3] For instance, CRS issued a report in 2015 about studies that assessed the effects of the October 2013 shutdown.[4] According to that report, economic forecasters found that the two-and-a-half-week shutdown directly affected the economy by modestly reducing economic output around that time. However, any such loss in output was subsequently recouped, so the overall effect on the economy was minimal. A longer shutdown would probably increase the loss in economic output that could not be recovered.

There might be other, indirect, effects on the economy that stem from heightened uncertainty about the occurrence or possibility of a government shutdown, but such effects are much harder to estimate. In general, households' and businesses' uncertainty about fiscal and regulatory policies tends to dampen economic output. However, quantifying that uncertainty and identifying its sources is difficult. Possible sources of recent uncertainty include disagreement among policymakers about whether to extend certain key provisions governing fiscal policy, the debate about how to put debt on a sustainable path, the protracted debate

3. For a list of CRS's reports and other documents on the same topic, see Jared C. Nagel and Justin Murray, *Past Government Shutdowns: Key Resources*, Report for Congress R41759 (Congressional Research Service, September 29, 2015). For GAO's report on the economic effects of the October 2013 shutdown, see Government Accountability Office, *2013 Government Shutdown: Three Departments Reported Varying Degrees of Impacts on Operations, Grants, and Contracts*, GAO-15-86 (October 15, 2014), www.gao.gov/products/GAO-15-86.

4. Marc Labonte, *The FY2014 Government Shutdown: Economic Effects*, Report for Congress R43292 (Congressional Research Service, September 11, 2015).

about rules for implementing major legislation in the health care and financial sectors, possible changes in rules related to energy and the environment, and the unpredictability of the appropriation process. Those and other sources of uncertainty have probably dampened growth, but CBO has not estimated to what extent.

Question. I have long been concerned with the danger posed by our country's national debt, which is currently just shy of $20 trillion. Since the financial crisis in 2008, record low interest rates have kept debt payments low and mitigated the cost of our growing debt.

As interest rates go up, I think more and more people will realize the threat posed by the debt. Our debt has grown so large that if interest rates go up 1 percent, or 100 basis points—and they will at some point—that adds $140 billion per year in additional debt servicing.

By 2029, every dollar of tax revenue will go to auto-pilot spending—debt payments, Social Security, Medicare, and other non-discretionary spending. That means that every dollar we spend on public investment—things like infrastructure, research, education—and defense will be borrowed money.

A. Can you explain the impact of rising interest rates on our federal budget?

Answer. CBO has written frequently about the potential negative consequences of high and rising debt, as well as the interest costs associated with servicing that debt. The economic projections underlying CBO's most recent baseline (the agency's projections of revenues and outlays, if current laws remained generally unchanged) include rising interest rates. Along with greater amounts of debt, escalating interest rates would cause net interest outlays to rise from $295 billion (1.5 percent of gross domestic product) in 2018 to $768 billion (2.7 percent of GDP) in 2027. Such a path for interest and the debt could have significant long-term consequences, both for the economy and for the federal budget.

Interest rates could be higher or lower than in CBO's projections. For example, CBO estimates that if interest rates were 1 percentage point higher than projected in the baseline and all other economic variables were unchanged, the deficit would progressively worsen over the projection period by amounts increasing from $71 billion in 2018 to $262 billion in 2027. The cumulative deficit for the 2018–2027 period would be $1.6 trillion higher.

Most of that increase would arise because of the higher interest rates on the debt that the Treasury is projected to issue in the baseline. Specifically, as the Treasury replaced maturing securities and increased borrowing to cover future deficits, the budgetary effects of higher interest rates would mount. Under that scenario, the added costs of higher interest rates on the debt projected in CBO's baseline would reach $210 billion in 2027 and would total $1.3 trillion over the 2018–2027 period.

The larger deficits generated by the increase in interest rates would require the Treasury to borrow more than it is projected to borrow in the baseline. That additional borrowing would raise the cost of servicing the debt by amounts that would reach $63 billion in 2027 and total $264 billion over the 2018–2027 period.

THE PRESIDENT'S FISCAL YEAR 2018 BUDGET PROPOSAL

THURSDAY, MAY 25, 2017

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 9:47 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, chairman of the committee, presiding.

Present: Senators Enzi, Grassley, Crapo, Graham, Toomey, Johnson, Corker, Perdue, Gardner, Kennedy, Boozman, Sanders, Murray, Stabenow, Whitehouse, Warner, Merkley, Kaine, King, Van Hollen, and Harris.

Staff present: Matthew Giroux, Republican deputy staff director; and Warren Gunnels, minority staff director.

OPENING STATEMENT OF CHAIRMAN MICHAEL B. ENZI

Chairman ENZI. Good morning, and welcome to all. I will call this hearing to order.

We are here today to discuss the President's budget request for fiscal year 2018. I know my colleagues and I have been anxiously awaiting the arrival of President Trump's first real budget submission. We are pleased to welcome Director Mulvaney to hear in detail from him the fiscal aspirations of the President and answer questions. We are interested to learn how the President proposes to grow our economy and help put our fiscal house in order.

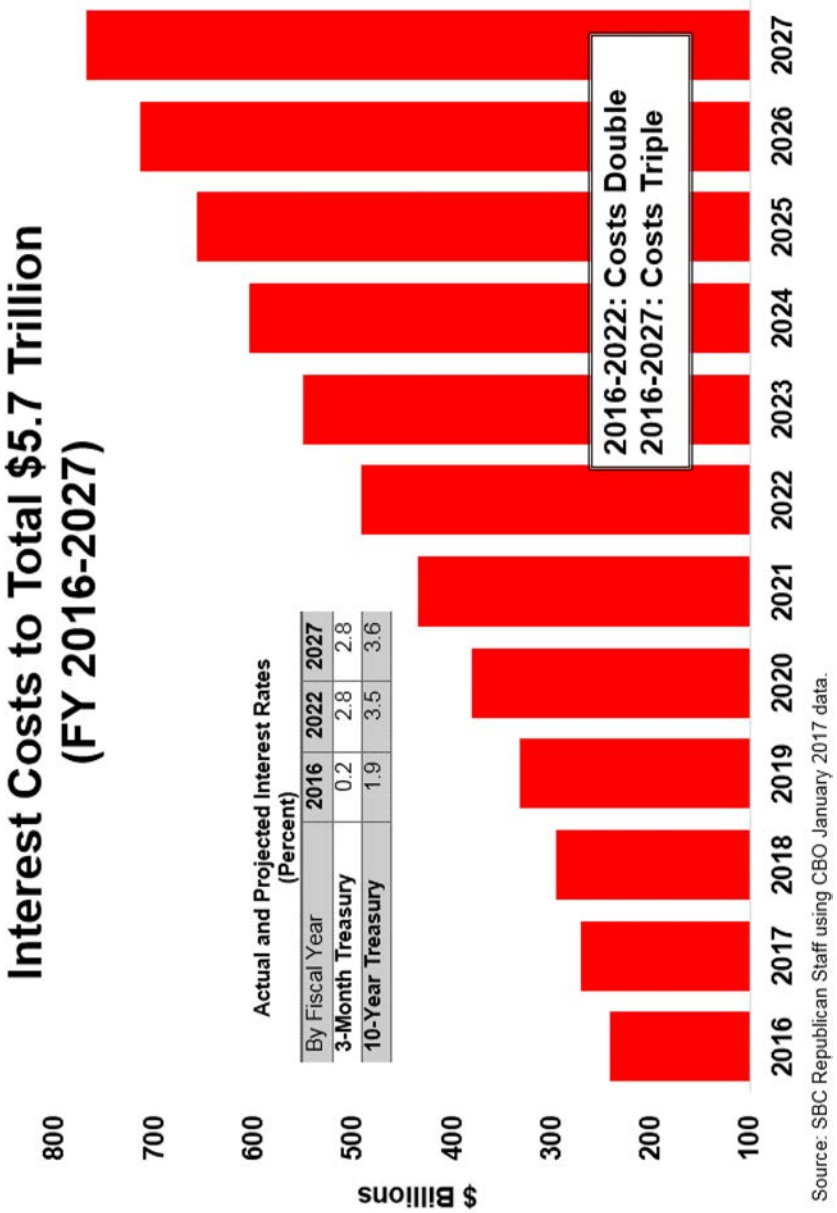
Of course, this is merely the first step in the 2018 budget process. While the President has his plan, the United States Constitution instills Members of Congress with key tax and spending functions and with the responsibility to ultimately decide what our Nation's fiscal priorities will be.

Budgets are an incredibly important part of governing because they are the fiscal blueprints for the Nation. It is crucial that Congress and the President work together to confront rapidly growing deficits born from our Government's habitual overspending which plagues America and its taxpayers.

Over the past 8 years, even as Government took in record revenues and taxes, our Nation was still unable to live within its means. Since 2009, our Nation's gross Federal debt doubled to almost $20 trillion today. To put that in perspective, this is larger than the entire U.S. economy and cost taxpayers, even with today's historically low interest rates, $241 billion in interest payments last year.

The Congressional Budget Office (CBO) says these interest costs will continue to grow and reach $768 billion in 2027 alone. That is in 1 year. This chart shows the growth of the interest rate, and I think they are using some pretty conservative interest rates. This amount is based on a conservative assumption of future interest rates. CBO tells us that a 1 percentage point increase in interest rates any year would drive up Federal deficits by a further $1.6 trillion. Soon, paying interest on America's debt will become one of the largest functions of Government and is poised to represent more than we spend on important national priorities like defense, education, infrastructure, and our social safety net.

[Slide 1 follows:]



In other words, these billions upon billions in interest payments for the money we have already borrowed will soon crowd out our ability to execute our core responsibilities as a Government.

To make matters worse, our automatic spending on mandatory programs continues to grow unchecked. In 1967, it represented just 32 percent of the budget. But in 2017, it represents more than 69 percent. By 2027, it will represent more than 77 percent of total

In other words, these billions upon billions in interest payments for the money we have already borrowed will soon crowd out our ability to execute our core responsibilities as a Government.

To make matters worse, our automatic spending on mandatory programs continues to grow unchecked. In 1967, it represented just 32 percent of the budget. But in 2017, it represents more than 69 percent. By 2027, it will represent more than 77 percent of total spending and will consume nearly every single penny of revenue that the Government collects. On that chart, the gray is the mandatory, the red is the interest, and you can see on the revenue that is projected that we will be borrowing absolutely everything that we have for defense and nondefense by 2027. That means our entire discretionary budget which Congress actually debates each year will be completely deficit financed.

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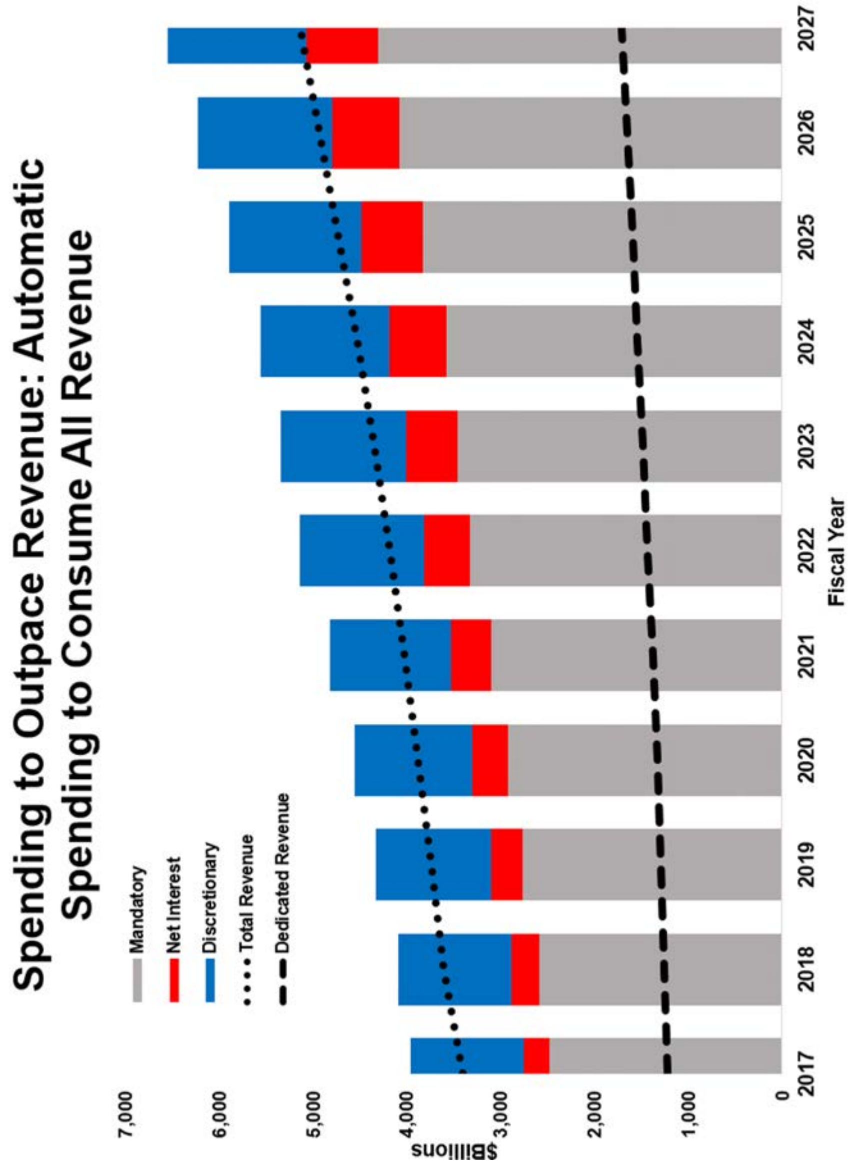

Ceding this level of congressional budgetary responsibility is not an outcome that Jefferson and Madison could have possibly envisioned for our country at its inception. We all know that our current debt burden is unsustainable. We are in the worst fiscal shape since World War II, and if things do not change, we will add another $10 trillion to our debt within 10 years.

Even this budget getting to balance adds $5 trillion to the debt. We must do better. Congress can help Washington become more accountable to hardworking Americans by spending taxpayer resources efficiently in order to improve or eliminate Government programs that have received little oversight or are simply not delivering results. That chart shows some of the unauthorized spending that we are doing at the moment. In 2016 alone, we spent more than $310 billion on unauthorized programs.

[Slide 3 follows:]

Summary of Fiscal Year 2016 Appropriations with Expired Authorizations by Appropriations Subcommittee

Appropriations Subcommittee	Number of Laws[a]	Amounts Appropriated (Millions of dollars)[b]
Agriculture, Rural Development, FDA, and Related Agencies	6	250
Commerce, Justice, Science, and Related Agencies	61	60,645
Defense	1	0
Energy and Water Development	19	9,192
Financial Services and General Government	25	4,176
Homeland Security	15	18,778
Interior, Environment, and Related Agencies	61	5,852
Labor, HHS, Education, and Related Agencies	52	65,979
Legislative Branch	2	1
Military Construction and Veterans Affairs	11	61,394
State, Foreign Operations	25	49,963
Transportation, HUD	28	34,134
Total	**256**	**310,365**

Source: Congressional Budget Office.

FDA = Food and Drug Administration; HHS = Health and Human Services, HUD = Housing and Urban Development.

a. Laws with expiring authorizations of appropriations for definite or indefinite amounts. The total is less than the sum of the entries because public laws containing authorizations that are under the jurisdiction of more than one subcommittee are counted only once in the total.

b. Amounts specified in statute, a conference report, or other legislative history.

Just last week, this committee held a hearing with the Comptroller General of the Government Accountability Office, which is the Government's top watchdog. He outlined hundreds of billions of dollars in savings that can be achieved by reducing improper payments or by consolidating duplicative programs. I have a little example on that chart of some of the duplicative programs. For instance, in housing, there are 160 programs administered by 20 different agencies. Nobody is in charge. No goals are set. No oversight is done. It is hard to tell if anything is really happening with the money, and probably those could be condensed down.

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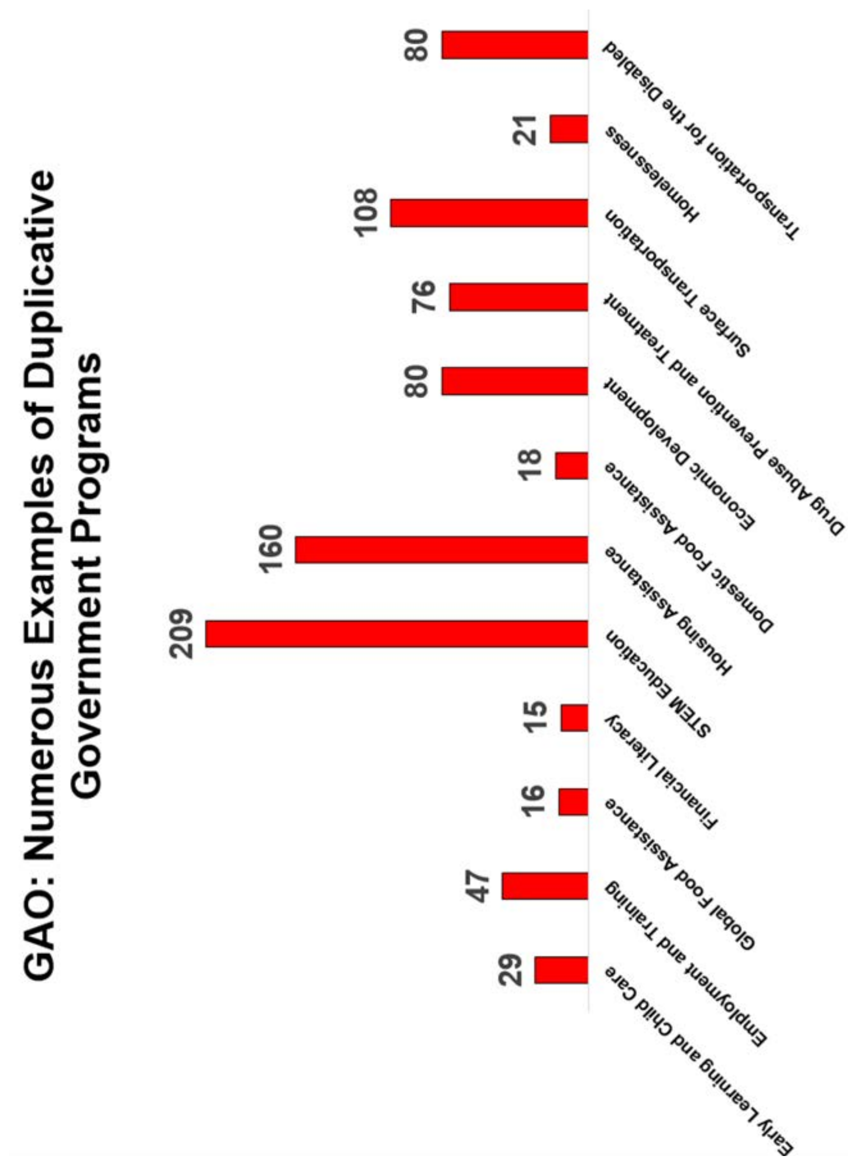

But I understand the daunting task of slashing $6 trillion to get to balance. But I appreciate the effort that has been put into this President's budget, realizing the daunting task of how you get there.

I look forward to hearing more from Director Mulvaney about how the President's budget will help improve accountability of the Federal Government and will strongly support efforts to improve and eliminate Government programs that are not delivering results. It is also crucial to allocate taxpayers' resources effectively so that programs with the best performance receive more funding and poorly performing programs receive less or none at all.

I applaud the aggressive approach contained in the President's budget to reorganize and reform both programs and Federal agencies to ensure that they are both effective and efficient. I would also like to commend the President and Director Mulvaney on proposing a budget that balances. It has been years since the White House has even attempted a balanced budget. But here in this very first budget proposal, President Trump has provided a plan to get to balance. You may not like how he had Director Mulvaney get there, but I am looking for suggestions. Please, instead of complaining, share some ways to make a difference or at least something that you like.

This year, we have taken the important first step forward in helping to change the way we do business here in Washington by focusing on the importance of a balanced budget. The reason this work is so important is because we must restore the trust of the American people in their Government.

I will yield the floor to Ranking Member Sanders.

OPENING STATEMENT OF SENATOR BERNARD SANDERS

Senator SANDERS. Mr. Chairman, thank you very much, and, Director Mulvaney, thanks very much for being with us this morning. And I would agree with the Chairman on one point. We must restore faith with the American people and their Government. Sadly, this budget does exactly the opposite.

The Trump budget that was introduced this week constitutes a massive transfer of wealth from working families, the elderly, the children, the sick, the poor, the most vulnerable people in our country, to the top 1 percent. It follows in the footsteps of the Trump-Ryan health care bill which gives massive tax breaks to the people on top while throwing 23 million people off of the health insurance they currently have and dramatically raising premiums for older workers.

This is a budget which says that if you are the wealthiest family in America—the Walton family of Walmart—you can get up to a $52 billion tax break through the repeal of the estate tax.

Let me repeat that. The wealthiest family in America could get up to a $52 billion tax break.

But at the same time, this budget says that if you are a lower income senior citizen, you will not be able to get one hot nutritious meal a day that is currently provided to you by the Meals on Wheels program.

This is a budget that says that if you are the second wealthiest family in America, the Koch brothers—a family, by the way, that has contributed hundreds and hundreds of millions of dollars into the Republican Party—your family can get up to a $38 billion tax break. But at the same time, if you are a working-class young person trying to figure out how you can possibly go to college, your dream of a college education will disappear because of $143 billion in cuts to student financial assistance programs.

This is a budget which says that if you are a member of the Trump family, you may receive a tax break of up to $4 billion. But if you are a child of a low-income family, you could well lose the health insurance you currently have through the Children's Health Insurance Program and massive cuts to Medicaid.

When Donald Trump campaigned for President, he told the American people that he would be a different type of Republican, that he would take on the political and economic establishment, that he would stand up for working people, that he understood the pain that families all across this country were feeling. Well, sadly, this budget exposes all of that verbiage for what it really was: just cheap campaign rhetoric that was meant to get votes, nothing more than that.

At a time when the very rich are already getting much richer while the middle class continues to shrink, this is a budget of the billionaire class, by the billionaire class, and for the billionaire class. This is a budget which will make it harder for our kids to get a decent education, harder for working families to get the health care they desperately need, harder to protect our environment, and harder for the elderly to live out their retirement years in dignity.

This is not a budget that takes on the political establishment. This is a budget of the political establishment. This is the Robin Hood principle in reverse: You take from the poor, and you give to the very rich. The reality is that the budget that President Trump has proposed would break virtually every promise he made to working people of this country.

Among many other promises that it breaks is not only massive cuts to Medicaid, but cuts to Social Security. This budget would make massive cuts to Social Security for people who have severe disabilities, children who have lost their parents, and the poor. And, Director Mulvaney, please do not tell me that the Social Security Disability Insurance Program is not part of Social Security. Let us be clear. Social Security is not just a retirement program. It is an insurance program that protects millions of Americans who become disabled or lose their parents at a young age.

The chairman said we have got to restore faith with the American people. He is exactly right. The way to do that is to totally reject this budget and create a budget that works for working families in this country, not just the billionaire class.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you, Senator Sanders.

Our witness this morning is Mick Mulvaney, the Director of the Office of Management and Budget. Having only been confirmed by the Senate on February 16, 2017, it is safe to say that Director Mulvaney has had a busy few months. Prior to his time as the Director of OMB, he served the people of the 5th District of South Carolina as their Congressman, where he was first elected in 2010.

During his time in Congress, he served on both the Budget Committee and the Joint Economic Committee.

We look forward to receiving your testimony, Director Mulvaney. Please begin.

STATEMENT OF THE HONORABLE MICK MULVANEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. MULVANEY. Chairman Enzi, Ranking Member Sanders, members of the committee, thank you so much. It is wonderful to be back here in this wonderful room to present to you the President's fiscal year 2018 budget. The title on the cover is, "A New Foundation for American Greatness." As you can imagine, I spent a lot of time in this document over the course of the last couple days and weeks. I wish now that I had changed the title on the cover. I wish that the title was "A Taxpayer-First Budget."

As I went through it, I said, OK, we have got this title, we have got this name. It is the "New Foundation for American Greatness." What is new about it? And one of the things that is new about it is that we actually did look at the expenditures through the eyes of the people who pay for it. I think for too long we have probably just looked at the impact on the folks receiving taxpayer dollars and not nearly enough time focusing on the folks who pay taxpayer dollars. And that is new in this budget this year.

What else is new? It balances within 10 years, something the previous administration was incapable or unwilling to do for their 8 years in office. It is an opportunity for us to have a conversation about borrowing money. We do borrow money in this budget, as President Obama did before us and President Bush did before him. We do something unusual when we compare it to the previous administration. We actually have a plan to pay it back, because if you borrow money, if you take money from people and have no intention and no plan of ever giving it back to them, that is not debt. That is theft. And that is what the previous eight budgets offered by an administration did—took money with no prospect ever of giving it back to the people from whom you borrowed it. And we changed that because we have a plan for how to borrow money in the short term and then start to pay it back to the people. Every single man, woman, and child in this room owes the Federal Government $60,000. My 17-year-old triplets, $60,000. Every single one of your constituents, $60,000.

You might be able to look them in the eye and say, "That is OK." The President decided to look them in the eye and say, "You know what? That is not right. It cannot go on forever." We have to have a plan for figuring out how to start paying back the money that we have borrowed from people for all of these years.

The next word in the budget was "foundation," and I tried to come up with what was the foundation, what we were trying to get to when we picked that word. What was the foundation for American greatness? And the foundation for American greatness is 3 percent growth. Every single time I am in the Oval Office talking to the President, whether it is on budgets, tax policy, trade policy, energy policy, regulatory policy, those discussions are driven by one goal and one goal only: How do we get America back on track in the economy?

There are some folks who believe—and many of those folks happen to work in the Congressional Budget Office—that 1.9 percent growth is the best we can do forever. We refuse to accept in this administration that pessimistic view of the future. We refuse to accept that the new normal is 1.9 percent, especially when the history of this Nation is above 3 percent. And that goes back to the founding. You can go back to World War II, if you want to. For some reason, some of us want to accept the fact that we will only ever grow at below 2 percent growth again. If you are in this room today or watching this and you are 30 years old, you have never had a job as an adult in a healthy, a truly healthy American economy. And an economy at 3 percent is so much different than an economy at 2 percent, it is hard to described except like this: In the 1990s, when I was a younger man, we had excellent growth in this country. We had it under a Democrat administration and a Republican-controlled Congress. If you got fired back then during a healthy American economy, you could find another job easily. If you did not like your job, you could quit and start your own business. That type of optimism dies in a 1.9 percent economic growth world, and we need it back. And everything we do in this administration, including the principles in this budget, are designed to get us back to 3 percent growth.

We do all that, by the way—it is still from the President's priorities. We have talked about them before: national security, border security, law enforcement, veterans, school choice, paid parental leave—I hope we get a chance to talk about that today—infrastructure, money in here for that, we can talk about that.

We do not touch Social Security retirement or Medicare. I look forward to having that discussion. We also focus, Chairman Enzi, on unauthorized programs, $310 billion. One of the questions I ask, if you think it is so important, why don't you vote to reauthorize it? I think that is a fair question when you look at this through the perspective of the people who are paying for it.

I have enjoyed watching all the politicians on TV this week saying, "Oh, we wish we spent more money on this program," and the program is unauthorized. And I cannot go back to the taxpayers and say, "Yes, I want to spend more money on a program that Congress does not care enough about to even vote on anymore." That is no longer defensible.

So we do all that, and we balance the budget within 10 years because we look at the Government differently. We are no longer going to measure compassion by the number of programs or the number of people on those programs. We are going to measure compassion by the number of people we get off of those programs and back in charge of their own lives. We no longer measure success by how much money we spend but by the number of people we actually help. And that is the last part of the budget, which is American greatness.

So, anyway, with that, Mr. Chairman, I look forward to the hearing today. I look forward to answering your questions. I hope I do a decent job with it. And I appreciate the opportunity to be here to present the President's budget.

[The prepared statement of Mr. Mulvaney follows:]

TESTIMONY OF
MICK MULVANEY
DIRECTOR
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE SENATE COMMITTEE ON THE BUDGET

May 25, 2017

Chairman Enzi, Ranking Member Sanders, Members of the Committee:

Thank you for this opportunity to testify on President Trump's Fiscal Year 2018 Budget.

As the Office of Management and Budget began drafting President Trump's first budget, we followed one simple directive: write a budget that keeps the promises he has made to the American people.

The process began with a basic premise: Our government must be more efficient, more effective and more accountable to the American people.

The previous Administration ignored hard working taxpayers, and instead of an accountable government, it gave them out-of-control spending and a massive federal debt. Now is our opportunity to reverse the failures of the past.

For years, Washington tried to help Americans by simply growing government. Under President Trump's leadership, we are taking a new approach to how we tax, regulate, and support our American workers, entrepreneurs and job creators.

And that is exactly what this Budget proposal does. We are creating a New Foundation for American Greatness that puts taxpayers first.

This Budget includes a variety of pro-growth policies that will keep President Trump's promise to restore economic growth and increase wages for American families across the nation.

It also keeps the President's promise to balance the budget within the next decade and reduce our debt without affecting beneficiaries of Social Security and Medicare retirement programs, and without raising taxes.

This Budget keeps the President's promise to strengthen the security of our nation by undoing defense sequestration, enforcing our immigration laws, and honoring our veterans.

And importantly, it invests in the federal programs that work for taxpayers, and reduces or eliminates those that do not.

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Much like millions of American families across the country, increasing economic opportunity remains at the forefront of President Trump's agenda.

That is why this Budget rejects the idea that the "new normal" in our nation is the stagnant 1.3% average economic growth seen since 2007. From the end of World War II to 2007, economic growth averaged 3.5%. This Budget projects a realistic, positive vision for 2.5% growth in FY 2018, increasing to 3.0% in FY 2020, and staying at that level through the ten-year window.

The growth assumptions in this Budget reflect the President's comprehensive plan for job creation, which includes regulatory reform, higher production of domestic energy, and trade deals that benefit American workers and consumers. The detailed Budget highlights several additional initiatives, including:

- **Repealing and Replacing ACA**: The Budget assumes repeal of the Affordable Care Act (ACA), which the Administration believes has harmed our health care system, economy, and forced middle-class families to pay higher premiums for less coverage. The Budget assumes a patient-centered replacement for the ACA that lowers costs and provides America's families with real health care choices.

- **Welfare Reform**: The Budget includes a variety of major reforms to our welfare system such as the Supplemental Nutrition Assistance Program (SNAP) and the Temporary Assistance for Needy Families (TANF) program, with the overarching goal of more effectively targeting benefits and encouraging work.

- **$200 Billion Infrastructure Investment**: As the Administration continues to work with Congress, States, and other stakeholders on President Trump's $1 trillion infrastructure target, financed by both public and private investment, the Budget includes $200 billion in new infrastructure spending over the next decade.

- **Comprehensive Tax Reform**: The Budget advances the President's tax reform plan that cuts taxes for individuals and businesses. By simplifying the tax code to three brackets for the middle-class and eliminating loopholes, the plan will allow millions of American families to keep more of their paychecks. For businesses, lowering taxes from 35% to 15% will allow U.S. companies to compete globally while expanding operations domestically. This reform will directly result in more jobs, higher take-home pay, and a prosperous future for American workers.

- **Easing the Burdens of Dodd-Frank**: As red tape from Dodd-Frank continues to directly harm everyone from first-time home buyers to community banks trying to lend capital to small businesses, the Budget assumes $35 billion in savings from lifting the burdens of the law. The Administration looks forward to partnering with Congress on sensible reforms to our financial system that undo the damage created by Dodd-Frank.

In addition to increasing GDP growth, higher wages, and job creation, the pro-growth policies in President Trump's Budget help bring our nation to balance, resulting in a $16 billion surplus in FY 2027, and a reduction in public debt as a percentage of our economy from 77% this year to less than 60% in FY 2027.

With that serving as the plan for the economy, let me transition to national security.

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A priority of the Administration's agenda is major, new investments in our national security. President Trump promised to rebuild our military and strengthen our nation's security in the face of growing threats both at home and abroad. This Budget keeps those promises. Our military will be dramatically modernized, our borders will be secure, and our laws will be enforced.

It is worth noting that the Administration believes that Congress took a major step toward these goals by ending the Washington mentality of "parity" and providing a $25 billion increase in defense spending in FY 2017.

However, more must be done. That's why the President's Budget provides for a $54 billion increase in defense spending over the 2018 caps, for a total of $603 billion, or $668 billion when counting Overseas Contingency Operations (OCO) funding.

This topline number for 2018 will continue the process, begun in the fiscal year 2017 omnibus, of rebuilding our armed forces after years of underinvestment and neglect.

Importantly, the Budget invests in our military without adding a single penny to the deficit, by reducing lower-priority, non-defense discretionary spending by a commensurate $54 billion in FY 2018. These reductions result in a proposed non-defense discretionary cap of $462 billion for FY 2018.

The President's Budget also makes historic investments in border security and immigration enforcement, providing over $2.6 billion in new infrastructure and technology investments to give Border Patrol agents the tools they need to deter, deny, identify, track, and resolve illegal activity along the border.

This investment includes $1.6 billion for new and replacement border wall in priority areas.

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President Trump's Budget keeps his promise to protect Medicare and Social Security retirement, while reducing the size of the federal government elsewhere in the Budget.

To do so, it proposes more than 150 major reductions and reform proposals, and cuts spending by $3.6 trillion over 10 years – the most ever proposed by any President in a budget. Combined with the President's Executive Order to reform the federal government and reduce the Federal civilian workforce, this Budget takes major steps toward eliminating unnecessary, overlapping, outdated and ineffective programs.

Many of these programs are well-intentioned and supported by well-organized constituencies and special interests, but simply are not appropriate responsibilities of the federal government. Others have not achieved their intended outcomes. Some are guilty of both. In many cases, Congress has allowed the authorization of these programs to expire.

In fact, the Congressional Budget Office reported that the omnibus appropriations bill for FY 2016 appropriated more than $300 billion to more than 250 expired authorizations – about one quarter of all discretionary appropriations.

After FY 2018, the Budget continues reasonable reductions in non-defense discretionary spending, by two percent per year. The Administration believes that these reductions can be achieved if Congress chooses to make the hard choices needed to reprioritize spending focused on the federal government's core responsibilities. These reductions - two cents out of every dollar - will help preserve our country's financial health, and should not be too much to ask.

The Budget proposes additional reforms to save taxpayers' money, by providing states with more flexibility over the Medicaid program, bringing federal retirees' benefits more in line with the private sector, targeting improper payments, and simplifying federal student aid programs.

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Chairman Enzi, Ranking Member Sanders, Members of the Committee:

For the first time in nearly a decade, the President has done what Americans families and businesses across the country do each day: balance the books.

The Budget lays the groundwork for an American renewal, and provides a detailed and specific roadmap to get us there. It is a rejection of the failed status quo, and is an effort worthy of the trust of the American people who built this nation.

It keeps the President's promises to balance the budget, strengthen our national security, and protect Social Security and Medicare retirement while eliminating wasteful spending.

It is a budget that ushers in a new culture of limiting the size and scope of the federal government and returning it to its proper and appropriate functions.

It is a budget that prioritizes our men and women in uniform. It is a budget that protects our seniors and answers to taxpayers.

Above all else, it is a budget that recognizes our government must be more efficient, more effective, and more accountable to the American people. We owe it to all Americans to be as responsible as we can with the money they give us.

Make no mistake: this budget makes tough decisions; decisions that need to be made in order to ensure that our children and grandchildren inherit a country that is safe at home, that is strong abroad, and that provides opportunities for generations to come.

Thank you for the opportunity to testify, and I look forward to taking your questions.

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Chairman ENZI. Thank you. You are one of the few people that ever finished up a minute ahead of time.

[Laughter.]

Mr. MULVANEY. I am from the House. We only get 5 minutes over there, Mr. Enzi. Seven minutes is very generous.

Chairman ENZI. Now we do turn to questions, and I will explain the process to committee members. Each member will have 5 minutes for questions, beginning with myself and then Senator Sanders. Following the two of us, I will alternate questions between Republicans and the minority. All members who were in attendance when the hearing began will be recognized in the order of seniority. For those who arrived after the hearing began, you are on the list in order of arrival. If your turn is on the list to be recognized and you are not available, you will be moved to the bottom of the list, and the next Senator on that side will ask questions. So we will start the questions.

Director Mulvaney, the President's budget reduces deficits for OMB's pre-policy baseline by $5.6 trillion. While $3.6 trillion of this deficit reduction is directly scored to policies in the budget, the rest is estimated to come from economic feedback. Specifically, the budget projects more than $2 trillion in increased revenue from increased economic growth.

What initiatives in your budget do you expect will lead to that growth?

Mr. MULVANEY. Thank you, Mr. Chairman. When Secretary Mnuchin, Director Cohn, and I, as members of the so-called troika, sat down shortly after I was sworn in, we had a chance to look at the CBO numbers that proposed or projected that 1.9 percent growth. And then we asked ourselves, OK, what are we going to do to get that number to 3 percent? That $2 trillion worth of additional revenue you mentioned comes from the 3 percent economic growth throughout the 10-year budget window. And so we said, OK, we are going to have tax reform. That should increase gross domestic product (GDP). We are going to have regulatory reform, which we actually thought had a larger increase on GDP than tax reform. We are going to have new trade policies. We are going to undo Obamacare, and according to the Congressional Budget Office, repealing Obamacare actually added to the GDP growth in this country because even the Congressional Budget Office recognized that the passage of Obamacare created a disincentive for people to work.

So that is what we did. We went through our policies line by line, and depending upon the values that we assigned to them, we actually came up with some numbers that were higher than 3 percent. The President did mention numbers higher than 3 percent on the campaign. But we settled on the 3 percent growth. We thought it was a conservatively defensible number.

Chairman ENZI. Thank you. In one of the supporting volumes of the budget, I found a truly startling figure. According to your documents, in the 10 years ending in 2016, non-independent agencies added about $78 to $115 billion in estimated annual costs through the finalization of new regulations. And this does not capture the entire regulatory burden as regulations such as those stemming from the Dodd-Frank Act are imposed by independent agencies.

How does this budget propose to review those rules to lessen their impact on the economy and prevent such buildup of regulations in the future?

Mr. MULVANEY. We have actually already taken steps in that direction, Chairman Enzi. Shortly after I arrived, OMB reviewed and approved an Executive order to address the regulatory climate in a couple of different ways.

Number one, we instituted a one-in, two-out rule, that before agencies introduce a new piece of regulation, they have to go back and look at two that get off of the books.

By the way, it has been extraordinarily difficult to do that. As we have been through the process, what we have learned is it is not that hard to slow down an agency on creating new regs. But when you ask an agency, a bureaucratic agency that is designed to created regs to start to deregulate themselves, it is really, really—it is a muscle that they have not used for a long time, if ever. So we have been a little bit surprised by the challenges in looking for those two out. So we think we have done a pretty good job so far of slowing down the new regulations into the pipeline, but we are going to work very hard to make sure we spend as much energy on getting old regs off of the books.

We also instituted a net zero dollar policy, that if you are going to introduce a new reg that creates $100 worth of burden on the American population, you are going to have to find some to get rid of that same $100 so that there is a zero net regulatory burden on the economy.

Chairman ENZI. That is what I have been hearing in Wyoming.

Last November, the GAO issued the results of a study that I had requested that found that the cost estimates for the Education Department's various income-dependent student loan repayment plans have been reestimated upwards by tens of billions of dollars. The reason was that enrollment far exceeded the prior administration's original estimates. This budget includes another huge upward revision of student loan program costs with the anticipated cost to the outstanding portfolio rising by an additional $39 billion. While the budget says $8 billion of this is due to still greater enrollment, another $18 billion is due to updated collection rate assumptions concerning the roughly $100 billion in defaulted student loans the Department currently manages.

It seems we keep finding that the student loan programs are more expensive than the Government expects. How does the President's budget proposal attempt to contain student loan costs going forward?

Mr. MULVANEY. I have not reviewed the Federal Student Aid (FSA) report, but I think we all know that there was a lot of pressure, I think, during the Affordable Care Act debate to look to the student loans to be generating money. You can ask yourself whether or not there was pressure to show unreasonably rosy numbers at the time as part of the Obamacare discussion.

As we look forward, though, and talk about what the President proposed when he was campaigning, the President made specific promises regarding taking the variety of repayment programs that are out there today to repay student loans and condense them into one. And that is exactly what we have done in the budget. We take a single income-based program and tie your repayments of your student debt to the amount of money that you are making after you graduate, and that leads to a circumstance where, if you are making less money, you will pay back less of your loan; if you are making more, you will pay back more.

When President Obama I think introduced something similar, he suggested that we forgive the debt after 20 years. We actually move that to 15 years. But by doing it in a single plan that is actually easier for folks to use and we expect them to use it and buy—making the variables depending on income, we actually save a considerable amount of money.

Chairman ENZI. Thank you. My time has expired.

Senator Sanders.

Senator SANDERS. Thanks very much, Mr. Chairman.

Before we go further, I find it a little bit unfair that Mr. Mulvaney and many people in the Trump administration disparage the Director of the CBO when it was Tom Price, the former Republican chairman of the Budget Committee, who appointed Dr. Hall in the first place. So let us get that clear.

Mr. Mulvaney, as you know, the United States today has more income and wealth inequality than any major country on Earth. The top one-tenth of 1 percent now owns almost as much wealth as the bottom 90 percent; 52 percent of all new income today is going to the top 1 percent.

But your budget thinks that it is good public policy to provide $52 billion in tax breaks for the wealthiest family in this country, a family already worth $128 billion. You think that a family like the Walton family where one guy owns four Ferraris and one Maserati that are worth more than $65 million are just in desperate need of massive, massive tax breaks. You think that Sheldon Adelson, who, among other things, contributed $5 million for the Trump Inaugural, is in need of a massive tax break, as well as the Koch brothers.

So my question is pretty simple, and I want you to tell the American people why you think it is a good idea to give $3 trillion in tax breaks to the top 1 percent at a time when the rich are becoming much richer while at the same time you are going to throw 17 million children in this country off of health insurance because of the unconscionable cut that you are making to Medicaid, why you are going to throw seniors in the State of Wyoming or the State of Vermont off the Meals on Wheels program, maybe the one nutritious program that they get a day, why you are going to throw women and low-income babies off of the Women, Infants, and Children (WIC) program at a time when infant mortality rates in this country are already high. Do you really think it is a great idea to tell a low-income pregnant woman that you are going to take away the WIC program, take away nutrition programs for children, in order to give a massive tax break of $52 billion to the Walton family? Please explain your logic to the American people.

Mr. MULVANEY. I will see if I can handle each of those in reverse. Actually, let me deal with the CBO first. I cannot disparage who I do not know, and I do not think I have ever disparaged the Director——

Senator SANDERS. You made a dismissive remark about him. "Even the CBO." You guys appointed the Director.

Mr. MULVANEY. And, again, all I am telling you is that the results are awful.

Senator SANDERS. But you appointed him, so let us go with that.

Mr. MULVANEY. I measure performance by results, Mr. Sanders, and if you continuously put out bad numbers——

Senator SANDERS. Your opinion is that the results are terrible. I am suggesting that it was a member of the Trump administration who appointed this gentleman, not some kind of radical Democrat.

Mr. MULVANEY. So we can agree that the CBO puts out bad data, OK.

Senator SANDERS. No, we cannot. We can agree that you guys are beating up on a man that you appointed because you do not like his results. But, anyhow, get back to the question, why tax breaks——

Mr. MULVANEY. I do not like the results——

Senator SANDERS [continuing]. For billionaires and cuts for working-class——

Mr. MULVANEY [continuing]. Because they are not right.

Senator SANDERS [continuing]. Kids.

Mr. MULVANEY. WIC serves all the projected participants. There is no change there. Meals on Wheels is not reduced at all. The change that we make is through——

Senator SANDERS. The Community Development Block Grant (CDBG) program, which you eliminate.

Mr. MULVANEY. Block grant——

Senator SANDERS. So you eliminate the block grant, and you are telling me that funds the program, and you are telling me that does not have an impact——

Mr. MULVANEY. The program is funded, Senator, through the Old Age or Senior Nutrition Program, I think through the Department of Health and Human Services (HHS), which we do not change.

Senator SANDERS. No, that is not true.

Mr. MULVANEY. That is true, actually. The CDBG program is a block grant to the States, and some States do choose—choose—to use some of that money——

Senator SANDERS. And you eliminate that program.

Mr. MULVANEY [continuing]. On Meals on Wheels, and that——

Senator SANDERS. The bottom line is——

Mr. MULVANEY. Senator, I mean, if——

Senator SANDERS. Go ahead. Answer the question.

Mr. MULVANEY. The total money for Meals on Wheels that comes from CDBG is 3 percent. That is it. And I do not know how you can possibly contend that we are——

Senator SANDERS. But you are eliminating the program that funds not only Meals on Wheels but many other programs at the discretion of Governors and mayors.

Mr. MULVANEY. I would be more than happy to have a long discussion about CDBGs. You asked about Medicaid as well. The slashing of Medicaid, the dramatic cuts to Medicaid, is a slower growth rate in Medicaid. There is a 1-year exception during the Affordable Care Act where—excuse me, the Affordable Health—the American Health Care Act (AHCA) where the bill calls for the end to expansion, and there is a small reduction that year. But, generally speaking, over the 10-year budget, Medicaid spending goes up every——

Senator SANDERS. Yes, but so does health care inflation. We go through these games every single year. Inflation is going up a lot faster than the money that you are putting in.

The bottom line is, tell me—let me get back to one question.

Mr. MULVANEY. Sure.

Senator SANDERS. Why do you think the Walton family needs a $52 billion tax break?

Mr. MULVANEY. My guess is that you are basing that assertion on the only tax detail that we have in the budget, which is——

Senator SANDERS. The repeal of the estate tax, exactly.

Mr. MULVANEY. Right. And if we want to have a talk about why we are repealing that, I would be more than happy to do that.

Senator SANDERS. Good. Tell me.

Mr. MULVANEY. Because ordinary people are paying more.

Senator SANDERS. No. Ordinary people do not have a wealth of $128 billion. That is not an ordinary person.

Mr. MULVANEY. The average increase across this Nation since the inception of Obamacare——

Senator SANDERS. You are not answering the question. The question is——

Mr. MULVANEY [continuing]. Is 105 percent.

Senator SANDERS. Answer the question. The wealthiest family in America gets a $52 billion tax break as a result of the repeal of the estate tax.

Mr. MULVANEY. That is correct.

Senator SANDERS. Tell the American people why you think that is good when you cut Medicaid and you cut programs for kids.

Mr. MULVANEY. We do not cut Medicaid. We are talking about repealing Obamacare. The results that you mentioned——

Senator SANDERS. Throwing 23 million people off of health insurance. That is right?

Mr. MULVANEY. It is a CBO number that I think you just agreed could be wrong if——

Senator SANDERS. I did not agree to that at all.

Mr. MULVANEY. OK. That we repeal Obamacare——

Senator SANDERS. Why does a billionaire family get a $52 billion tax break? Please tell the American people.

Mr. MULVANEY. Because we think it is wrong that ordinary folks lose coverage, and we want to get rid of the plan——

Senator SANDERS. Ordinary people.

Mr. MULVANEY. Yes.

Senator SANDERS. Is the Walton an ordinary family?

Mr. MULVANEY. No, they are not. They are extraordinary. But ordinary people are losing coverage today under Obamacare——

Senator SANDERS. I asked you why——

Mr. MULVANEY [continuing]. And we repeal——

Senator SANDERS [continuing]. The wealthiest family in America is getting a $52 billion tax break.

Mr. MULVANEY. And I am answering the question by saying because we repeal Obamacare.

Senator SANDERS. No. You end the estate tax, which applies to the top two-tenths of 1 percent.

Mr. MULVANEY. Senator—well, OK. I am sorry. I thought the assumption was we were looking at the tax that—the tax reductions that are contained in Obamacare——

Senator SANDERS. No, that is not what we are talking about.

Mr. MULVANEY. You mentioned the estate tax——

Senator SANDERS. No, no, no.

Mr. MULVANEY. OK.

Senator SANDERS. We are talking about the repeal of the estate tax, which you just mentioned.

Mr. MULVANEY. The budget assumes a deficit-neutral tax plan, because when we wrote the budget, we did not have nearly enough specifics to assume what you are assuming, which is the specific reductions. Yes, the proposals that the White House published about 3 or 4 weeks ago, the principles that set forth, does include a reduction of the estate tax——

Senator SANDERS. Repeal of the estate tax, sir.

Mr. MULVANEY. You are absolutely right. It is a repeal of the estate tax. But I think it is mathematically impossible to take those general principles and assume a direct impact on a particular family. You cannot do it.

Senator SANDERS. No, that is not——

Mr. MULVANEY. Nobody can do it. I have seen estimates from groups that say, oh, it is going to add to the——

Senator SANDERS. No, that is not—that is——

Mr. MULVANEY [continuing]. Deficit by $2 trillion to $10 trillion. People were just making up numbers.

Senator SANDERS. That is really not true. I mean, we do not know when people are going to be dying, that is for sure. But you can make those estimates.

Mr. MULVANEY. We do not know that people——

Senator SANDERS. No, you do not know when somebody is going to be dying. But the truth is that if the family is worth——

Mr. MULVANEY. They are pretty sure they are going to die eventually.

Senator SANDERS. That we can be pretty sure of.

Mr. MULVANEY. At least we agree on something.

[Laughter.]

Senator SANDERS. Thank you.

Mr. MULVANEY. Thank you.

Chairman ENZI. Senator Graham.

Senator GRAHAM. That was borderline fascinating.

[Laughter.]

Senator GRAHAM. For 8 years, President Obama presented a budget, which was a proposal, and got zero votes in the United States or the U.S. House. It is fair to say we are going to continue that trend.

Mr. MULVANEY. I might get one or two, Senator.

Senator GRAHAM. You might get one, but it will not be mine, and let me tell you why. I really appreciate you trying to balance the budget in 10 years. You got the Budget Control Act numbers to deal with. That is correct, right? That is the constraint we imposed on you. And if you are going to balance the budget in 10 years, there are really no good ways to do it.

Obama increased taxes by $3.1 trillion in 2017. I think that would devastate the economy. That is probably why it got no votes.

Some of the cuts you have made I think will have an effect that the country probably does not wish for. But you are in a spot of having to balance the budget, increase military spending because we need it, and that makes you, with the BC Act numbers, make very tough choices. So I appreciate you trying.

Mr. MULVANEY. And we did not touch Social Security retirement or Medicare.

Senator GRAHAM. OK, and so that is my question. Let us not fool people. You did a really good job. Meals on Wheels is not being gutted. The block grant portion is being eliminated, and that is 3 percent of funding, is what you said?

Mr. MULVANEY. Maximum 3 percent.

Senator GRAHAM. So please quit saying things that are not true. There is enough we can say about this budget that is true.

So the bottom line is I would like to eliminate the death tax because I just do not like the concept of taxing people's estate when they die because every time they made a move while they lived, you tax it. I would rather have the Walton family take the money and give it away rather than the Government grabbing it after they die, because I think the chief philanthropists in this country are a lot of the wealthy people you talked about, and they are doing a lot of good things. They may have a Ferrari in the garage, but I can tell you, when it comes to conservation and other things, the Walton family are contributing. So it is just a philosophical difference. If it were up to me, we would have no death tax because we tax you every time you move while you live. So the bottom line, these are just philosophical debates. It is not meanness. We just disagree.

But the one thing I do not want the public to be misled by is that you do nothing in terms of Medicare and Social Security insolvency, which is coming. Is that correct?

Mr. MULVANEY. That is correct. We do not make any proposed changes to Social Security retirement or Medicare.

Senator GRAHAM. If you were able to, if you were unleashed by the President, would you not want to get a grand bargain where we cleanup the Tax Code, take away some deductions for the few at the expense of the many, and save Medicare, Medicaid, and Social Security—Medicare and Social Security from insolvency, which is coming?

Mr. MULVANEY. Senator, let me answer it this way. When I sat here 3 months ago and you all asked me what I was going to do, because sometimes I would disagree with the President, which I thought was one of the reasons he hired me was that I would lay out options for him, and I did that. And I went into the office. I think we had 4 hour-long meetings on mandatory programs, and I gave him a list of proposed mandatory changes. And at the end of the last meeting, he went, "Yes, yes, yes, no, no, no." And the answers for "no, no, no" were Social Security retirement and Medicare, because he said, "Look, I looked people in the eye when I ran for office. I promised I would not change them. I am keeping that promise."

Senator GRAHAM. But here is what the President needs to do. He needs to look people in the eye and tell them that that is an impossible promise if you are serious about getting out of debt.

Now, Mr. President, quit playing the game everybody else plays up here. By 2042, Medicare and Social Security alone will consume all the revenue sent to Washington. That is the projection. Is that correct?

Mr. MULVANEY. I have seen similar numbers, yes, sir.

Senator GRAHAM. Because the Baby Boomers retire en masse, of which I am one. So you cannot skip over Medicare. You cannot skip over Social Security if you are serious about preventing us from becoming Greece, and to skip over these programs is to allow them to die over time. So the one thing I would say to my Republican colleagues who believe you do not need entitlement reform, including the President, to keep us from becoming Greece, you are wrong. And, Mr. Mulvaney, you know the right solution.

Mr. MULVANEY. And I will deliver that message to the President.

Senator GRAHAM. Well, thank you. And you have been the solution, in my view. Thank you for what you did with the ports, a very innovative solution to funding ports. We will have a disagreement about MOX, but let me tell you one thing about the budget that does bother me: soft power. Do you agree with me that we are never going to win the war on terror just through dropping bombs on terrorists?

Mr. MULVANEY. Senator, I agree it is one of the greatest military challenges we face. You know why we did what we did. Again, it was the President keeping his promise to spend less money on foreign aid.

Senator GRAHAM. All I can tell you is that I do not know what it cost the country to ignore Afghanistan before 9/11 to the taxpayer. But when you shoot women in soccer stadiums for sport, when you blow up statutes of anybody's religion, to expect nothing to come your way is a huge mistake. To the American taxpayer, the King of Jordan is the best ally we could hope to have. We reduce his funding by $279 million. I got a call from the Ambassador of Jordan saying, "What did we do wrong?" "Nothing, ma'am."

Georgia, a front-line State in the crosshairs of Putin, a 66 percent reduction in their assistance.

These people are not owed a dime by the American taxpayer. Foreign aid is 1 percent of the budget. But I will tell you this, Mr. Mulvaney. From my humble point of view, if we do not help the King of Jordan more at a time of critical need, his kingdom could fall. If we do not push back from Russia and help those in the crosshairs of having their democracy destroyed, I do not know what that cost to the taxpayer is, but to me it is an unacceptable cost. So the reason I would vote no is because soft power is destroyed in this budget.

Mr. MULVANEY. Thank you, Senator.

Chairman ENZI. Senator Whitehouse.

Senator WHITEHOUSE. Thank you very much, Chairman.

Mr. Mulvaney, can we talk about the tax cuts, tax reform proposal? You just said that you assume that the tax reform plan is going to be deficit neutral. Is that correct?

Mr. MULVANEY. Yes, Senator.

Senator WHITEHOUSE. And your presentation to this committee states that it is deficit neutral, correct?

Mr. MULVANEY. Yes, basically, Senator, we had three choices, which is we could assume the tax plan, which is still in its very early stages—it is not really a plan——

Senator WHITEHOUSE. So there is no scoring on it yet. That is an assumption at this point.

Mr. MULVANEY. Either add to the deficit, subtract from the deficit, or be deficit neutral, and we picked the third up the middle way.

Senator WHITEHOUSE. And the way that you get to that conclusion is that you recognize that there will be immediate revenue reductions from lower tax rates and calculate that they will be offset by increased revenues from enhanced economic activity and that they offset each other to deficit neutrality.

Mr. MULVANEY. With respect, sir, no, that is not the calculation we went through.

Senator WHITEHOUSE. OK. What was the calculation?

Mr. MULVANEY. That we went through the list of exclusions that are reduced, loopholes that are closed, deductions that are removed. I cannot remember what the number that we assigned to ending the—the proposal includes to remove the deduction for State and local taxes, which is a huge number. We get rid of a wide variety of personal deductions, including, I think, everything except—I think the proposal has some mortgage——

Senator WHITEHOUSE. So your testimony here is that you are not assuming any growth from tax revenues as a result of increased economic activity in reaching the deficit neutrality. That is all going to be tax dollars in, tax dollars out, no added growth as the basis for deficit neutrality.

Mr. MULVANEY. I do not know if I am agreeing or disagreeing with you, but let me tell you what we did. We assumed economic growth. Certainly, it is part of, as I mentioned in my opening statement, the assumptions how we got to 3 percent growth. Tax policies were part of it. And certainly when we do go to 3 percent growth, we assume that Government revenues go up. So we assume that there is growth, but we did not use those numbers to say that the tax policy was deficit neutral.

Senator WHITEHOUSE. So the tax policy, as you foresee it, will be one that is deficit neutral without regard to growth—without regard to the increased growth that you assign to the tax policy itself. There is a circularity where people say we are going to change the Tax Code, and that is going to increase revenues, and then we are going to bake those revenues back into the Tax Code. That is not going to be a manner in which you achieve deficit neutrality when you get your Tax Code proposal together.

Mr. MULVANEY. Again, I think we are agreeing, but just to use my own words, I am aware of the accusations of double counting. I do not believe that we engaged in that.

Senator WHITEHOUSE. But the only way that that becomes true is if, in fact, the tax reform proposal is deficit neutral——

Mr. MULVANEY. Deficit neutral on its own——

Senator WHITEHOUSE [continuing]. Without regard to growth from the tax proposal.

Mr. MULVANEY. Exactly. So we are agreeing on that point. And keep in mind, when we have to make these assumptions for the budget, in fact, we are very early on in the discussion on what a tax policy would look like. We have to make certain assumptions, and the three options that I mentioned to you were the three options we took. I guess we probably could have made the assumption that the tax policy by itself would reduce the deficit. We chose not to do that. My guess is there are some of you who would make the contention that the tax policy by itself should add to the deficit. We chose the middle way to say, look, we do not know enough about the tax policy. We know some of the basic principles of it. We are going to lower rates, we are going to simplify, but we are going to get rid of this whole host of deductions, some of which are massive, and said, look, the most defensible, conservative—with a small "c"—way to look at this is to say on its own policies those will be deficit neutral.

Now, whether or not what you all find passing and when we negotiate with you on a final tax bill, what it looks like, I cannot say. But we have to make certain assumptions early in the process to do the budget.

Senator WHITEHOUSE. So when we look at your tax proposal, when it gets to a level of specificity that we can actually look at, we will be looking at growth numbers that are a constant with and without the Tax Code and the deficit neutrality will be the function of changes within the Tax Code itself, not projections of growth.

Mr. MULVANEY. Let me look at it a different way and, again, see if we are agreeing by using different words. When we offered next year's budget, we will not be able to make those assumptions, I hope, regarding what the tax policy would look like, because we hope that it is either in law or very close to being in law. So we will not be forced with that choice of looking at some piece of paper with basic principles and trying to do the math on that, but we will have a specific thing that we might be able to score and make more detailed assumptions regarding.

Senator WHITEHOUSE. Because you do recognize that if you count the growth here in the budget and then you count it again in your tax proposal, that is a double count. And you are saying it is not a double count because you are not going to use it twice in that way.

Mr. MULVANEY. And I would not want to come now and have to answer questions from my good friend Senator Van Hollen if I was actually double counting.

Senator WHITEHOUSE. Thank you. My time has expired.

Chairman ENZI. Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman.

Let us talk about why you want to grow the economy. If you go from 2 percent to 3 percent growth, that is about $14 trillion over 10 years of added economic activity. If you assume revenue to the Federal Government is about 18 percent of GDP, that is about $2.5

trillion of additional revenue flowing to the Federal Government without raising anybody's taxes, correct?

Mr. MULVANEY. We scored it, I think, at $2.1 trillion, but, yes, you are in the same ball park.

Senator JOHNSON. So that is why you want to grow the economy. And I think the whole purpose of tax reform would be to rationalize our tax system so it incentivizes growth. So from my standpoint, when we are trying to score a tax proposal, you actually want to see a static revenue loss made up by economic growth so we have a dynamic score that comes as close to revenue neutral as possible. I mean, just having a revenue-neutral tax reform does not do much. It just redistributes income. Isn't that what you are trying to do, is you are training to rationalize the tax system so we gain the type of economic growth that does put more revenue into the Federal Government?

Mr. MULVANEY. Again, I think my answer to you, Senator, would be the same as I just gave to Senator Whitehouse.

Senator JOHNSON. Well, I do not care about the double—you know, that was beyond me.

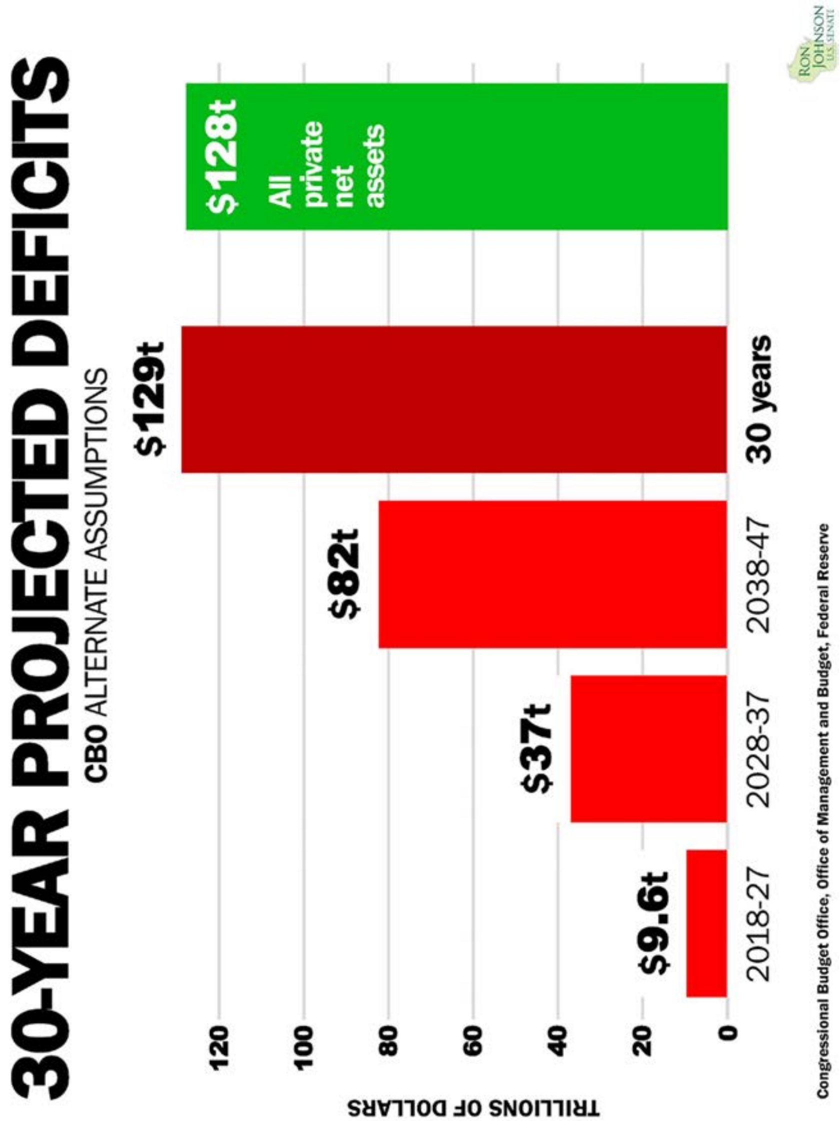
Mr. MULVANEY. OK.

Senator JOHNSON. I am talking about just basic stuff. $14 trillion of economic growth yields more than $2 trillion of revenue. So you want to have a tax policy that makes America more competitive so we can grow our economy.

Mr. MULVANEY. Looking at it another way, Senator, in a world of 1.9 percent growth, we will never balance the budget again.

Senator JOHNSON. I have got a chart here, my 30-year deficit chart. Here are the stark facts, the latest CBO projection put into dollars. Over the next 30 years, we have a projected deficit of $129 trillion. That would be added on to our $20 trillion worth of debt. The net value of all private assets, $128 trillion, clearly unsustainable.

[The referenced chart follows:]



But let us go to the next sheet. This is what I call my "one-page income statement" over 30 years. Three things are yellow—actually, four things, but three things I want to highlight. The deficit in Social Security over the next 30 years is about $18.5 trillion. In other words, we will pay out $18.5 trillion more in benefits than we bring in the payroll tax over the next 30 years, Social Security $18.5 trillion. Medicare is a $39 trillion deficit. The remainder of that $129 trillion basically is $65 trillion interest on the debt.

[The referenced chart follows:]

INCOME STATEMENT for the federal government: FY**2018** to FY**2047**

Congressional Budget Office's **baseline + alternate fiscal assumptions**

(dollars in billions)

	OUTLAYS				REVENUE				DEFICIT			
			% GDP	*% total*			*% GDP*	*% total*			*% GDP*	*% total*
Social Security	**$68,809**		**6.2%**	**21.0%**	**$50,245**		**4.5%**	**25.2%**	**($18,563)**		**1.7%**	**14.4%**
Medicare	**55,091**		**5.0%**	**16.8%**	**16,054**		**1.5%**	**8.1%**	**(39,037)**		**3.5%**	**30.3%**
		123,900	**11.2%**	**37.8%**		**66,299**	**6.0%**	**33.3%**		**(57,600)**	**5.2%**	**44.7%**
Outlays:												
Defense	**39,270**		**3.6%**	**12.0%**								
Nondef discretionary	**36,958**		**3.3%**	**11.3%**								
Medicaid/Obamacare	**32,035**		**2.9%**	**9.8%**								
Mandatory: other	**31,427**		**2.8%**	**9.6%**								
Interest expense	**64,512**		**5.8%**	**19.7%**								
		204,202	**18.5%**	**62.2%**								
Revenue:												
Individual income tax					**104,500**		**9.5%**	**52.4%**				
Corporate tax					**15,422**		**1.4%**	**7.7%**				
Excise taxes					**3,963**		**0.4%**	**2.0%**				
Estate and gift tax					**1,304**		**0.1%**	**0.7%**				
Custom fees, duties					**2,065**		**0.2%**	**1.0%**				
Miscellaneous rev					**5,736**		**0.5%**	**2.9%**				
						132,990	**12.0%**	**66.7%**		**(71,212)**	**6.4%**	**55.3%**
Total rev, outlays, deficit:		**328,102**	**29.7%**	**100.0%**		**199,289**	**18.0%**	**100.0%**		**(128,812)**	**11.7%**	**100.0%**

30-yr GDP: **1,104,800**

Source: CBO, Long-Term Budget Outlook (March 2017)

Note: CBO alt-fisc holds revenue steady at 18.1% of GDP after 2024. CBO provides no source breakdown except for payroll tax components. We extrapolate trends 2022-2027 in individual nonpayroll source as a proportion of nonpayroll projected revenue.

So, in other words, if we do not want to pay $65 trillion in interest to our creditors, we better address Social Security and Medicare, and I want to focus on Medicare. I want to talk a little bit about how do you restrain the growth in health care costs. Isn't that what ought to be the primary goal of any health care proposal coming out of Congress? How do we bring competitive, consumer-driven competition to restrain the growth of costs, actually improve quality and access through competition? Can you tell me in the American Health Choice Act, the A–H whatever, the House bill, what in that bill is going to drive consumer-driven competition to restrain the growth in health care costs? Because that is the number one thing we have got to do if we want to not pay $64 trillion to our creditors.

Mr. MULVANEY. It is a bunch of different things. I will pick one for the sake of the discussion, which is I think Medicaid is one of the—Medicaid is one of the larger drivers up here as well. You can see it behind us. Medicaid is a State-administered program. States also pay for it. I remember being in the State legislature looking at that line item, which I think at that time was the second largest line item in our State budget after K–12 education, and thinking, oh, my goodness, look at this number, where do we spend it on, finding out, and then saying, well, why are we spending it that way when we could spend it another way better, more efficiently? And they said, well, if you want to do it your own way, you cannot get the Federal match. If you want to actually take care of the people in South Carolina the way you think you should, in a manner that is effective and efficient and delivers that care, because we all want to take care of our most needy, we could not do that because the Federal Government did not allow us to do that.

The AHCA changes that. It is one of the fundamental sort of structural changes that you get with the House version of the bill, which is what we would do, is we put the States in much more control over how the administer health care at the local level. And that changes one of the long-term drivers of cost. You get to the very heart of the matter. How do we make health care more affordable? Just about everything that we buy is more affordable and of higher quality than it was 10 years ago except health care. How do we——

Senator JOHNSON. In the 1940s, 68 cents of every health care dollar was actually paid for by the patient. Today it is about 11 cents. We have driven free market competition out of it. And let me just use health savings accounts (HSAs), because I know that is something else in the House bill. In my own businesses, health care costs were escalating. Congress did pass the HSA law, and so we went from probably about—I cannot remember exactly, about a $1,000 deductible plan to I think at the time it was a $2,500 HSA qualified plan. The premium savings that we realized, just by making that small little change—and let us fact it, Obamacare policies have a far higher deductible than that. Just that switch allowed me to take that premium savings, divvy it up by the employees, and invest $3,000 per year per employee in their HSA accounts. Ten years later, they have probably got about $30,000 per employee in an HSA. Now they have got that money. That is their money, and they are driving consumer choice in things like walk-in clinics, Walmart, CVS, Walgreens. It actually does work.

So you are investing how much in HSAs in the House bill?

Mr. MULVANEY. I cannot remember what the number is, but I know it is a dramatic expansion of the HSA program. I am sorry I do not have the numbers.

Senator JOHNSON. But, again, isn't that the direction we need to go? If we want to solve this long-term deficit—so much of Government spending is involved in health care—we have got to really focus on restraining the growth in health care costs.

Mr. MULVANEY. Agreed.

Senator JOHNSON. Thank you, Mr. Chairman.

Chairman ENZI. Senator Warner.

Senator WARNER. Good morning, Mr. Mulvaney.

Mr. MULVANEY. Good morning, Senator.

Senator WARNER. So much to talk about. I have got a follow-up on a couple of these.

Mr. MULVANEY. Sure.

Senator WARNER. I have seen lots of tricky budgets before, but this may take the cake. You assume abolishment of the so-called death tax, estate tax. But when you go to Table S3, baseline by category, you still count the revenues from the estate and death tax, which is kind of a tricky thing. I would call that double counting.

Your outside experts have assumed that your tax plan would cost $5 trillion. As somebody who spent a couple years, as you know, trying to wrestle with these numbers and took on entitlement reform, took on additional revenues, I do not see—I do not think there is any way you can get there with elimination of tax expenditures, particularly when you take charitable, home mortgage, and retirement accounts off the table. There are not enough tax deductions to get to those numbers, unless you are going to—I imagine you are now saying you are going to go ahead and dramatically cut back on the deductibility of employer-provided health care plans. That is a large number.

Mr. MULVANEY. I am sorry, sir. A specific question? I was making notes.

Senator WARNER. The specific question is: You would have $5 trillion in costs in your tax plan.

Mr. MULVANEY. Right.

Senator WARNER. Unpaid for. You cannot pay for it in any revenue-neutral basis without double or triple counting or dynamic scoring on steroids if you take charitable, home mortgage, and retirement accounts off the table as not being cut.

Mr. MULVANEY. Right.

Senator WARNER. You cannot get there. The numbers do not add up. And, by the way, I do not think you have told the American public yet that to even get close, you are going to have to then take off the deductibility of employer-provided health care plans. So that is on the table?

Mr. MULVANEY. Here is what is on the table, which is, I think, the one-page set of principles that we sent to the Hill——

Senator WARNER. Sir, I have gone through these——

Mr. MULVANEY [continuing]. A Couple weeks ago.

Senator WARNER. I know you have as well.

Mr. MULVANEY. Right.

Senator WARNER. I have spent years going through these numbers to try to get them to balance. You have got to go where the money is if you are talking about any kind of a rational revenue-neutral plan. And I do not think you can get there. And I do not think your numbers add up. I think they do not pass the smell test. And I think, frankly, what Senator Whitehouse was pushing at, that you are not double counting, I just do not believe that as well because you have put dynamic scoring in place. Dynamic scoring assumes the tax cuts, because you cannot say dynamic scoring alone is going to come about without the tax cuts in place. So if you are counting those on the dynamic scoring process, you have got to bake that in. And so it is not truly a revenue-neutral tax plan. To get $5 trillion in savings, when you take charitable, home mortgage, and retirement accounts off the table, the numbers just do not add up.

Let me move to another item because my time is about up. You take nondefense discretionary spending down to 3.1 percent of GDP. I have still got another year or two before I can say I have spent longer in business than I have in Government. I was a venture capitalist. I invested in a lot of businesses. I would invest in businesses based on their investments in their workforce, plant and equipment, and staying ahead of the competition.

For an American tax plan and business plan, that would equate to investment in people, which is education; plant and equipment equals infrastructure; staying ahead of the competition in a global economy means research and development (R&D). How can you cut those so draconianly, cutting discretionary spending by $1.4 trillion over the next 10 years, cut those three areas, and assume that we are going to have all this growth you project? I would never invest in a business that spent less than 3 percent of its revenue line on workforce, plant and equipment, and staying ahead of the competition. And that is what you are saying the American business plan ought to be.

Mr. MULVANEY. No, I am not, sir, and I would suggest that you would also never invest in a business whose revenues were growing dramatically—excuse me, their expenses were growing dramatically faster than their revenues, which is what we have seen here——

Senator WARNER. Amen to that, so let us deal with both sides, both the spending and——

Mr. MULVANEY. Your capital investment, I think you are looking at only one part of the equation. When you look at the American business plan—because we agree with you the capital investment is absolutely critical. In fact, you cannot get 3 percent growth without having dramatic increases in capital investment. We just simply think that private capital investment is a more efficient and effective way to get there—in fact, history proves that—than Government capital investment. So what we do is in our tax plan try to promote the type of capital investment that you are looking for. We are moving it out of Government capital investment, which we think is woefully inefficient, and into the private market capital investment, which gets us to——

Senator WARNER. All I would say, Mr. Mulvaney, is that, for the most part in our country, education, infrastructure, and core basic research and development still remain a Government function.

Thank you, Mr. Chairman.

Mr. MULVANEY. Thank you, sir.

Chairman ENZI. Senator Perdue.

Senator PERDUE. Wow, I wish we had 2 hours. Thank you for being here——

Mr. MULVANEY. I am sort of glad we do not, Senator.

[Laughter.]

Senator PERDUE. I can understand that. I just want to highlight a couple things.

First of all, thank you guys for addressing the debt. It is the dirtiest four-letter word in our English language today, and it threatens our Republic. And you and I have had private conversations about that. In the last 16 years, under one Republican President and one Democratic President, this Federal Government has grown in constant dollars from $2.4 trillion to $3.9 trillion. And I know it is a philosophical debate up here between parties about big government, but let us just look at results. You talked about results earlier, so I made some notes here.

Big government has failed. It has failed in poverty. In 1964–65, the Great Society put the War on Poverty. We were all for that. We wanted poverty reduced in America. But the irony is that the poverty rate today is basically the same as it was in the 1960s when that great program was put into place.

If you think the Government does a great job running businesses, how about the U.S. Postal Service, the VA, Fannie Mae, Freddie Mac.

And then we get to Social Security and Medicare. I want to come back to that in a minute. They both go to zero—their trust funds go to zero in 15 short years or less, and we are sitting in the weakest recovery in 70 years.

I want to get to the point of this exercise that we are doing today and call out what a travesty it is relative to the bigger issue. In the last 8 years, as a Federal Government, we borrowed about 35 percent of what we spend, and right now in the 2016 budget that goes through 2027, it was projected—CBO projected that we would borrow another 30 percent per year on average over that period of time.

Well, by definition, if discretionary spending is directionally $1 trillion on a $4 trillion budget, we are spending less than 30 percent on discretionary; the rest of it is mandatory. That means by definition if every dollar of revenue—and, by the way, we collected more tax dollars last year and the year before that, too, than we ever have in our history. And yet we still have this growing debt problem.

So, by definition, every dollar we spend, every dollar we are debating here today is borrowed money, by definition. So I want America to understand what this travesty is all about up here. The travesty is that we are not talking about $4 trillion of expenditures to the Federal Government. That is what we are going to spend next year. And it will grow from there.

So what I want to get at here is the fact that the budget process itself is absolutely broken. It has only worked four times since 1974 in 43 years. And as a matter of fact, we have to appropriate this budget. You talk about authorizing. We have not authorized things up here. We have $310 billion, some 250 programs, that are not authorized today, to your earlier point, and that is not even being considered today.

As a matter of fact, over the last 43 years, we have averaged two-and-a-half appropriation bills being passed on average during that period of time. We have to pass 12 to fund the Federal Government. That means that we are headed for a train wreck again this year. We will go to September 30th. We will not have the Government funded. We will either do a continuing resolution, or we will have to do an omnibus where six people get in a room, and the rest of us get an up-or-down vote about how we spend $1 trillion. And even that does not address the $3 trillion of mandatory expenditures.

Now, I am not arguing programs. I am not arguing cuts. We will do that at a later point in time. But I have to say this: I applaud the administration for at least addressing the issue that we have got to address over the next 5 years or so, and, that is, the long-term implication of the debt.

The specific question I have is: Would you support a budget process eventually that would include all expenditures of the Federal Government?

Mr. MULVANEY. Senator, yes. In fact, I had part of that discussion with Senator Enzi, believe it or not, in the antechamber, before we came into this room. I think it is something that we should start discussing.

Senator PERDUE. Well, as we know, to get at debt, we are not going to do it by working under $1 trillion.

Mr. MULVANEY. No, you cannot. You cannot balance the budget within the nondefense discretionary portion of the budget at all. You simply cannot do it.

Senator PERDUE. Now, let us talk about growth for a second, and thank you for telling the American people that 1.9 is not acceptable. Let us dial into the 1.9. In the last 8 years, true growth here is 0.6 percent. That is without population growth. That is productivity. That is the way business guys look at it, because I can manipulate population. I cannot manipulate productivity growth. Productivity growth, 0.6 percent. You want to grow 3 percent, there are two things that we have really got to do, in my opinion, just as a business guy. But you have got to work on the workforce. There are plenty of people right now on the margins of our workforce that are not included in this workforce. I understand the low unemployment number, Director, but I am concerned about the people that are underemployed, and I am concerned about the people that dropped out of the workforce. I am concerned about having matching skills with jobs that are available. That is number one. That is the first constraint on getting to 3 percent growth.

Second is capital. You mentioned it earlier, but we have got $6 trillion of capital, and this is a mistake that politicians make. I am sorry, Mr. Chairman, but this is important. Politicians think that you want to stimulate 3 percent growth, we need more capital investment from the Federal Government. That is the last thing we need, frankly. I believe that right now we need to do whatever we can to free up the $6 trillion that are not at work in this economy—$2 trillion on the Russell 1000 balance sheet because of Government policy, not just in the last 8 years, possibly over the last 20 years. The second is our small banks and regional banks have about $2 trillion on their balance sheets because we have taken that capital reserve from 3 percent to 6 percent to 7.5 percent, unilaterally, by the way, in the Basel III agreement, where none of the other countries are really doing the same thing. And, last, the repatriation tax has $2 trillion or more stuffed overseas.

So my question, finally, to you quickly is: Are those things that you are going to focus on not just in this budget but over the next few years to try to continue to develop a consistent 3 percent growth in this economy?

Mr. MULVANEY. Senator, I think you heard that in part of my exchange with Mr. Warner, that you must have more capital investment to get the productivity up.

Senator PERDUE. But is that capital from the Federal Government more productive or from the private sector?

Mr. MULVANEY. That is the point, and what this budget does is try to focus on private capital investment and not public.

Senator PERDUE. Thank you.

Chairman ENZI. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. It is great to see you, Mr. Director.

Mr. MULVANEY. Thank you, Senator. Good to be here.

Senator VAN HOLLEN. And you can call this a taxpayer-first budget, but this is only really great for taxpayers who are in the top 1 percent. They are the only folks that, looking at the numbers in this budget, actually get a tax cut, because you have incorporated the House health care/Trumpcare health care bill into this, which, as we all know, provides millionaires with, on average, a $50,000-a-year tax cut. So it is great for folks at the very top.

I should also point out, if we are talking about facts, that that revenue in the Affordable Care Act came from applying an investment income tax to households over $250,000 and dedicated to the Medicare Trust Fund. So your proposal also takes 3 years off the solvency of the Medicare Trust Fund.

You talked a lot about reducing the debt, and I could not agree with you more. We have had this conversation for years. We have got to reduce the debt. And you talked a lot about tax breaks. But isn't it a fact that you do not close a single tax break in this budget for the purpose of reducing the debt?

Mr. MULVANEY. I think I am going to agree with you on that, Senator. I think what we do is we close the loopholes—we assume—we have to make a bunch of assumptions, as you know, because you have written budgets as well. And so the assumptions are that those deductions, the loopholes, the exemptions go away in order to keep the tax program deficit neutral. Then we take the benefits of the tax program in the growth.

Senator VAN HOLLEN. So my point is that we can all talk and we should talk about the danger of the debt, but you do not take away one special tax break for anybody, hedge fund managers, for the purpose of reducing that debt. And that is a fact, and we have had a lot of conversations over the years pointing out that the largest annual expenditure is the category of tax expenditures, tax breaks, even larger than Social Security on an annual basis. Isn't that right?

Mr. MULVANEY. I believe that is close, yes.

Senator VAN HOLLEN. And yet you talk about going after all those other categories to reduce the deficit, but you do not go after the category of tax expenditures.

Now, you know, we have disagreed on a lot of things, but——

Mr. MULVANEY. In fairness, Senator——

Senator VAN HOLLEN. If I could just—we disagree on a lot of things——

Mr. MULVANEY. I do not think that is entirely true, but OK.

Senator VAN HOLLEN. But you have had a reputation as a straight shooter, OK? You have had that.

Mr. MULVANEY. I hope to keep it, Senator Van Hollen.

Senator VAN HOLLEN. Well, now you are working for a President who—anyway, I am not going to get into that at this moment. But Senator Graham pointed out that when you testified here at your confirmation hearing, you said just what you did now. You do not want to close one tax break for the purpose of reducing the deficit. We have big disagreements on that. The reality is that revenue as a percent of GDP is about 18 percent today. The last time we balanced our budget it was about 19, 20 percent, in the early 2000s. But you do not want to go there.

And what you have done instead of—you do cut the Social Security disability. I think that is a bad choice. Those are hardworking people. In order to qualify, you have to work a long time. You get disabled, the whole point is to have a insurance policy there. You go after that. But you do not do what Senator Graham mentioned, going further into Medicare and Social Security.

Now, here is the thing. I think we should go after tax expenditures. But at least you have got to be honest, and instead what you have done is you have made up a number here based on no policies. You guys have assumed 3 percent growth. It is easy for all of us to say, oh, we wish we had higher growth. I do, too. Why don't we wish for 4 percent growth? It is not just the CBO. Mr. Director, I am looking at something that was just put out that shows all the forecasts that have been put out there recently. You have got the Professional Forecasters Survey, 2.1 percent long-term growth. You have got the Reserve Bank of Philadelphia, about 1.9 percent, around where CBO is. You have got the Economist Intelligence Unit, around 2 percent long-term economic growth.

You have a one-page so-called tax plan that has been put out by this administration. You have got no backup in this budget to tell anybody how you expect to get from 1.9, 2 percent growth to 3 percent growth. And the only way you balance this budget is on that, what is fraudulent accounting in the absence of a plan that shows you how to get there. It would be $2 trillion short in 10 years if you had not made that assumption. Isn't that true? If you had not made your assumption about 3 percent growth, you would be $2 trillion short after 10 years of a balanced budget?

Mr. MULVANEY. Well, I will agree with you, Senator, that the dynamic impact of the 3 percent growth is $2.1 trillion in additional revenues.

Senator VAN HOLLEN. OK, the dynamic impact.

Mr. MULVANEY. Yes, sir.

Senator VAN HOLLEN. So you just had this long conversation—I think you and Senator Whitehouse were on very different pages. You are talking about what—again, it is a one-pager, $6 trillion tax cut, which under most——

Mr. MULVANEY. It was $5 trillion——

Senator VAN HOLLEN. That is $5 trillion. That puts you in the whole, and somehow you are going to have huge growth that is going to sort of recapture that, and you are going to get 3 percent growth as a result of that, even though you are going to also capture that for the purpose of deficit reduction.

Look, it is flimflam. I understand you are now representing President Trump who put the parameters that you described on you. But please, as someone who has a reputation as a straight shooter, do not come before this committee and pretend this is in balance. This is not close to balance. The harm in the near term is real. The balance in the 10 years is fantasy, flimflam.

Mr. MULVANEY. Senator, I will deny that I know that, and what I will say to you is that, as I have mentioned—I do not remember who it was earlier—that we sat down and came up with impacts of our policies, and that is how we got from 1.9 to 3 percent growth. Keep in mind, President Obama in his first budget was assuming 4.5, 4.6 percent growth. We did not do that. By the way, he never even balanced while he was still doing that. We think this is extraordinary defensible.

Senator VAN HOLLEN. We know that two major factors in economic growth—and, actually, you mentioned it—is population and——

Mr. MULVANEY. Productivity.

Senator VAN HOLLEN. And your immigration plan—your whole administration's position on immigration is to dramatically reduce immigration in this country. So you have sort of taken off the table one of the major factors, and in place of that you have got like a one-pager tax plan. Anyway, I——

Mr. MULVANEY. Thank you, Senator. I look forward to talking to you.

Chairman ENZI. Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman.

Mr. Director, I do not know you well, but I have watched your effort here and that of your staff, and I have to tell you, I find it refreshing. I want to offer you just a couple of points of view, and I want you to interrupt me if you disagree.

I want to talk to you just for a second about how your budget impacts the people in America who get up every day and go to work and obey the law and pay their taxes and try to do the right thing by their kids and maybe save a little money for retirement. I guess we could call them the middle class or the working class. We have a lot of them in Louisiana. And for the past, I do not know, 20, 25 years or so, what many of those people—in fact, most of those people would tell me about Washington is that—they would say our country—I am paraphrasing. They would say our country was founded by geniuses, but it is being run by a bunch of idiots. How can our leadership on both sides of the aisle expect to borrow $4 billion a day to operate, run up an almost $20 trillion debt, run deficits? When we try that in our family, it does not work.

And this is what they also tell me. They tell me that they look around and they see too many undeserving people at the top getting bailouts and special treatment. And they see too many undeserving people at the bottom getting handouts. And they are stuck in the middle, and they are getting the bill. And they cannot pay it anymore because their health insurance has gone up thanks to the Affordable Care Act and their kids' tuition has gone up and their taxes have gone up. But I will tell you what has not gone up, is their income.

And I think that is why this country is so divided. We have two groups of people. We have those Americans who believe in more freedom, and we have those Americans who believe in more free stuff.

I would like you to tell me how your budget impacts the working class of this country that is being hollowed out and is not sharing in the great wealth of this country, economically, socially, culturally, because the people, the undeserving people—not everybody but the undeserving people at the top and the bottom who have all four feet and their snout in the trough.

Mr. MULVANEY. Senator, I am going to answer that in a way you probably do not expect, because the easy answer would be to say that 3 percent growth helps those folks more than they can possibly imagine, and if they are above the age of 30, they might remember what it was like to work in a healthy American economy, when wages were ahead of inflation, people were getting better economic opportunities, you could save for your kids' education, you could save for your own retirement.

But I am going to answer it a different way, because you asked me a specific question, how does this budget help those people. I think, Senator, part of the disconnect that we see in the Nation right now is that those folks that you have just described, many of whom also live in South Carolina, pay their taxes and then hear the stories about how that money is wasted, and they wonder why they are paying taxes. And it undermines their faith in the system when they hear that there are 11,000 dead people getting their money to help pay their dead people bills, when there are people in prison getting benefits, when there are folks who are not in this country legally getting benefits. It saddens them and angers them. Some of them react in different ways. But they all react negatively toward the institution of America, and it helps contribute to that "us and them" mentality, and I think that is unhealthy. And what this budget does is looks them in the eye and says, You know what? We are not going to allow that anymore. And if we are wasting your money, we are going to stop. If it is going to somebody who should not get it, we are going to stop. And we are going to respect your money as much as you do. And, hopefully, that will help cure some of the ills that you just mentioned.

Senator KENNEDY. I want to thank. And thank you, Mr. Chairman. I do not agree with everything in your budget, but I sure do thank you and your staff for your approach.

Mr. MULVANEY. Thank you, Senator.

Chairman ENZI. Senator Murray.

Senator MURRAY. Thank you, Chairman Enzi.

Thank you, Director Mulvaney, for joining us. I would say you have got a tough job today. I do not envy you. You have been asked to come before this committee to explain the unexplainable and defend the indefensible, as I think my colleagues on this side have pointed out, especially Senator Warner and Senator Van Hollen.

You know, President Trump spent his campaign promising workers he would stand with them. He promised seniors he would protect their care. He promised the middle class he would make the economy work for them. What we have in front of us today with this budget is a perfect summary of all the ways those promises have been broken. His promise not to cut Medicaid, broken. Promise not to cut Social Security program, broken. Promise to help workers get training, broken in this budget. Promise to focus tax cuts on the middle class, not the rich, broken. And his promise to provide "insurance for everybody that was better and lower cost," that has not just been broken, it has pretty much been shattered. So a lot of promises broken, and we are all looking forward to see how you explain this.

But I do want to say I am very glad to see it is not just Democrats but Republicans who are already coming out and rejecting this budget. Fortunately, we here were able to reach a deal on the fiscal year 2017 spending bill for one and one reason alone, and that is that Democrats and Republicans joined together, they ignored President Trump's absurd and extreme budget proposal. We rejected the ill-conceived and expensive border wall paid for on America's taxpayers' dime. We rejected the attempts to cut Planned Parenthood. We rejected the $18 billion in cuts that were sent to us the last time. And we got a budget done and moved our country forward.

So having said all that, I do want to focus today on this. I want to start by asking a question on President Trump's broken promise on health care that you built into this budget. Now, families in my State and across the country are frankly scared about the health care chaos that President Trump is causing.

On Monday this week, the Trump administration requested another 3-month delay in the House's frivolous lawsuit to take away payments that help to lower the cost of care for working families. Now, experts all agree and have told us continuously that this administration's threats to end the payments are driving premiums up today. And I want to just ask you about this because the *L.A. Times* recently reported that the Centers for Medicare and Medicaid Services (CMS) Administrator Seema Verma attempted to use those payments to try to pressure our insurers to support the Trumpcare bill.

Director Mulvaney, do you believe it would be wrong to use families' health care as a political bargaining chip?

Mr. MULVANEY. Senator, under the theory that I try and find things to agree with with folks more than things I disagree with, you mentioned that people are scared about the chaos. You attribute that to the chaos of the Trumpcare program.

Senator MURRAY. That is what insurers have been telling us.

Mr. MULVANEY. And what I am telling you is that people where I am from are scared about the status quo. People in Iowa are scared about losing their coverage under Obamacare. People are scared in South Carolina about——

Senator MURRAY. Look, what I am asking you is specifically about Seema Verma. Have you been part of any of those discussions about cost-sharing subsidies with Administrator Verma or in any way influenced her conversations?

Mr. MULVANEY. I have been included in various conversations over the course of the last 4 months about the cost-sharing reduction payments, yes, ma'am.

Senator MURRAY. Have you talked with her about specifically talking to insurers and threatening them not to support it?

Mr. MULVANEY. No. What I do know is that we made the payments in May, like we said that we would. We have made no commitments to the payments that are due in June, and that we are considering all the options on whether or not we will make those payments.

Senator MURRAY. OK. Well, let me ask you about your comments about the CBO score of the House bill.

Mr. MULVANEY. OK.

Senator MURRAY. Given what we just learned from CBO just last night, do you think the Trumpcare bill keeps President Trump's promise to provide "better insurance" to "everyone"?

Mr. MULVANEY. Absolutely, because so many people do not have any coverage now at all. Any coverage would be better if you live in a county that does not have any providers.

Senator MURRAY. Well——

Mr. MULVANEY. And more and more counties are facing zero providers. I live in a State where we are down to one, Senator.

Senator MURRAY. OK.

Mr. MULVANEY. One.

Senator MURRAY. I am just going to say that is not what the CBO report says, and people are not going to find that credible when they lose their care. They know what is causing this.

I only have a few seconds left. I do want to make a couple points. I do want you to know I was really disappointed to see that you attempted to block the Office of Government Ethics request for information on which former lobbyists are receiving secret waivers now from President Trump. I think that is really wrong, and I urge you to reverse course and cooperate with the Ethics Office. And I assure you that we are going to keep pushing on that. I wanted to let you know that, number one.

Mr. MULVANEY. I am happy to respond to that, Senator, if you give me the time.

Senator MURRAY. OK. Well, since my time is out, let me just make this point, and I want to make it very clearly, and I want everyone to hear this. OMB has indicated that it is reviewing a rule related to the birth control mandate. Should this yet be another step by the administration to roll back women's health and rights, you better expect a very strong opposition from this Senator, Democrats, and women across the country. And I just want you to know that.

Mr. MULVANEY. I am not aware of that specific detail, but I hear what you are saying.

Senator MURRAY. Thank you.

Chairman ENZI. Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. And thank you, Director Mulvaney, for being with us and for really, I think, an outstanding job that you are doing.

I want to particularly commend your emphasis on economic growth. It is so important in every single challenge that we face. Every problem in America is easier to solve if we have strong economic growth than if we do not. And some are impossible to solve without strong economic growth.

The fact is stronger growth means more job creation, means higher wages, means a better standard of living for the very people that Senator Kennedy was referring to. But it also naturally follows that if you have stronger economic growth, you are going to have reductions in various welfare payments because fewer people will need those welfare payments. That should be the purpose. That should be the whole idea, that, yes, diminishing numbers of people on Medicaid and food stamps and Section 8 housing and you name it because they are able to get work that pays enough for them to be able to support themselves and their families. So that should be our focus.

Let me zero in a little bit on how we get there. I think an essential part of getting the economy growing at its potential, which I think it is easily capable of 3 percent growth, requires really pro-growth tax reform. I would point out we are still laboring under an $800 billion tax increase from the Obama era that had nothing to do with Obamacare. So if we repeal all of Obamacare, as I hope we will, we will still have this big tax increase that we are still laboring under. I see no need to lock that in permanently.

Second, I think it is just mathematically wrong not to take account of the dynamic effect of more growth on Federal revenue. As Senator Johnson pointed out, if the economy is larger, there is that much more to tax; therefore, more revenue.

Have said that, we all know that we might not get a very aggressive dynamic score from our friends at CBO and Joint Tax, great men and women who do great work, often do not get the credit they deserve. But they might view the economic effect of tax reform differently than I would. And so my view is we ought to be willing to do tax reform that may not be revenue neutral. The goal should be to maximize growth.

Now, if we cannot persuade our Democratic colleagues to work with us on this, then, as you know, we would need to use the reconciliation device under the Budget Act to pass such tax reform with a simple majority. If we go down that road, one of the constraints we have is that if Joint Tax and CBO determine that there would be a revenue shortfall outside of the budget window, then that is subject to a point of order which invalidates the 51-vote threshold.

So you get two choices in that scenario, it seems to me. One is you have the pro-growth tax provisions expire at the end of the budget window, and then you have a temporary—you have this great Tax Code that is temporary, which is a bad idea. But another option is to extend the budget window. We have historically often used 10 years, but the Budget Act says it must be at least 5, and it does not specify an outer limit.

So I would like for you to consider seriously a 20- or a 30-year budget window, something that would allow us to have a great growth maximizing Tax Code that lasts a long time. If we had a 20-year budget window for this purpose, it would probably be about as close to permanent as you get around here because within 20 years you will revisit the Tax Code anyway.

I wonder if you would just comment on your thoughts about a budget window that extends longer than 10 years.

Mr. MULVANEY. Sure. And I actually think so highly of the idea, we toyed with possibly adding some consideration for a 20-year window and simply did not have time to do it. We are exploring how difficult it would be to do a 10-year and a 20-year next year. So you are absolutely right, and you talked about several of the benefits of looking at a longer term. There are a couple other ones you have not mentioned, which is that if you want to make changes that phase in over time, especially on age-tested programs, a lot of times you take the heat but do not see the benefit because all of the benefit falls outside of the 10-year window. So there are many attributes to looking at multiple budget windows, and I think it is something that we should continue to explore.

I guess if there was one argument against doing the balancing test, I would hate to think we would go to a 20-year budget window just so we could tell people, oh, by the way, we will balance the budget in 19 years, because I think people do not believe us at that point. I think we should continue to focus on balancing the budget as quickly as we possibly can, regardless of the budget window that we look at. But on the whole, I like the program a lot, and we are going to explore what options are available to us at OMB going forward.

Senator TOOMEY. Well, I look forward to working with you on that, because as I say, we have got an opportunity—in fact, we have got an obligation to really have a Tax Code that allows the American people to be as prosperous as they possibly can be. President Trump campaigned among other things on significant tax reform. I think his message was clear that it would not necessarily end up being revenue neutral. His goal, I think, was to maximize growth. That is the right goal, and if it takes a longer budget window to do it, then I think that is something we should seriously consider. Thank you very much for your testimony.

Mr. MULVANEY. Thank you, Senator.

Chairman ENZI. In order of arrival, Senator Stabenow is next.

Senator STABENOW. Thank you, Mr. Chairman. And welcome, Director Mulvaney.

I have tremendous concerns about a wide variety of issues in this budget and how they do not match up with priorities of Michigan families. But I want to talk about one that has caused terrific concern in Michigan and all around the Great Lakes, and that is the question of completely eliminating the Great Lakes Restoration Initiative, which funds the cleanup of our beaches, protecting our fish and wildlife. We have challenges with Asian carp right now getting into our waters. That is funded through this initiative, which was a bipartisan effort we started back in 2010. And we have about 40 million people that get their drinking water from the Great Lakes.

I could go through all of it, boating, fishing, hunting, jobs connected with the economy.

So you eliminate all the funding to protect the Great Lakes and then on top of that have gone into the farm bill to eliminate a voluntary conservation effort to protect watersheds that we are now having great success with, partnering with farmers and conservation groups like Ducks Unlimited and other groups to address runoff and water quality issues in the Great Lakes. So on behalf of Michigan families, I would like to know why you think it is not important to protect our water.

Mr. MULVANEY. Thank you, Senator. I will begin by saying we absolutely agree. In fact, I had a chance yesterday in the House to point out that it might be news to people, but there are Democrats who care about national defense and Republicans who care about clean air and water. So I think starting from a premise that we do not care about clean air and clean water is a difficult premise to accept and start the conversation.

Senator STABENOW. Well, then explain why——

Mr. MULVANEY. I would be happy——

Senator STABENOW [continuing]. Your budget zeroes out dollars that allow us to protect our Great Lakes.

Mr. MULVANEY. Consistent with many other things that we did across the budget, Senator, we look at programs that should be local, programs that are more appropriately local in nature as opposed to national in nature. Again, go back to the original premise. I am looking at this through the eyes of somebody in Arkansas. Can I really look them in the eye and say, look, I need to take some of your tax money to go do something in Michigan or Wisconsin——

Senator STABENOW. Yes, that is called having a country, with all due respect. Twenty percent of the world's fresh water surrounds Michigan and eight other Great Lakes States, and this is something that we not only do in the State and by the community, but it is a major national resource. And the idea that we would not recognize that in this budget is just stunning to me.

Mr. MULVANEY. Well, I would agree that there are certainly things that deal with the environment that are national in scope, and there are other things that are in national in scope. For example, I can look that taxpayer in the eye on something like national defense. That helps make us a country. On this particular program, we just chose to go another way.

Senator STABENOW. Let me ask, on another thing that I also think is a responsibility for all of us together as Americans, and that goes to the question of health care and Medicaid. In your budget, you assume that the Affordable Care Act will be repealed and that there will be, I would assume, $880 billion in cuts or something like that from the House. You add to that, and the number gets to $1.5 trillion. And in the tenth year, that is about a 50 percent cut in health care for people on Medicaid. Three out of five seniors in nursing homes in Michigan are there because they have Medicaid health care. So what do you say to a family in Michigan whose Mom has Alzheimer's and she is in a nursing home and she is not going to be able to get the health care she needs under your budget?

Mr. MULVANEY. That that is entirely false and that this Government will continue to take care of that particular person.

Senator STABENOW. Just 50 percent less.

Mr. MULVANEY. Ma'am, I hate to push back on this, but that is not a cut. We have not proposed a cut. With the one exception that I mentioned on a year where there is a small actual reduction because of the timing of the end of Medicaid expansion, all that we do in this budget is slow the rate of growth. We spend more money year on year on Medicaid.

Now, in Washington, many people consider that a cut, but that family back home that you have talked about does not consider that a cut. They consider that——

Senator STABENOW. Do you believe, though——

Mr. MULVANEY [continuing]. To be an increase.

Senator STABENOW. With all due respect, do you believe, though, that as health care costs go up, then the family should absorb that, number one? And then, number two, are you also saying that the repeal-and-replace effort and the $880 billion in cuts in Medicaid is not a cut?

Mr. MULVANEY. I would suggest to you that it is up to the Government to try and right the wrongs that we have committed that have contributed to the dramatic rise in the cost of health care, not just insurance but health care. And the reason that family is worried is because they see the price of health care going up year over year. And one of the things I am very proud of that the House bill does is try to finally try to deal with the actual cost of health care, not just health insurance. The Affordable Care Act may—may—have made insurance more affordable for some people, but it made health care more expensive for everyone, and that is what we are trying to remedy.

Senator STABENOW. I would just conclude by saying the reality of what has been done in the House and what is now in the Senate is a massive cut to health care in Medicaid and a great big additional tax cut for the wealthiest Americans that does not reflect the values I know of in Michigan.

Thank you, Mr. Chairman.

Mr. MULVANEY. Thank you.

Chairman ENZI. Senator Crapo, followed by Senator Harris.

Senator CRAPO. Thank you very much. And, Director Mulvaney, I appreciate the fact that you have not only today but consistently made yourself available to us in Congress and have worked with us to try to achieve the significant reforms that we are hoping to put into place.

I want to use the few minutes that I have to talk with you about the assumptions in the budget. I know there has been a lot of criticism about the rate of growth of the economy that the budget assumes.

First of all, could you tell me what those assumptions are for the first year and then for the 10-year cycle?

Mr. MULVANEY. Yes, sir: 2.3 percent growth in year 1, 2.5 in year 2, 2.8 in year 3, and then 3 percent growth out through the end of the budget window.

Senator CRAPO. And the average for the budget window is 2.9?

Mr. MULVANEY. 2.9.

Senator CRAPO. I assume you would know this, but it is my understanding that in President Obama's first budget, his projected growth rate was 4 percent and was over 4 percent for the first 4 years.

Mr. MULVANEY. It was 3.5, then 4.4, then 4.6, then 3.8.

Senator CRAPO. OK. And the average for the 10 years under——

Mr. MULVANEY. Was 2.9.

Senator CRAPO. Was 2.9. So it is the exact same average that President Trump is proposing.

Mr. MULVANEY. Yes, sir. And dramatically less than the second Obama budget, 3.3 over the budget window. The third Obama budget was 3.2 percent over the entire budget window. The fourth was 3.2. So we are actually lower than the Obama administration first four budgets.

Senator CRAPO. All right. I find that very interesting, and I also would like to have you compare this not to the Obama budget proposals and the Obama economic assumptions, but would you compare this to the actuality? What is the average rate of growth in the United States for, say, the last 50 years?

Mr. MULVANEY. Just slightly above 3 percent.

Senator CRAPO. So the proposal that you are talking about is slightly below the historic average for——

Mr. MULVANEY. Which is one of the reasons, Senator, there was actually some discussion about raising these to get us to the historical norm.

Senator CRAPO. And what is the historical norm?

Mr. MULVANEY. I think if you look from post-World War II, it is 3.3, 3.4, 3.5—someplace in the mid 3s.

Senator CRAPO. And one of the reasons that you are willing to make these projections, if I understand it, is that you are also proposing significant reforms, like the tax reform, the health care reform, a number of other significant reforms that would help us to stimulate economic growth in the United States. Is that correct?

Mr. MULVANEY. And do not discount the impact of regulatory reform.

Senator CRAPO. I should have mentioned regulatory reform.

Mr. MULVANEY. When we talk to businesses—we do believe that there is pent-up growth in this country, that businesses have simply decided not to do thing because the regulatory environment has discouraged them from doing so, and that simply by telegraphing that the environment is going to change has already helped some of the leading economic indicators. We know that the GDP numbers for the first quarter were lower than everybody wanted to see them, but some of the leading indicators are very, very strong, and that the opportunity for us moving forward on driving growth through regulation reform is dramatic.

Senator CRAPO. I very much agree with and appreciate that. As you may know, I am a Bowles-Simpson guy and have been a part of the Gang of Six in the Senate fighting for these kinds of reforms. And I have talked about the national debt and the drag that it is on our economy for years and years and years. But I am starting to think that the regulatory burden is beginning to approach the national debt in terms of it seriousness for its impact on our economy. So I appreciate your focus on that.

One last aspect of this. We have talked about the roughly 3 percent projected growth targets that we would like to achieve. Is there any reason why we could not hit higher than 3 percent? I do not know why we should—let me ask the question this way: I understand that a lot of people are saying that the projections should be somewhere around 1.9 and we should just say we will have a 1.9 percent growth rate for the next 10 years. That is being argued, isn't it?

Mr. MULVANEY. Not only is it being argued, it is the official position of the Congressional Budget Office.

Senator CRAPO. OK. So why would we set a target one-third below the historic average and equal to what we have been seeing during the economic crisis that we have been living through? Why should we set that as the target that we should maintain?

Mr. MULVANEY. You have to wonder about anyone who would argue that 1.9 is where we should be, their view about the American spirit, their view about the American worker, their view about the American economy, and whether or not there is a pessimism that is hard-wired into that number that should discourage all of us.

Senator CRAPO. Well, again, my time is out, but I want to thank you for setting the target, setting the goal high—and "high" is probably the wrong word—a little bit below the historic average, and saying to America that we can get there, that we can build this economy in this country back. So thank you. I appreciate your efforts.

Mr. MULVANEY. Thank you, Senator.

Chairman ENZI. Senator Harris, followed by Senator King.

Senator HARRIS. Director Mulvaney, you mentioned in your comments that in creating this budget you have considered the impacts of your policies. My concern is that you have overlooked the impacts as it relates to certain Americans who I believe are particularly—they need us to see them and to think of them when we create such a budget. So I would like to talk in particular about a few.

The American worker. There has been a lot of talk about the American worker, and I think we all know we need to prioritize the American worker. Your budget cuts the Department of Labor by $2.5 billion and workforce training by $1.3 billion. As you probably know, there are a number of major disruptions in our labor force, and over the next 20 years there will be more, mostly driven by automation and technology, which puts millions of jobs at risk, developments like online shopping, automation, and fast-food delivery, driverless cars and so on.

People who are currently between the age of about 30 and 50 in our country right now who are unemployed, who want to work, who had a job, need to be seen. They will have a life expectancy of probably another 30 to 50 years, and I believe they need the support that your budget does not give them when you have proposed a 21 percent cut to the Department of Labor, including a 40 percent cut to the Employment and Training Administration. So I would encourage you to review the impacts of your budget to that population, the population being the American worker.

As it relates to another subset of our population who need to be seen and the impact to them needs to be thought about and prioritized, it is that population of people that are impacted by the opioid epidemic in our country. According to the American Psychiatry Association, a survey that came out yesterday indicates that more than a quarter of Americans and more than a third of millennials report knowing someone who has been addicted to opioids or prescription painkillers. Most responses believe that treatment is a better option than law enforcement to tackle the problem. Seventy-three percent of the responses believe people can recover from opioid addiction.

The Congressional Budget Office, however, estimated that repeal of the Affordable Care Act translates to one in six Americans losing access to opioid treatment because they live in a State that would waive the requirement on covering substance abuse and treatment. Your budget would also cut the Medicaid program by 40 percent, which is currently the largest payer for opioid treatment.

In considering the impacts of your policies, I would also urge you to consider older Americans. As you know, the CBO has projected that under the repeal of the Affordable Care Act, a number of seniors would see a cost increase or lose their coverage. According to the AARP Public Policy Institute in California, for example, a 55-year-old of today with a $25,000 income would pay on average as much as $8,598 more a year than today. In Louisiana, that would be $5,920 more; in Iowa, $6,670 more; Colorado, $6,975 more; in Maine, $7,602; and Alaskans, $18,533 more a year.

So I would like to know how you are interpreting the impact of your budget as it relates to these populations when there is objective feedback that we are receiving from folks like the AARP, the American Psychiatry Association, and the CBO that indicates that they will be harmed, perhaps irreparably, because of the cuts in your budget.

Mr. MULVANEY. Thank you, Senator. I will handle as may of those as I can in the time.

The American worker is at the top of the list. When you stop to consider what this administration has already done in terms of helping the American worker, the emphasis we put on trying to bring manufacturing back, the proposals that we have in our deregulatory efforts, our tax proposals, our trade policies, those are all focused on helping the American worker, as does——

Senator HARRIS. Director Mulvaney, I think you know that the American worker will tell you, those in particular who are between the age of 30 and 50 today, who are unemployed, who had a job and want to work, that they do not necessarily have the skills that industry requires for them to actually be able to get a job and keep a job, and that they are in need of training and resources to allow them to transition into these new economies. The Department of Labor has as its focus and responsibility to assist the American worker in acquiring those skills so they can get and keep a job. How do you justify cutting funding for the American worker to be able to transition into these new economies?

Mr. MULVANEY. We actually increase spending on the workforce training programs that work.

Senator HARRIS. But cutting the budget by 40 percent?

Mr. MULVANEY. No, ma'am. We actually—we asked a reasonable question, which is we went to the workforce programs and said, look, are you successful as measured by the number of people that you train that actually get jobs after they go through the program. And if a program proved to us that they were successful, they got more money. if they proved to us that they were not, they got less. That seems to be a fairly reasonable approach.

Senator HARRIS. I think you need to tell that to the American worker.

Mr. MULVANEY. I would be happy to.

Senator HARRIS. Good. Thank you.

Chairman ENZI. Senator King.

Senator KING. Thank you, Mr. Chairman.

First, just to clarify a bit, the administration supported the AHCA. Is that correct?

Mr. MULVANEY. That is correct. Yes, sir.

Senator KING. So, really, the AHCA and this budget need to be looked at as a unit in terms of dollars and allocation.

Mr. MULVANEY. I think that is fair. Yes, sir, keeping in mind that I think we included—because there were some last-minute amendments—the Upton amendment I do not think made it into our assumptions just because of the timing allowed.

Senator KING. I understand. So that means that we are talking not about $800 billion Medicaid cuts just in the CA—I mean in the AHCA, but also the cuts that are proposed in the budget. My understanding is that those are not identical, that there is—in fact, it is about $1.3 trillion combined. Is that your——

Mr. MULVANEY. The number I have heard is 1.4, and that is drawn from the 800 from the AHCA and 600 from some of the other reforms that we propose—if I may?

Senator KING. Yes.

Mr. MULVANEY. However, you cannot add those two numbers together because there are components of those that overlap. So the total would be less than 1.4. It depends on what the final version of the bill looks like before you can say what the number is.

Senator KING. Well, is it somewhere in that range, 1.3 to 1.4?

Mr. MULVANEY. It is someplace between 800 and 1.4. So if you wanted to round the difference off, what is that, 1.1?

Senator KING. OK. So it is your position, as you were answering questions a minute ago, that you are not cutting Medicaid, you are simply cutting the rate of growth?

Mr. MULVANEY. Yes, sir.

Senator KING. The problem is Medicaid, as you know, now pays the cost of a nursing home bed, for example, for an elderly person. So if the cost of the nursing home bed goes up 6 percent and under your proposal Medicaid reimbursement goes up 2 percent, there is a differential. Isn't that so?

Mr. MULVANEY. Under that set of circumstances, I guess there would be a differential, but keeping in mind that——

Senator KING. Well, what assumption of growth of Medicaid were you using in the budget to create these numbers?

Mr. MULVANEY. The assumption of the growth rate in Medicaid, we dialed it down a little bit, Senator, from what was in the AHCA because the research that we had done during the preparation for that bill was that the actual growth rates in Medicaid were below what they have in the AHCA, and I cannot remember——

Senator KING. So are you saying that your Medicaid, even with all of these cuts, or whatever you want to call them, is going to meet the need of the elderly person in the nursing home?

Mr. MULVANEY. Yes, sir, we do believe that.

Senator KING. So you are essentially saying there are no cuts.

Mr. MULVANEY. We are saying that we are slowing the rate of growth that is assumed in the Congressional Budget Office, but that the money that we provide for will still be enough to meet the population that Medicaid serves.

Senator KING. And so there are going to be no real reductions even if—what I am trying to get at is does the assumption of your growth rate that is in your projections equal also the assumptions of the increase in costs of health care? Because as you know, health care has escalated at significantly above ordinary inflation.

Mr. MULVANEY. It has, but Medicaid has not grown at that level. And, by the way, before, I say that we only slow the rate of growth. As I think I have tried to make clear in the couple times we have talked about it, there is 1 year where there is an exception, and that is an element of the AHCA where you end—the grandfathering of the expansion of Medicaid in the various States ends, and that leads to a very small actual real drop.

Senator KING. Well, what you are testifying here is that you are really not cutting Medicaid and that all this about $1.4 trillion is just much ado about nothing? Is that your testimony?

Mr. MULVANEY. Well, we have to measure it against the Congressional Budget—the baseline, and the baseline—everybody else wants to do it that way. If we measure it against the baseline, it is someplace around a $1.1—give or take—trillion reduction against the baseline. We think the baseline is too high.

Senator KING. So that is the assumption? There will be no negative impacts on disabled people, children, elderly, that is your testimony?

Mr. MULVANEY. We care about——

Senator KING. I just want to be clear that is your testimony.

Mr. MULVANEY. We care about the disabled and the children and the elderly just as much as——

Senator KING. So is it your testimony that these changes in the rate of reimbursement for Medicaid will have no effect on elderly, children, disabled people who are now beneficiaries?

Mr. MULVANEY. We believe that to be the case, yes, sir.

Senator KING. All right. Thank you for that testimony.

A question on growth, and everybody wants growth. And we can talk about whether it is going to be 3 percent or 4 percent or 1.8, and, clearly, whatever the assumption is affects whether you are balanced in 10 years or 20 years or whatever. I understand that. None of us know what it is going to be. We all want it to grow.

My problem is that when you think about it, and Senator Perdue talked about productivity, you think about productivity, one of the—that is the engine of growth in the end.

Mr. MULVANEY. Correct.

Senator KING. And one of the ways you—two of the principal ways you grow productivity are workforce training and research. My concern is that you are significantly cutting workforce training and research, both in the National Institutes of Health (NIH) but also particularly in the Department of Energy. There are elimination—Advanced Research Projects Agency eliminated in the Department of Energy, Advanced Technology Vehicle Manufacturer eliminates, Fossil Energy Research and Development Program cut by 58 percent, nuclear energy cut by 31 percent, energy efficiency and renewable energy cut by 70 percent. I do not know how you increase productivity by cutting research—and I am not even talking about NIH—by cutting research and by cutting job training programs. You cannot—that is what you need to grow the economy.

Mr. MULVANEY. I would love to have time to—it is an excellent question, and I think I have at least a reasonable answer to it, which is if you look at total R&D spending, it is up. If you look at the NIH spending with the reforms that we propose—and if I can very quickly—if you get a grant from a private foundation, you are only allowed to use 10 percent of it toward overhead. The average in the Federal Government is about 27, 28 percent. If you take the Federal level to the same as the private level, you actually spend as much on NIH research this year as you did the year before.

Senator KING. So it is your testimony that actual is just like before. What looks like cuts in the budget are not really cuts; the end result will be the same.

Mr. MULVANEY. We are trying to be more efficient with the use of taxpayer money. We think we can do it without negatively impacting the things that you have mentioned.

Senator KING. I do not have time for another question, but I will quote General Mattis with regard to the drastic cuts to the State Department: "If you cut the State Department budget, you are going to have to buy me more ammunition." I think that is a huge policy mistake.

Thank you.

Mr. MULVANEY. Thank you, Senator.

Chairman ENZI. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair, and thank you, Director Mulvaney. This is a hearing about the President's budget, so you are here getting the questions. But we understand these are the President's decisions, and you are here to explain them.

Mr. MULVANEY. This is the job I asked for and the one you all saw fit to give me, and I do enjoy doing it.

Senator KAINE. I am just making the point that these are questions directed really about the President's budget. We know that you are here as the Director——

Mr. MULVANEY. Are you getting ready to say something really nasty about it, Mr. Kaine? Is that the——

Senator KAINE. It is not about you. It is about the President's budget. But I do appreciate the candor in your written testimony, so I am looking at the first page: "It also keeps the President's promise to balance the budget within the next decade and reduce our debt without affecting beneficiaries of Social Security and Medicare retirement programs, and without raising taxes."

You do not include in that paragraph the President's promise not to cut Medicaid.

Mr. MULVANEY. Correct.

Senator KAINE. Because the budget does not keep that promise. The President said, "I will not cut Social Security, Medicare, or

Medicaid," and I think you were smart not to put the Medicaid line in this because I do not think it keeps the President's promise to not cut Medicaid. And in Virginia, about a million people on Medicaid: 600,000 are kids, 112,000 are seniors in nursing homes, 186,000 are people with disabilities. So I am going to be out talking to a lot of people, and they are going to ask me, wait, the President said he was not going to cut Medicaid. I am a kid. I am a senior in a nursing home. Or my parents or grandparents are in a nursing home. I am disabled.

What do I say to them when they tell me, "The President promised he was not going to cut Medicaid"?

Mr. MULVANEY. That their quality is actually going to improve. I do not know if you were here earlier when I was telling my history of being in the State legislature, and I cannot remember if you were in the State legislature in Virginia or not. But I do remember begging the Federal Government for more control over our Medicaid dollars, how we served people in South Carolina, because we thought the one-size-fits-all Federal programs did not serve the rural poor that we had in South Carolina.

And so what I would tell those folks is what the American Health Care Act does is, yes, it changes Medicaid, and, yes, it spends less. But by giving local control, Governors and State legislatures will actually be able to——

Senator KAINE. But you get my point. They are saying to me, "The President said he would not cut Medicaid."

Mr. MULVANEY. And if you——

Senator KAINE. And then I am going to say to them, "Yes, but and there is a cut between $800 trillion and $1.3 trillion," but I am supposed to tell them, "Your quality is going to improve"?

Mr. MULVANEY. And if you go back to my verbal statement—you have got the written statement, and they are both fine. I stand by both of them. I would tell those folks, look, are you really going to measure your Medicaid by the amount of money we spent on it or the quality of the care that you got?

Senator KAINE. Well, how about if they say this to me, they say, well, dollars are some of it, and I see that there is a Medicaid cut that is somewhere between $800 billion and $1.4 trillion, and I see that there is a tax cut that is $992 billion. So why am I getting my health care cut if I am a child, my Medicaid cut if I am a child, if I am elderly, if I am disabled, and the same budget, the AHCA plus the budget, has a $992 billion tax cut? What do I say to them?

Mr. MULVANEY. Senator, let me put it this way, because I represented some of the same sorts of people that you did. I represented a relatively rural part of South Carolina. And when I had folks on Medicaid, what they cared about was their health care. And if they were getting good health care, they were not the jealous, envious type that wanted to have what everybody else——

Senator KAINE. Whoa, whoa, whoa. I am not talking about jealous, envious people either. I am just saying if folks are seeing the headlines saying, "Medicaid cut by $1.3 trillion, tax cut $992 billion," that is going to make them scared.

Mr. MULVANEY. Wouldn't it be great if instead of that, the headline said, "Government providing better Medicaid at lower cost"? How do you think they would respond to that one?

Senator KAINE. How are they going to believe that?

Let us go to another promise of this President: “Nobody is going to lose coverage. Nobody.”

Mr. MULVANEY. I believe it is a promise that is already being broken by the current status of Obamacare.

Senator KAINE. Hold on a second. This was a promise that this President made. Under Donald Trump, nobody is going to lose coverage. The CBO yesterday said 23 million people are going to lose coverage. So I have got to go out to them, and I have got to say Medicaid is going to be cut by $1.3 trillion, $992 billion of tax cuts, a lot of them at the top end, and 23 million people are going to lose coverage. And when they say to me, “The President promised nobody was going to lose coverage, but 23 million are,” what do I say to them?

Mr. MULVANEY. And I guess you are right in this case, Senator, in the sense is that the President cannot keep that promise unless the law changes, because unless the law changes, those people will lose coverage.

Senator KAINE. But if the law changes and 23 million—are you telling me that 23 million people losing coverage keeps President Trump's promise that nobody loses coverage?

Mr. MULVANEY. I would love to have a conversation about the methodology behind the 23 million people lost coverage. It assumes, for example, that——

Senator KAINE. Should this body try to keep President Trump's promises, a health care system where nobody loses coverage, nobody pays more, and nobody with a preexisting condition has to revert back to a position where they are going to get kicked around?

Mr. MULVANEY. I think you should pass something that replaces Obamacare and meets the needs that you have just laid out.

Senator KAINE. We can call it a replacement or repeal, whatever. What we should pass is something that should meet those three promises that the President made: nobody loses coverage, nobody pays more, and nobody gets kicked around because they have a preexisting condition?

Mr. MULVANEY. All I know, Senator, is you cannot keep that promise under the current law.

Senator KAINE. So but any change should be a change that would meet President Trump's promises?

Mr. MULVANEY. I think any change would be a change for the better, that is for sure.

Senator KAINE. I am going to leave it right there. Thanks, Mr. Chair.

Chairman ENZI. Senator Corker.

Senator CORKER. Well, thank you, Mr. Chairman. I was in a great meeting with Senator Kaine just a few minutes ago, and Senator Merkley, actually, and I am glad to be here finally. I am sorry to be here late.

I want to thank you for your service, and I hope you still feel this is the job that you have lived for in life.

Mr. MULVANEY. In all fairness, it is. So thank you for that.

Senator CORKER. I am glad you are in it, and thank you for being here.

Somebody in the administration either yesterday or the day before said that the President's tax reform plan will be offset on a static basis every year of the budget window. That was a statement coming out of the White House yesterday, and I just wondered if you would affirm that.

Mr. MULVANEY. I think that is consistent at least, Senator—I am not familiar with that exact statement, but I think it is consistent with some of the discussions we have had here earlier today about the assumptions that we made in this budget. We get accused, as you probably heard about, double counting. The assumptions we made with this was that the changes in things like the deductions and the examinations and the loopholes would result in a tax plan that was revenue neutral. We had to make some assumptions early on, right? There is only three. I assume increase the deficit, decrease the deficit, or kept it the same. We assumed it was right down the middle and kept it the same. So that is how we pay for the tax proposals that we had to assume, and then we do take the benefits of dynamic growth through the 3 percent in order to generate new revenues to the Treasury.

Senator CORKER. But the actual policy that will be put in place, I mean the way you put the budget together, indicated that the tax reform package would be deficit neutral on a static——

Mr. MULVANEY. Correct.

Senator CORKER [continuing]. On a static scoring basis.

Mr. MULVANEY. Would be deficit neutral.

Senator CORKER. Would be deficit neutral on a static scoring.

Mr. MULVANEY. Yes, sir.

Senator CORKER. And that seems to be consistent with a White House official yesterday—I do not know who it was that said that. It sounds like the tax policy that the White House is planning to put in place would be revenue neutral in every year over the next 10 years, which is consistent with what you have in the budget. Is that correct?

Mr. MULVANEY. Keeping in mind, Senator, we have to make—we start—in fact, I did not even realize this until I started looking at the job. We will start the 2019 budget now. That is how much lead time you have to do when you are writing a budget. The agencies are already starting—so there is a great amount of lead time. So you have to make certain assumptions, and when we started to make assumptions about the tax policy, all we had to go off was this single piece of paper that laid out our principles.

Senator CORKER. Right.

Mr. MULVANEY. So the ultimate bill probably can and will look different than that, but the assumptions we made were along the lines of what you just laid out.

Senator CORKER. Well, it sounds like—I mean, I am just repeating again. It sounds like the budget proposal, which you started working on as soon as you came into office, is consistent with what White House officials are saying, and that is, it is going to be revenue neutral on a static basis.

Mr. MULVANEY. That I am not aware of, although the discussions are going—I know that Secretary Mnuchin has taken the lead on the discussions in the House. He may have met with various Senators—well, in fact, I assume that he probably has. So I have no idea where we are in that process. I know that when we had to lock in our numbers, we made that assumption. I do not think that is any indication as to what the final bill will actually look like.

Senator CORKER. So I just——

Mr. MULVANEY. As I mentioned—I do not mean to cut you off—we cannot make those assumptions again next year. If I am sitting here next year, we will have more details on what their budget looks like.

Senator CORKER. Of course. And I listened to the exchange you had with Senator Kaine, and I know that the word "cuts" was used for Medicaid. And I would like to use the word "reform" instead. We need to make sure that people who actually benefit from Government services are entitled to, and do so in a more efficient way so that these programs are around in the future. I would just like to make an editorial comment and say that I hope in the 2019 budget you are able to convince the administration to look at Social Security and Medicare, because if you leave that much entitlement spending off the table, it is very difficult, as you know, to solve our Nation's fiscal issues. And you and I both know we can deal with those issues appropriately, and not do anything in any way to damage or harm the people that are currently on those programs.

So I look forward to working with you, and I hope that you are able to alter opinions between now and next year's budget, and that is why I am so glad you are in this position.

I would like just to ask one final question. Yesterday both you and Secretary Mnuchin, who I also appreciate working with, said Congress will need to raise the debt limit sooner than expected. I know that administrations typically play this game with us to increase pressure. The default date is always X and then you move it up to Y so that there is a little leeway in the event we do not raise the debt ceiling. That may not be the case here. I am just telling you what has happened in the past. You have experienced that. Knowing this, what has changed that would require Congress to address the debt limit sooner?

Mr. MULVANEY. I think in talking with Secretary Mnuchin, he and I had about an hour-long meeting Monday, Tuesday—the whole week starts to run together—but the receipts were coming in a little bit more slowly than he anticipated when he gave his last letter to Congress. I think the last letter he sent—and I hate to butcher this, but I think it said he expected the debt ceiling to be reached about sometime in early September. And I think now it has moved a couple weeks in advance, and he may be giving additional guides on that out of Treasury shortly, and I think that is consistent with his testimony yesterday.

Senator CORKER. Thank you.

Thank you, Mr. Chairman.

Chairman ENZI. Senator Merkley.

Senator MERKLEY. Thank you, Mr. Chairman.

Under the H.R. 1628 Trumpcare 2.0, Medicaid expansion is essentially wiped out. In Oregon, that means about 400,000 people lose their health care coverage. Why do you not consider that to be a breaking of the promise for coverage?

Mr. MULVANEY. No, sir, my understanding is that, generally speaking, most folks do not stay on Medicaid very long. It is a bridge to something else, and that the AHCA allows a grandfather period necessary for the States to allow those folks to rotate off of the Medicaid program. So we do not anticipate that anybody would be kicked off. Certainly future folks who might have qualified under an expanded Medicaid would not have access to that program, but that does not mean that somebody would be kicked off.

Senator MERKLEY. Well, using the churn as a strategy to simply eliminate Medicaid expansion means roughly 400,000 fewer Oregonians will be covered by Medicaid, by just the expansion. That is before you start cutting the heart out of basic Medicaid. But let me turn—I think everyone, every analyst, every expert, every health care group considers this to be a massive reduction for States that have Medicaid expansion and a significant reduction for those who have basic Medicaid. And you can sit here and spin it all day long, and that is your privilege. You are here to testify. But nobody in the world buys that story.

Let me turn to the attack on rural America. This budget cuts rural business loans, rural development, rural transportation, rural water, essential service to rural airports, as well as contract tower support, rural clinics, rural hospitals, rural rental housing, rural agriculture, which, by definition, is rural, and veterans' vouchers. So why does the President have it in for rural America?

Mr. MULVANEY. We create a new economic infrastructure grant account providing $161 million, of which 80 is targeted for Appalachia. We increase farm loans by $552 million over the enacted level of already $7 billion. We increase community facility loans by $400 million to support a loan level of $3 billion. We provide $6.2 billion in loans to rural electric——

Senator MERKLEY. Excuse me. Are you saying that none of the reductions that I just mentioned are things that are in the President's budget?

Mr. MULVANEY. No. I am saying there——

Senator MERKLEY. I would like you to read the President's budget if you are going to sit here and testify and——

Mr. MULVANEY. No.

Senator MERKLEY. Do you acknowledge all these cuts to rural America?

Mr. MULVANEY. No, your question is: What are we doing to and for rural America? You would say "to," I would say "for." And my point to you would be the same points I made to other folks here today. I give the Appalachian Regional Commission, Mr. Merkley, as a prime example. OK? We were not convinced that it worked. We were not convinced that it was showing a return on investment for the taxpayers. So——

Senator MERKLEY. Are you contending rural America will get the same amount of resources it has after you savage all these programs?

Mr. MULVANEY. So what we did with the Appalachian Regional Commission, which I think was $144 or $146 million——

Senator MERKLEY. I am not interested in the Appalachian Commission. That does not affect Oregon. I am asking you about all the cuts you are doing to rural Oregon.

Mr. MULVANEY. I am telling you that we think that we are taking care of the rural—the rural—not rural poor, rural folks generally. Keep in mind, you are only looking at one side of the equation. You are not looking at the policy——

Senator MERKLEY. So to the five airports that have contract tower support to keep rural air service, which is essential, you are saying that they will still have that support in the budget?

Mr. MULVANEY. No. We are saying that——

Senator MERKLEY. Thank you.

Mr. MULVANEY [continuing]. There are absolutely going to be changes in the specific program.

Senator MERKLEY. OK. So we do not have time to go through all these pieces. I have listed them out, the essential damage that this budget does to rural America. You can contend otherwise, as you spin everything else. But let us turn to the direct impact on those who are hungry in Oregon: 370,000 children at risk of going hungry every day. Have you ever in your life gone to bed hungry?

Mr. MULVANEY. No, sir. And I am thankful that I have not.

Senator MERKLEY. Then you feel very comfortable cutting the basic program that ensures our children have food in Oregon? Because you have never gone hungry, so you cannot place yourself into the——

Mr. MULVANEY. No, sir, because we do not do that. The SNAP reductions and the other programs you are looking at deal with us trying to involve the States in managing the programs. Keep in mind the way SNAP works right now is that we provide 50 percent of the administrative costs and the State matches that. But we provide 100 percent of the actual benefit. And what we have found is that is a formula for waste and growth rates in costs that are simply unsustainable. So what we do is ask the States to pick up some of the costs in order to drive efficiencies that we know exist when the people who are administering the program have at least just a little bit of skin in the game. So the total spending should not go down, or if it does, it goes down because of efficiencies and not because of reductions.

Senator MERKLEY. It is so easy to sit in your chair and talk about efficiencies when you have never worked with low-income incentives who are going hungry.

Mr. MULVANEY. Senator, that—with respect, sir, you asked me if I had ever gone to bed hungry. You never asked me if I had worked with folks who had.

Senator MERKLEY. Well, clearly what you are doing in this budget is going to do a lot of damage to those individuals, whether or not you have worked——

Mr. MULVANEY. I respectfully disagree, but I thank you.

Senator MERKLEY. Let us turn to housing. We have 4,000 housing vouchers eliminated. In Oregon, the housing vouchers play an incredibly important role in a state of emergency, to help address a state of emergency in housing. Why make it worse? Why make a housing emergency worse?

Mr. MULVANEY. Senator, to be honest with you, I have handled a lot of questions over the last 2 days, and I do not have the information about the housing voucher program at my fingertips, and I apologize.

Senator MERKLEY. Thank you. I will follow up with you, because I do have it at my fingertips, and it makes a housing crisis in Oregon, which has one of the worst crises in America because a lot of people have heard what a wonderful place Oregon is, and it is, and people are moving to——

Mr. MULVANEY. I would suggest to you that your housing crisis in Oregon is driven mostly by your land-lease policies and not by anything dealing with Federal regulations.

Senator MERKLEY. I would suggest you know very little about housing in Oregon.

Mr. MULVANEY. Thank you, sir.

Chairman ENZI. I want to thank everybody that participated today. I want to particularly thank Director Mulvaney for his answers and for the effort that he has had to put together in a very short period of time to come up with something as complicated as $4 trillion worth of spending.

We are going to get to grapple with these same things as a committee because, as I have told people as they have come by me here, this is a list of suggestions from the President, but we are the ones that actually do the budget. And so I am going to be relying on all of these folks who have criticism—and I think everybody has some criticism—how they are going to solve the problems that we have and do it in a responsible way. I really appreciate that that is the first balanced budget, even though it is over 10 years, that I have seen from a President in a long time. And, in fact, for the last 8 years, we have voted on a President's budget, and the first 7 years the President got zero votes. He did not get a vote from the Democrats, and he did not get a vote from the Republicans.

Now, in the eighth year, he did better. He got one vote. I suspect that your budget will do a little better than that, but when you are dealing with that much volume, there is something in this budget for every single person to hate. And if they are going to pick out the thing that they do not like in there and vote against the whole thing, we do not stand much of a chance of even doing the congressional budget that we are obligated to do.

You were asked a lot of questions about tax reform. I think tax reform is up to us, too.

Mr. MULVANEY. The last time I checked, most legislation is up to you, Senator.

Chairman ENZI. Yes. Thanks again for your suggestions and being willing to do that, and I do recognize the difficulty of cutting and the fact that around here, in all my time, I have watched that it is considered a cut if you do not get as much as you ask for, even though it is more than you had before, and that makes it very difficult.

And I appreciate your work on the debt ceiling. We are going to have to do that. And, of course, I am hoping that we can get some budget reform to get a little better process that puts us on a better track. We had testimony from former Senator Phil Gramm, who did one of the budget acts earlier, and who is an economist, and he actually suggested that your number for the rate of growth is a little low. He thought that 3.4 was a better answer than that based on both historical and what he saw as possibilities for solving some of our problems.

So thank you for your efforts on this. Thank you for your patience and your willingness to answer questions and the volume of answers you were able to do on such a diverse set of questions.

So thank you very much. We will work with you to see how much of that we can accomplish and what will come out in our budget.

Mr. MULVANEY. Senator, thank you very much for having me.

Chairman ENZI. The hearing is adjourned.

[Whereupon, at 12 p.m., the committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

Chair Enzi

Question #1:

Director Mulvaney, has the Administration conducted an analysis on how its proposal to sell-off transmission assets of the Power Marketing Administrations would impact electricity costs for consumers in rural America?

Have you examined how the proposal could impact grid reliability?

How does this proposal fit into the President's strategy for infrastructure development and recapitalization?

Can you please provide me with an itemized list of the assets that the Administration is proposing to sell?

- Director Mulvaney, has the Administration conducted an analysis on how its proposal to sell-off transmission assets of the Power Marketing Administrations would impact electricity costs for consumers in rural America?

Answer: The vast majority of the Nation's electricity needs are met through investor owned utilities. Ownership of transmission assets is best carried out by the private sector where there are appropriate market and regulatory incentives, including for establishment of rates.

- Have you examined how the proposal could impact grid reliability?

Answer: The vast majority of the Nation's electricity needs are met through investor owned utilities. Ownership of transmission assets is best carried out by the private sector where there are appropriate market and regulatory incentives, including those that address grid reliability.

- How does this proposal fit into the President's strategy for infrastructure development and recapitalization?

Answer: Divestiture of Federal assets that are best managed by the private sector, such as transmission assets, can encourage private capital investment in the Nation's infrastructure and relieve long-term pressure on the deficit related to future capital investments.

- Can you please provide me with an itemized list of the assets that the Administration is proposing to sell?

Answer: The 2018 Budget proposes to sell the transmission assets of the Power Marketing Administrations (PMAs). Three PMAs (Bonneville Power Administration, Western Area Power Administration, and Southwestern Power Administration) collectively own almost 34,000 miles of transmission lines and related assets (poles, towers, substations, switchyards, and rights of way). Bonneville operates and maintains over 15,000 miles of high-voltage transmission lines and 261 substations. Western operates and maintains about 17,000 miles of high voltage transmission lines and more than 300 substations/switching yards. Southwestern operates and maintains 1,380 miles of high voltage transmission lines and 26 substations/switching stations.

Sen. Boozman

Question #1:

Director Mulvaney, in the USDA's Agricultural Research Service's proposed FY2018 budget, there are 17 proposed laboratory closures, including two in my home state of Arkansas. These two are the Arkansas Children's Nutrition Center in Little Rock, and the Harry K. Dupree National Aquaculture Research Center in Stuttgart.

Can you give me the rationale of how these two vital centers were targeted for closure? Or, for the other 15 laboratories located around the country?

Further, assuming these facilities are closed, does OMB plan for the facilities to be sold or sit vacant? How long could this process take, and how much will it end up costing taxpayers to close these facilities?

Criteria used to identify the 17 laboratories, locations, or worksites proposed for closure were: locations housing extramural research funded by ARS; programs with a lack of adequate financial and/or physical capacity to be viable or sustainable; or programs that have a low level of impact on or relevance to national priorities.

The costs associated with the relocation or separation of 674 employees impacted by the closures and the disposal of related property are estimated to range roughly from $50 million to $70 million. The savings associated with this proposal is estimated to be $109 million. In order to dispose of the properties, the Department would follow the Government process for excess property that is determined by Federal law and Executive Orders, which could include the potential transfer of the labs to other Federal agencies or the eventual sale of the properties should such transfers not occur. This disposal process includes several stages and can take several years to complete.

Sen. Boozman

Question #2:

In the 2008 Farm Bill, provisions were included for USDA's FSIS to inspect fish of the order Siluriformes (catfish). The FSIS catfish inspection has been debated at length during deliberations of the past two farm bills, and FSIS was finally able to start inspecting both domestic and foreign catfish 2016.

In only days after FSIS took over catfish inspections, imported shipments of catfish were found to have elevated amounts of banned carcinogens. Opponents of FSIS catfish inspection state that it is a duplicative program; however, that is no longer the case now as FDA does not conduct inspections of catfish.

What is the Administration's rationale for transferring catfish inspection to FDA - an agency that only inspected 0.2% of imported catfish?

The Budget proposes to transfer the inspection of fish of the order Siluriformes back to FDA for fiscal year 2018, thus avoiding potentially duplicative efforts and costs. Prior to implementing 2008 and 2014 Farm Bill requirements, FDA was responsible for ensuring the safety of catfish. FSIS is now responsible for catfish safety, but FDA is still responsible for ensuring that most seafood is safe, wholesome, sanitary, and properly labeled. FDA's Hazard Analysis and Critical Control Point (HACCP) management system is effective for seafood, and it is appropriate for catfish inspection to be returned to FDA.

Sen. Boozman

Question #3:

I am very concerned to see the President's FY 2018 Budget attempts to eliminate the Low Income Home Energy Assistance Program (LIHEAP). Throughout the United States, approximately 6 million households - sheltering an estimated 16 million Americans - rely on this important program. It is important to understand that utility bills can skyrocket in very hot months, when it's costly to cool homes, and in very cold months, when more heat and energy are required to keep people safe. Those who depend on LIHEAP- especially the elderly, children and disabled - often live on fixed incomes or can't work.

LIHEAP provides temporary relief during energy emergencies. According to the National Energy and Utility Affordability Coalition, nearly 350,000 Arkansas households are eligible for LIHEAP, but less than 64,000 are served due to lack of funding. That is 1 in 5. Of these, some 16,000 Arkansas households - a quarter of eligible households that received LIHEAP assistance-have a senior age 60 or older, and close to 30,000 recipient households (45.7%) have an individual with a disability. Considering this, can you explain the administration's reasoning for eliminating LIHEAP? Rather, shouldn't we seek to reform aud improve the program instead of getting rid of it?

The Administration is committed to ensuring that taxpayer dollars are spent wisely and effectively. While it may be well-intentioned, LIHEAP fails this test because it is known to have sizeable fraud and abuse problems. In particular, a 2010 Government Accountability Office (GAO) report found that, in just the seven states they reviewed, more than 11,000 dead people and hundreds of prisoners were used as applicants for LIHEAP benefits. The report also determined that LIHEAP application processors did little to prevent benefits from being given to individuals with fake addresses and fake energy bills. These lax standards resulted in one Social Security Number being used for 25 applications in New Jersey, for example, and people living in million-dollar homes getting their utility bills paid for by the taxpayer.

Beyond these troubling findings, the Budget recognizes that LIHEAP is no longer a necessity as States and localities have created their own energy assistance programs and other policies to protect constituents against energy concerns. In fact, since LIHEAP was created, all 50 States and the District of Columbia have imposed regulations that prevent utility companies from disconnecting energy needs from their residents under certain circumstances.

Sen. Boozman

Question #4:

As you know, the President's budget calls for an almost 30% cut to the State Department and the U.S. Agency for International Development, and proposes eliminating the U.S. Institute of Peace and similar programs and agencies. These are very deep cuts to a portion of the budget that represents less than 1% of federal spending. Given this proposal, do you disagree with Secretary of Defense Mattis, who has previously said, "If you don't fully fund the State Department, then I need to buy more ammunition?"

The Department of State and the U.S. Agency for International Development (USAID) help to advance the national security interests of the United States through their diplomacy and development efforts. The 2018 President's Budget supports the core activities of the Department of State, USAID, and other international programs, but refocuses their work on the highest priorities and strategic objectives. For example, the 2018 Budget refocuses economic and development assistance where it can do the most to directly strengthen U.S. national and homeland security, support key strategic partners and allies, help defeat ISIS and other transnational terrorist groups, and open markets and foster economic opportunities for U.S. businesses.

The 2018 Budget also renews attention on the appropriate U.S. share of international spending. For too long, the U.S. has been paying more than our fair share to support our global partnerships and in response to global issues, in addition to shouldering the biggest military burden on the world stage. The 2018 Budget helps set the expectation that international organizations will rein in costs and that other countries have to step up and share the burden on global issues. We will not shirk our responsibilities, but we will also hold other countries accountable for fulfilling theirs.

The 2018 Budget also seeks to be smarter about how we spend our dollars overseas, making the difficult choices to cut funding for lower priority, less effective, duplicative programs, and international programs, agencies, and organizations whose missions do not substantially advance U.S. foreign policy interests. In addition, the Department of State and USAID will take steps to become leaner, more efficient, and more effective, an effort that will continue to progress over the next year in response to the Executive Order on Reforming the Federal Government and Reducing the Federal Civilian Workforce.

By spending less money overseas and focusing it where it is needed, the 2018 Budget frees up funding for rebuilding our military and pursuing critical priorities here at home, making it a true America-first budget.

Sen. Sanders

Question #1:

During today's Budget Committee hearing, you said that the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) does not face any funding cuts in the President's Budget.

Though the proposed first year funding for the WIC program eliminates the program's surplus, the President's Budget's plan for proceeding years shows cuts that would directly harm beneficiaries - more than 7 million low-income pregnant women, new moms, infants, and toddlers. In 2022 alone, the President's Budget calls for WIC funding that is more than $1 billion - or 15 percent- lower than OMB's own baseline. It would also be a more than $400 million cut from 2017 funding levels, without even adjusting for inflation or population growth.

Director Mulvaney, would you agree that with a cut of this magnitude, fewer new moms, infants, and toddlers would get WIC benefits; the benefits would be lower than they are today; or some combination of the two?

The Administration supports fully funding WIC to ensure all projected participants have access to the program's full resources. The 2018 Budget provides funding to ensure all 7.2 million projected WIC participants receive the full benefits of the program. Based on the assumptions used to develop the Budget, the funding level provided will not adversely impact WIC participants or the benefits. The 2018 Budget, which was produced prior to the final 2017 omnibus, recognizes that WIC has experienced a buildup of unused resources from a decline in program costs, driven by an unexpected decrease in both participation and food cost inflation rates, and proposes to eliminate this surplus. We look forward to working with Congress to address any issues introduced by the final 2017 omnibus.

Sen. Sanders

Question #2:

Days before the President's Budget was released, Secretary of Agriculture Sonny Perdue said the Supplemental Nutrition Assistance Program has been "a very important, effective program ... As far as I'm concerned we have no proposed changes ... You don't try to fix things that aren't broken."

The President's Budget slashes SNAP by 36 percent by its tenth year, potentially eliminating nutrition assistance from 12 million Americans, 68 percent of whom live in households with children.

After the President's Budget was released, Secretary Perdue stood by his earlier comments on the importance and effectiveness of the program as it is and said the program would be fully funded next year.

Director Mulvaney, if the secretary in charge of SNAP believes the program doesn't need the changes detailed in the budget, why does the budget call for these cuts?

I agree that the Supplemental Nutrition Assistance Program (SNAP) plays an important role in helping needy families get through tough times. I am concerned however, that not enough families are getting back on their feet and off the program. SNAP participation grew, as expected, during the recession, but participation hasn't declined as much as we would have expected now that the economy is stronger. The proposals in the Budget will close eligibility loopholes, target benefits to the neediest households, and provide States an incentive to do more to get able-bodied adults to work.

The Budget also proposes to re-balance the Federal/State partnership in providing SNAP benefits to low-income households by gradually establishing a State match for benefit costs. Right now, 100 percent of SNAP benefits are federally funded. States have little stake in making conservative decisions in how they operate the program, or in building paths to self-sufficiency for the able-bodied adults participating in the program. This proposal would create a more balanced incentive structure for States to consider both benefit and administrative costs when making decisions about how to use available flexibilities to manage the Program.

Sen. Sanders

Question #3:

Eight out of 10 local Meals on Wheels programs receive federal funding.

One out of four Meals on Wheels programs rely on Community Development Block Grant funding. Your budget eliminates CDBG.

One out of 10 Meals on Wheels programs rely on the Community Services Block Grant. Your budget eliminates the CSBG.

One out of 10 Meals on Wheels programs rely on the Social Services Block Grant. Your budget eliminates the SSBG.

Nine out of 10 Meals on Wheels programs rely on Older Americans Act funding through the Administration on Community Living. Compared to OMB's own baseline, your budget cuts ACL funding by $2.8 billion over five years.

Will you acknowledge that this is a significant cut?

The Budget focuses resources on the programs in the federal government that provide the vast majority of federal resources to Meals on Wheels and who have as their primary mission senior nutrition. One hundred percent of ACL's nutrition funding of $838 million supports senior meals. The Budget does eliminate the Community Development Block Grant (CDGB), the Community Services Block Grant (CSBG), and the Social Services Block Grant (SSBG). However, these programs represent a very small share of Federal funding for senior nutrition services. Senior nutrition services are not specifically tracked by HUD, but are estimated to be at most 1.5%, or $45 million, of CDBG's $3 billion annual expenditures. CSBG spends less than 6%, or $37 million, on nutrition services according to the most recent data, which includes numerous other services in addition to senior nutrition services. SSBG spends less than 1%, or $16 million, on senior nutrition services according to the most recent data available.

Sen. Sanders

Question #4:

Despite repeated insistence that the President's Budget honors President Trump's promise not to cut Medicare funding, the proposal includes a $56 billion cut to the Medicare budget function. Please describe in detail all of the policies that comprise this funding cut, including how non-Medicare proposals in the budget result in cuts to the program.

In addition, the President's Budget includes hundreds of billions of dollars in cuts to Medicaid. There are roughly 9 million Americans who are "dual-eligibles" - recipients of benefits from both the Medicare and Medicaid programs - primarily low-income seniors. How do the President's Budget's Medicaid cuts impact this population?

The President's Budget does not cut Medicare benefits, consistent with the President's statements.

Several proposals, however, have effects on the Medicare program. The Budget proposes to repeal the Independent Payment Advisory Board IPAB to better protect Medicare beneficiaries and the providers who serve them; this would increase Medicare spending, as compared to current law. Additionally, the Budget proposes to reform the medical liability system, which is expected to reduce healthcare costs for all payers and all Americans, not just Medicare. The Budget also proposes to continue the current legally required treatment of Medicare payments under sequestration for another two years, which is not a cut from current spending levels and does not change Medicare benefits. Finally, certain proposals to increase administrative spending factor into the $56 billion total for the 2018 to 2027 budget window referenced.

The Budget helps set Medicaid on a sustainable path and ensures the program can continue to provide care to those who are most vulnerable, including those who are dually eligible for Medicare and Medicaid.

Sen. Sanders

Question #5:

Despite efforts from Democrats and other progressives to increase aid, today the maximum Pell Grant covers the lowest share of college cost in 40 years. Instead of increasing financial aid for students the Trump Budget wants to freeze Pell Grant Awards - ending the increase that keeps up with inflation - to rob $3.9 billion from the program's surplus, to completely eliminate the Direct Subsidized Loan Program and the Supplemental Educational Opportunity Grant (SEOG), to cut the Work-Study Program in half, and more.

a. With these drastic cuts how are students supposed to afford to get a college education?

b. At a time when we live in an increasingly globalized economy and the United States ranks 11th in the developed world for the percentage of young college graduates how does cutting grant aid for higher education ensure we have the best workforce necessary to compete on the global stage?

The Budget helps make college more affordable by fully protecting Pell Grants and supporting Year-Round Pell grants. It keeps the Pell program on sound footing through the next decade, and seeks to simplify the complex array of Federal aid programs by cutting duplicative and less targeted student aid programs.

All low-income students will continue to get the full Pell Grant for which they are eligible. Furthermore, Year-Round Pell will boost Pell grant aid disbursed by $1.5 billion next year to approximately 900,000 students. This would provide up to $8,880 in a single academic year for students taking an additional semester of courses, and incentivize students to complete their degrees faster. In addition to supporting increased Pell benefits, the Budget proposes a simplified income-driven loan repayment plan that keeps payments affordable and provides expedited debt relief for undergraduate student borrowers.

SEOG and Work Study formulas do not effectively provide funding based on students who are the most in need of financial assistance. SEOG serves the same purpose as Pell Grants – to provide grants to low-income students – but is less well targeted. The Budget would reform the Work Study program to target the funds to the neediest undergraduates.

Sen. Sanders

Question #6:

In January, the Congressional Budget Office projected that the federal government will generate a profit of more than $70 billion from the student loan program over 10 years. On the campaign trail, then-candidate Trump said, the student loan program is "one of the only places, frankly, where our country actually makes money and they make a lot of money, and that should not take place"

Yet, the President's Budget doubles down on this profit center. All together cuts to the student loan program by this Administration will add an additional $143 billion in profit for the federal government.

Excluding the cost of Year-Round Pell Grants- which was enacted by Congress prior to the President's Budget - none of this revenue goes to help students get a higher education or to dramatically address the student debt crisis.

Why has the President broken his promise to end profiting from students and families through the student loan program? Why is this $143 billion in profit going to pay for tax breaks and defense spending rather than helpings kids afford college?

The Administration proposes to address student debt by simplifying student loan repayment and redirecting inefficiencies in the student loan program to prioritize expedited debt relief for undergraduate borrowers.

In recent years, income-driven repayment (IDR) plans, which offer student borrowers the option of making affordable monthly payments based on factors such as income and family size, have grown in popularity. However, the numerous IDR plans currently offered to borrowers overly complicate choosing and enrolling in the right plan. To simplify student loan repayment, the Budget proposes a single IDR plan that provides a pathway to debt relief for struggling borrowers. The Budget also supports students by prioritizing need-based grant aid through Year-Round Pell instead of subsidized student loans to enable students to complete degrees more quickly and with less debt.

To support this ambitious proposal, and to generate savings that help put the Nation on a more sustainable fiscal path, the Budget proposes a package of targeted reforms and program eliminations, including the elimination of subsidized loans and Public Service Loan Forgiveness.

Public Service Loan Forgiveness (PSLF) unfairly favors some career choices over others. Instead of retaining PSLF, the Budget creates a pathway for expedited debt relief for undergraduate borrowers regardless of occupation.

The student loan interest subsidy is poorly targeted as borrowers with low income before enrollment qualify for the subsidy, regardless of their income while they repay their loans. Even borrowers who can afford to fully repay receive the subsidy. Borrowers with unaffordable debt burdens relative to their income during repayment can manage their debt through income-driven repayment and ultimately receive forgiveness.

Sen. Sanders

Question #7:

Cutting afterschool programs is one of the cruelest aspects of this budget. The justification that these programs are ineffective is absurd.

In fact, research finds that every dollar invested in afterschool programs saves $9. Further, afterschool programs close achievement gaps, improve school attendance, provide parents crucial work support, and bring communities together.

At a time when 22 million students are eligible to participate in afterschool programming funded by the 21st Century Community Learning Centers (CCLC) program, only 1 million students can attend these programs due to insufficient funding. Please explain why the President's Budget eliminates this program.

This Administration is committed to investing limited Federal education dollars in programs that have a strong record of improving student outcomes. While there is research indicating the effectiveness of afterschool programs in general, performance data demonstrates the specific afterschool programs funded by the 21st Century Community Learning Centers (21stCCLC) are, overall, not helping students meet challenging academic goals. For example, on average from 2013 to 2015, less than 20 percent of program participants improved from not proficient to proficient on State assessments in reading and mathematics. Additionally, student improvement in academic grades was limited, with States reporting higher math and English grades for less than half of regular program participants.

Additionally, while many students are eligible to participate in the program, 21stCCLC has experienced low student attendance rates. For example, States reported fewer than half of all students served (752,000 out of 1.8 million) attended 21stCCLC programs for 30 days or more during the 2014-2015 school year. These recent results are consistent with findings of the last rigorous national evaluation of the program, conducted in 2005, which also found the program had limited academic impact and low student attendance rates.

These data strongly suggest that the 21stCCLC is not generating the benefits commensurate with an annual investment of more than $1 billion in limited Federal education funds. Moreover, the provision of before- and after-school academic enrichment opportunities may be better supported with other Federal, State, local or private funds including the $15 billion Title I Grants to Local Educational Agencies program.

Sen. Sanders

Question #8:

The Child Tax Credit is meant to help children by reducing the costs for families raising them, and the refundable part of the credit encourages work - and, in fact, is only available to families with a working parent.

The President's Budget would reduce financial security for many children, most who are U.S. citizens because their parents are undocumented and would be barred from receiving the credit.

What do you hope to accomplish by increasing poverty for these children, who are mostly U.S. citizens and who all have working parents?

The Budget supports commonsense immigration standards that protect American workers, reduce burdens on taxpayers and public resources, and focus Federal funds on underserved and disadvantaged citizens. Under current law, individuals who are not authorized to work in the United States can claim the Child Tax Credit (CTC), including the refundable portion. As part of a broader set of reforms, the 2018 Budget proposes to require a Social Security Number (SSN) that is valid for work in order to claim the CTC. This proposal ensures that only US citizens and other individuals who are lawfully authorized to work in the US receive this tax benefit. America's immigration policy must serve our national interest and we cannot continue to ask Americans to shoulder the burden of paying for immigrants working here illegally to receive this credit.

Sen. Sanders

Question #9:

The President's Budget calls for a 5 percent cut to IRS Taxpayer Services and a 3 percent cut to IRS and Enforcement for 2018. Combined, this is a cut of more than $265 million.

a. Will the 5 percent cut in Taxpayer Services increase or decrease the wait time for taxpayers who seek assistance when filing?

b. Will the 3 percent cut in Enforcement increase or decrease projected revenue in 2018 and beyond, and by how much?

The 2018 Budget provides $11 billion for IRS operations, a 2 percent reduction from the 2017 level. To achieve this modest reduction, the IRS will continue to reduce its workforce through normal attrition, reduction of seasonal hiring, and modernization of its systems. The vast majority of individual taxpayers, nearly 90 percent, file their returns electronically and the Budget fully funds core IRS operations, ensuring that the continued shift to online interactions continues to go smoothly.

Funding the IRS is not the only way to increase tax revenue and assist taxpayers. A simpler tax code would also increase collections, while making it easier for people to file and pay their taxes.

Sen. Sanders

Question #10:

On May 23, you said in regards to a "simpler tax code" that "[i]f you could really fill out your tax reform - tax returns on a single piece of paper, you're much more likely to actually do it. It's also easier for us to see if you're paying the right amount."

For many Americans, filing individual income taxes is a process that can take up to 13 hours and cost several hundred dollars in fees to tax preparation services, despite having relatively simple tax situations. Legislation, such as the Tax Filing Simplification Act of 2016, would require the IRS to provide those with simple tax situations a return-free filing option, as well developing a free, online tax preparation and filing service.

a. Does OMB support efforts to require the IRS to make tax preparation and filing easier for taxpayers?

b. Does OMB support return-free tax filing for individual taxpayers?

c. What is the OMB estimate for the fiscal effect of a return-free tax filing program by the IRS?

I support making it simpler for taxpayers to pay and file their taxes. And a simpler tax code is the best way to do that. It would make it easier for Americans to file their taxes and also would make it easier and cheaper for the IRS to see if taxpayers had paid the right amount. OMB has not developed an estimate for the fiscal effect of a return-free tax filing program.

Sen. Murray

Question #1:

Director Mulvaney, on March 23rd, the Administration presented a list to members of the House Freedom Caucus. It included possible executive actions intended to undermine the consumer protections in the insurance market that cannot be repealed legislatively through budget reconciliation.

In April, I sent a letter with Senator Casey and 20 of my colleagues requesting that list.

What was the list of executive actions the administration plans to take to undermine our health care system?

The Administration is committed to rescuing Americans from the failures of Obamacare. Americans should have the freedom to make the decisions that are right for them and their families, and should have more choices and access to the healthcare they want and deserve. We continue to explore options to minimize unwarranted economic and regulatory burdens of Obamacare and thereby lower premiums, expand access, and increase consumer choice.

Sen. Murray

Question #2:

Director Mulvaney, given the entirety of the proposed changes to the federal student loan programs (the proposed phasing out of subsidized Stafford loans, the end of Public Service Loan Forgiveness, and the move to a new income-driven repayment plan) how much money does this budget save annually and over the 10-year budget window from new undergraduate borrowers as of 7/1/2018? How much does it save from new graduate borrowers as of 7/1/2018?

See table below.

Effect On Undergraduates

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Outlays	-1,707	-3,243	-4,492	-5,441	-5,987	-6,382	-6,709	-6,945	-7,125	-7,168	-55,201

Graduate Effect (includes undergraduates that have graduate debt)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Outlays	-1,889	-3,713	-6,102	-7,859	-9,383	-10,440	-11,500	-11,984	-12,237	-12,441	-87,548

Sen. Murray

Question #3:

Director Mulvaney, a footnote to the table showing cost savings from student loan changes notes over $7 billion in interactive effects between changes to subsidized loans, the elimination of PSLF, and the move to a single income-driven repayment plan. Could you please clarify what these interactive effects are and whether they represent increased or decreased savings to the federal government?

The interactive effect is the result of scoring policies individually that interact with each other when run as a whole. The effect of one policy may depend on the level of participation in another policy. For 2018 President's Budget polices the largest interactions occur between the elimination of PSLF and the newly proposed IDR plan. These interactions are mainly driven by the change in years of repayment prior to forgiveness. Scoring the total policies together saves $7 billion more than running parts of the policy package separately.

Sen. Murray

Question #4:

Director Mulvaney, there is some confusion about the extent to which existing borrowers would still be able to use public service loan forgiveness or the older income-driven repayment plans under the proposed budget. Could you please clarify:

Does switching majors but continuing to pursue the same level of credential (e.g. a bachelor's degree) constitute changing to a new program of study?

If a borrower receives a subsidized loan for a year, drops out for a year, and then returns to the same program, are they still eligible for subsidized loans when they come back to school?

No. Simply switching majors for the same level of credential would not constitute changing to a new program of study.

No. If a student is not continuously enrolled, then the student is no longer eligible for subsidized loans when they return to the school.

Sen. Murray

Question #5:

Workers, families, and the Tri-Cities community in Washington state sacrificed to help the United States win World War II and the Cold War. The U.S. Department of Energy (DOE), through the Office of Environmental Management (EM), is charged with meeting the federal government's legacy responsibilities to conduct environmental cleanup at nuclear waste sites like the Hanford Nuclear Reservation (Hanford) in the Tri-Cities. The nuclear waste cleanup and environmental remediation work at Hanford is regulated by the State of Washington and the Environmental Protection Agency. In 1989 the State of Washington, EPA, and DOE entered into an agreement, known as the Tri-Party Agreement, which governs cleanup at Hanford and provides for legal milestones to keep cleanup on track. Furthermore, the federal government is subject to legally enforceable milestones ou tank waste retrieval and treatment through a court-ordered Conseut Decree between the State of Washington and DOE, which was recently revised in a March 2016 ruling. The federal government has a legal and moral obligation to continue to invest in the cleanup of Hanford.

The Administration's Fiscal Year 2018 budget request cuts approximately $124 million in cleanup activities from the Richland Operations budget when compared to the recently enacted Fiscal Year 2017 Omnibus. Further, the Fiscal Year 2018 budget request holds the Office of River Protection flat despite a trend of increasing need as shown in the past two budgets. Is the Fiscal Year 2018 budget request sufficient to meet the Administration's legal requirements under the Tri-Party Agreement and the Consent Decree?

The 2018 Budget proposes $2.3 billion ($111 million below the 2017 enacted level), which reflects the progress in completing major cleanup activities at the Hanford site such as demolition of the Plutonium Finishing Plant. The Budget provides resources to advance cleanup of the Hanford site to meet the goals of the Tri-Party Agreement and the Consent Decree to protect human health and the environment.

Sen. Murray

Question #6:

Director Mulvaney, on May 9th Hanford made headlines throughout the country and worldwide when workers observed a sunken area over Tunnel 1 adjacent to the Plutonium-Uranium Extraction Plant. While I appreciated the Administration's quick response and am thankful no one was hurt and that there was no harm to the public or environment, this event was a harsh reminder of the radioactive and toxic hazards that remain at the Hanford site and must still be remediated. I am very concerned with the approximately $124 million cut to the Richland Operations (RL) budget, and as a result RL's ability to monitor and maintain the aging infrastructure and the waste contained within it.

Similarly, I am concerned that as work continues to complete cleanup along the Columbia River Corridor, the Administration will slow cleanup work at RL and delay the projects RL is responsible for on the Central Plateau. Even with completion of work along the Columbia River, RL has much work to do on the Central Plateau, including remediation and demolition of 1,000 waste sites, 500 facilities, and contaminated soil and groundwater. Many of these are highly contaminated with radioactive and chemical waste, posing a risk to the public, environment, and workforce.

Director Mulvaney, the May 9th event highlights the need for strong and predictable funding to reduce risks, long-term costs, and meet Tri-Party Agreement milestones. How does the Administration's Fiscal Year 2018 budget request begin to address the legacy infrastructure and non-tank waste within the RL mission requiring cleanup but which is not currently being remediated? Furthermore, I ask that you provide an outline of the Central Plateau cleanup plans covering at least the next five years and the funding needs to advance this work.

The 2018 Budget proposes $800 million for the Richland Office ($116 million below the 2017 enacted level), which reflects the progress in completing major cleanup activities at the Hanford site such as demolition of the Plutonium Finishing Plant. Within the proposed resources, increased funds have been allocated to repair and recapitalize infrastructure needed to support cleanup activities at the Hanford site. Over the next five years, the primary focus of cleanup activities in the Central Plateau will be removing liquid waste from the underground storage tanks and preparing it for final disposition. Funding needs for these and other cleanup activities will be assessed through the annual budget process.

Sen. Murray

Question #7:

The Office of River Protection(ORP) is responsible for treating the approximately 54.6 million gallons of nuclear and radioactive waste stored in 177 underground storage tanks at Hanford and addressing the risks posed by this tank waste by immobilizing it through a process known as vitrification. This is the largest and most complex environmental remediation project in the nation and is critical to protecting the health and safety of the Tri-Cities community, the Columbia River, Washington State, and our nation.

The federal government is subject to legally enforceable milestones on tank waste retrieval and treatment through a court-ordered Consent Decree between the State of Washington and DOE, which was recently revised in a March 2016 ruling. How does the Administration's Fiscal Year 2018 budget request ensure the U.S. Department of Energy's work remains on track to begin treating low-activity waste by December 2023?

The 2018 Budget proposes $1.5 billion ($4 million above the 2017 enacted level) to continue activities to dispose of waste stored in underground tanks at the Hanford site. To ensure the Department remains on track to meet the December 31, 2023, deadline in the Consent Decree, the Administration will increase transparency and oversight of the project to minimize further fraud, waste, abuse and mismanagement in program execution.

Sen. Murray

Question #8:

The Office of Science is the nation's primary sponsor of basic research in the physical sciences, and it stewards ten national laboratories and a large, unique network of advanced scientific facilities available to scientists, students and academia. This basic research, and these user facilities, are not supported by the private sector. The proposed cuts in the Fiscal Year 2018 budget request would result in the nation losing its competitive edge in basic science research.

In addition, the U.S. Department of Energy's national laboratory system is home to brilliant men and women who each day work to advance the Department's mission areas. Cuts of the magnitude proposed in the budget request would result in tens of thousands of jobs in the national laboratory system alone if enacted, and represent an extraordinary loss of capability in areas that are critical to science, energy and national security.

Director Mulvaney, how to you plan to ensure that the U.S. retains its global competitive edge when your budget request would result in the loss of human and technical capabilities? What is your plan to ensure that the U.S. innovation economy is producing the technologies of the future, instead of being forced to purchase them from foreign competitors?

Government-wide, the 2018 Budget provides an increase of 2% for R&D. Within non-defense discretionary funding constraints, the Administration protected fundamental R&D and focused the 2018 Budget request on the Administration's highest priorities. DOE's budget reflects an increased reliance on the private sector to fund later-stage R&D and commercialization of energy technologies and emphasizes energy technologies best positioned to enable American energy independence and domestic job-growth in the near to mid-term. In particular, the budget request for the Office of Science, funds the highest priority, most compelling fundamental R&D across multiple disciplines, such as Exascale computing, the Long Baseline Neutrino Facility/Deep Underground Neutrino Experiment, and the Spallation Neutron Source Second Target Station. In addition, with the Administration's tax reform plan, which includes lowering the tax rate on American businesses, U.S. companies will be better positioned to compete globally while investing in later stage R&D.

Sen. Murray

Question #9:

The Biological and Environmental Research (BER) program within the Office of Science funds basic research in earth systems science, atmospheric and subsurface sciences and related process modeling, integrated assessments, and systems biology. BER also operates three scientific user facilities, including two affiliated with the Pacific Northwest National Laboratory. I was extremely disappointed to see the substantial cut of $264 million to BER, which disproportionately comes from earth systems science. You may be aware that BER-funded research was key to understanding subterranean issues, which led the way to today's domestic natural gas boom. Further, these user facilities serve over 1,600 scientists, students and professors, and would see significant operational reductions at the President's budget request levels.

Director Mulvaney, please describe your vision for a healthy, vibrant BER that includes research in earth systems science, atmospheric and subsurface sciences and related process modeling, and integrated assessments.

The 2018 Budget request refocuses the Department's energy and science programs on early-stage R&D at the national laboratories to advance American primacy in scientific and energy research in an efficient and cost effective manner. This includes funding for the Office of Science to maintain leadership in priority scientific areas, including development of exascale computing and high priority user facility construction. Within BER, the request focuses on research to advance our understanding of the role of atmospheric, terrestrial, ocean and subsurface interactions required for predictive tools needed to inform policies and plans for future resource and energy needs.

Sen. Murray

Question #10:

Throughout my career I have worked to ensure the Bonneville Power Administration (BPA) maintains the flexibility it needs to provide reliable, low-cost power in the Northwest. Congress explicitly gave BPA its own federal authorities to carry out administrative and operational functions in a business-like manner consistent with sound business practices and federal guidelines. So, I am disappointed but not surprised, that the Administration's Fiscal Year 2018 budget request proposes to privatize BP A's transmission system. This a budget gimmick that's been proposed by previous administrations and soundly rejected by Congress in bipartisan fashion.

BPA operates and maintains over 15,000 miles of high-voltage transmission lines and 261 substations which amounts to approximately 75 percent of the high-voltage transmission in the Northwest. This system was built on the backs of ratepayers and continues to be maintained by ratepayers. Selling BPA's transmission assets to the highest bidder could result in increased costs for ratepayers, decrease the reliability of BPA's closely integrated power marketing operation and transmission system, and create winners and losers by potentially neglecting more remote areas or non-revenue producing reliability functions.

Director Mulvaney, how will privatizing the transmission system impact BPA's complex, integrated system? Have you analyzed the economic impact of this proposal on Northwest residents and businesses? Finally, BPA's transmission lines are located on federal, state, tribal, and private lands making it difficult to simply transfer rights-of-way to a private entity. Have you evaluated the costs and complexity of renegotiating right-of-way agreements with federal, state, tribal, and private landowners?

- Director Mulvaney, how will privatizing the transmission system impact BPA's complex, integrated system?

Answer: The 2018 Budget proposes to divest the transmission assets of the Power Marketing Administrations (PMAs), which includes Bonneville. If the Congress were to enact legislation authorizing the sale of these assets, the Administration expects that extensive and comprehensive due diligence such as this analysis would be undertaken to tailor any proposal with careful consideration to structuring a sale for each PMA's particular circumstances. The vast majority of the Nation's electricity needs are met through investor owned utilities. Ownership of transmission assets is best carried out by the private sector where there are appropriate market and regulatory incentives. Eliminating or reducing the PMA's role in electricity transmission and increasing the private sector's role will encourage a more efficient allocation of economic resources and mitigate risk to taxpayers.

- Have you analyzed the economic impact of this proposal on Northwest residents and businesses?

Answer: No, the Administration has not conducted this specific analysis. As a general matter, the vast majority of the Nation's electricity needs are met through investor owned utilities. Ownership of transmission assets is best carried out by the private sector where there are appropriate market and regulatory incentives.

- Finally, BPA's transmission lines are located on federal, state, tribal, and private lands making it difficult to simply transfer rights-of-way to a private entity. Have you evaluated the costs and complexity of renegotiating right-of-way agreements with federal, state, tribal, and private landowners?

Answer: The vast majority of the Nation's electricity needs are met through investor owned utilities. Many transmission lines across the Nation cross Federal, State, tribal, and private lands. If the Congress were to enact legislation authorizing the sale of these assets, the Administration expects that extensive and comprehensive due diligence such as this analysis would be undertaken to address any issues. The Administration looks forward to working with the Congress to work through the details of the final legislation, including those related to renegotiating right-of-way agreements.

Sen. Murray

Question #11:

Puget Sound recovery and restoration is critical to my home state of Washington, to the Pacific Northwest, and to the country as a whole. A healthy Puget Sound plays an essential role in the region's economy and is important to the environmental and economic future of Washington. Healthy waters and tributaries are essential to the recovery of several Endangered Species Act-listed salmon populations and the protection of tribal treaty rights. EPA's Geographic Program provides critical federal support to ongoing state and local efforts to implement Washington state's Puget Sound Action Agenda, which supports our commercial, recreational, tribal fishery industries and outdoor recreation economy. I am extremely disappointed with the Administration's decision to eliminate funding for the Puget Sound.

Director Mulvaney, have you analyzed the economic and health impacts of eliminating funding for all of EPA's Geographic Programs?

The EPA budget for FY 2018 focuses the agency's efforts on core environmental protection programs. Through these core programs, the EPA will continue to encourage State, tribal, and local stakeholders to sustain progress on the restoration of Puget Sound and provide national support for the protection of human health and the environment.

Sen. Murray

Question #12:

The Pacific Coastal Salmon Recovery Fund (PCSRF) supports activities related to the recovery of listed stocks of Pacific salmon, an iconic symbol of economic and ecological health for Washington state and the entire Pacific Northwest. Washington state has more listed species, more river miles, and more of its population impacted by species decline than any other state. Throughout Washington, cities, counties, tribes, and the state work cooperatively to create recovery plans and implement projects related to salmon recovery. Federal funds have been matched by millions in state and local dollars to implement these projects and the states of Washington, Oregon, Idaho, California, Nevada, and Alaska each contribute substantial resources to protect salmon and count on a robust federal partnership. PCSRF has a proven success record, restoring more than 1 million acres of fish habitat and opening more than 9,100 miles of streams for fish passage. I am extremely disappointed with the Administration's decision to eliminate funding for PCSRF.

Director Mulvaney, have you analyzed the economic and health impacts of eliminating funding for PCSRF? Did you consider the impacts of eliminating PCSRF on the six declared fisheries disasters that have been confirmed by U.S. Department of Commerce? What steps did you undertake to ensure these actions would not impact tribal treaty obligations?

The 2018 Budget restores fiscal responsibility by reducing non-defense spending and redefining the proper role of the Federal government. As a result, the 2018 Budget refocuses Federal grants on the highest priority areas for Federal support, reduces funding for unauthorized programs, and recognizes a greater role for State and local governments and the private sector.

For NOAA, this meant prioritizing its core government functions, such as those related to weather forecasts and observational infrastructure, while ending activities that can be performed by other levels of government, non-governmental organizations, or the private sector. NOAA stands ready to provide technical assistance to support those endeavors, as appropriate.

Sen. Murray

Question #13:

I was also extremely disappointed with the elimination of the TIGER program in the Fiscal Year 2018 budget request. The President has talked a lot about public-private partnerships. So, I find it ironic that he targets TIGER, when TIGER leverages private, state, and local investments to solve transportation challenges. In fact for every federal dollar invested, an average of two nonfederal dollars go into a TIGER project.

Director Mulvaney, if not through TIGER how else does the Administration propose to address our nation's infrastructure needs? Furthermore, there is strong bipartisan support for TIGER in Congress. If Congress again disregards the President's misguided proposal to eliminate TIGER - as we did with the Fiscal Year 2017 Omnibus - do I have your commitment to execute the program?

The National Infrastructure Investments program, commonly referred to as the TIGER program, began in the 2009 stimulus bill. While funding has been appropriated annually since then, the program was never formally authorized by Congress. The President's 2018 Budget proposes to eliminate the TIGER program for three principal reasons. The first is that the program typically funds projects with localized benefits, which typically do not rise to the level of national or regional significance.

Secondly, the program is similar to the Department of Transportation's Nationally Significant Freight and Highway Projects grant program, authorized by Congress in the FAST Act of 2015. This program, commonly referred to as the FASTLANE grant program, provides competitive grants to larger highway and multimodal freight projects with demonstrable national or regional benefits. This grant program is authorized at an annual average of $900 million through 2020.

Finally, the Administration proposes to achieve the President's target of $1 trillion in infrastructure investment through a combination of new Federal funding, incentivized non-Federal funding (including public-private partnerships), and newly prioritized and expedited projects. We will continue to work with the Congress, States, tribes, localities, and other infrastructure stakeholders to finalize the suite of Federal programs that will support this effort.

As you know, the Consolidated Appropriations Act of 2017 provides $500 million for another round of TIGER grants. The Department of Transportation and the Administration are committed to carrying out this Congressional directive, as outlined in law.

Sen. Murray

Question #14:

A strong and safe transit system is critical to our nation's transportation network, improving efficiency, increasing economic stability and growth, and providing alternatives to commuters experiencing ever increasing congestion. I am deeply troubled by President Trump's decision to walk away from transit projects already in the Capital Investment Grant (CIG) pipeline through this budget proposal. Transit agencies in Washington and across the nation have been working with the U.S. Department of Transportation for years on projects. Furthermore, Congress recently authorized the CIG program at $2.3 billion per year with bipartisan support. I am even more concerned with your budget justification singling out the Seattle. Local communities in Washington state are committed to investing in public transportation, and the Fiscal Year 2018 budget request penalizes them for doing so.

Director Mulvaney, I strongly urge you to keep the federal government's promise to communities throughout the nation, respect the will of Congress, and move forward with CIG projects that meet existing federal requirements. I will be following up with you on this in a letter shortly.

The Budget proposes to limit funding for the Federal Transit Administration's Capital Investment Program (New Starts) to projects with existing full funding grant agreements only. Future investments in new transit projects would be funded by the localities that use and benefit from these localized projects.

Localities are better equipped to scale and design infrastructure investments needed for their communities. Several major metropolitan regions have recently passed multi-billion dollar revenue measures to fund transit projects and the Administration believes that is the most appropriate way to fund transit expansion efforts.

The Administration is reexamining programs where significant Federal resources are spent on activities that have primarily local benefits -- including what fiscal and other tools might be the most appropriate to encourage investment in those jurisdictions. The goal of the President's Infrastructure Initiative is to seek long-term reforms on how infrastructure projects are regulated, funded, delivered, and maintained.

Sen. Wyden

Question #1

If you could wave a magic wand and enact the President's FY18 budget proposal in full, would you do so?

Yes.

Sen. Wyden

Question #2

The Presideut's budget cuts Supplemental Nutrition Assistance Program (SNAP) by $190 billion over 10 years. This is roughly a 9% cut from actual 2016 funding to the President's proposed 2018 funding. Over the past decade, nearly seven million Oregonians have counted on SNAP benefits. In 2016 alone, 735,000 Oregonians relied on SNAP, which is 18 percent of the state population. 57 percent of these Oregon households had children, 28 percent had elderly or disabled members, and 47 percent were working households.

In your testimony before the Senate Budget Committee, you remarked that the Administration was not cutting SNAP, but that it was simply giving more flexibility to states in implementing the program. Yet, by shifting 25% of the cost to the states and changing eligibility requirements which would kick millions off the program, the ultimate effect is a massive cut. In Oregon, the state would have to pay over $260 million per year. This would be devastating for my state and other states already struggling to provide services and make up for budget deficits.

Please explain how the Administration justifies passing the buck and putting the financial burden on already cash-strapped states, which would in fact cut SNAP and ultimately hurt families?

How does the Administration justify ending the minimum monthly SNAP benefits for 1 or 2 person households (currently $16 per month) which would kick about 2 million people off the program, mainly the elderly and low-income working families?

Spending on SNAP declines when the economy grows and more families are lifted out of dire economic straits. But for those families that are still walking an economic tightrope, cutting SNAP would force them to take the funds they are putting toward other essentials - such as clothing and medicine - and put that money toward groceries. This impacts the broader economy by reducing consumption of the essentials that SNAP beneficiaries can no longer afford. A 2010 USDA report found that SNAP expenditures stimulate economic activity during an economic downturn, with every $5 in new SNAP benefits generating as much as $9 of economic activity.

Does the President's budget account for the impact that cutting SNAP has on the larger economy, including reduced consumption of necessary goods by those SNAP beneficiaries targeted by the cuts? Are these broader economic impacts incorporated in OMB estimates of the deficit reduction that results from SNAP cuts?

- The Budget proposes a series of reforms in the Supplemental Nutrition Assistance Program (SNAP) that will close eligibility loopholes, target benefits to the neediest households, and provide States incentives to do more to get able-bodied adults to work. In addition to the significant savings these reforms generate, the Budget proposes to re-balance the Federal/State partnership in providing SNAP benefits to low-income households by gradually establishing a State match for benefit costs. Right now, 100 percent of SNAP benefits are federally funded. States have little stake in making conservative decisions in how they operate the program, or in building paths to self-sufficiency for the able-bodied adults participating in the program. This proposal would create a more balanced incentive structure for States to consider both benefit and administrative costs when making decisions about how to use available flexibilities to manage the program.

Under our match proposal, States would cover a portion of the cost of the benefits issued to participants. A State's share of the cost would be based on a formula that would consider the number of people in poverty in a State, which is a key driver of SNAP participation, and the total taxable resources a State can draw on to support the program. Therefore, I do believe it is possible for States to meet the matching requirement without having to reduce benefit levels for participants. Our plan would phase-in the match gradually, beginning with a national average of 10 percent in 2020 and increasing to an average rate of 25 percent by FY 2023, to give States time to plan for the additional needed resources. Additional flexibilities would be offered to help States further manage their costs, while ensuring the adequacy of the benefits is maintained. Finally, our proposal assumes disaster related SNAP benefits will remain 100 percent federally funded.

Of course, I'm sensitive to State budget constraints, and welcome the opportunity to work with Congress to consider potential refinements to this proposal.

- Under the Supplemental Nutrition Assistance Program (SNAP), eligible households are expected to spend a portion of their income, after deductions, on food. Therefore, SNAP benefit allotments are reduced by a household's countable net income, and some eligible households have enough income that their benefit allotment nets out to zero. The SNAP statute sets a floor, or minimum, on the calculated benefit allotment for eligible one or two person households – at $16.

  Our proposal to eliminate the guaranteed minimum benefit in SNAP assumes that benefit calculations will not be artificially held at no less than $16 for one or two person households. This means a one or two person household could receive less than $16 per month, or in some cases zero benefits, in the same way benefits are calculated for households of three or more members, such as a working couple with a child.

- The broader economic effects referenced in the 2010 USDA report, known as multiplier effects, are generally only large during economic downturns. The economy is not currently experiencing a downturn, nor is a downturn projected in the Administration's economic assumptions. Given the current state of the economy and the economic assumptions over the budget window, any such multiplier effects would be negligible. The President's Budget is therefore correct in not incorporating multiplier effects on the broader economy or deficits due to its SNAP reform proposals.

Sen. Wyden

Question #3

The President's budget narrative states that it provides "a fully paid-for proposal to provide six weeks of paid family leave to new mothers and fathers, including adoptive parents, so all families can afford to take time to recover from childbirth and bond with a new child without worrying about paying their bills." The narrative then goes on to say, "States would be required to provide six weeks of parental leave and the proposal gives States broad latitude to design and finance the program." The proposed delivery mechanism is through the existing state unemployment insurance (UI) systems. You likely know that states set UI eligibility rules which are often quite restrictive and can exclude part-time workers, younger workers, independent contractors and vulnerable low-wage workers. Women are significantly more likely than men to be ineligible for UI.

Will the President's budget proposal guarantee all working parents of newborn and adopted children can receive benefits?

Does the Administration support or plan to set minimum benefit standards?

What level of wage replacement will these beneficiaries receive?

Will there be a benefits floor and if so, what?

Does the proposal include tax-paying parents who are self-employed or independent contractors?

Would your proposal permit states to "experience-rate" paid leave benefits, which could create an incentive for employers to discriminate in hiring against women and other prospective parents and/or discourage use of the benefits?

Is it your expectation that legislatures and governors in all 50 states will significantly raise employer payroll taxes to finance not only the current unemployment insurance shortfalls but also the added expense of parental leave, as this proposal would demand?

If there's any risk they won't, doesn't that suggest the Administration isn't deeply committed to the goal of providing leave to all new parents?

The Administration is committed to providing paid leave to new parents, but believes that States should have the flexibility to deliver this benefit in a way that works best for their businesses, workers, and economies. Accordingly, the Administration's proposal would require States to offer six weeks of paid parental leave through their Unemployment Insurance systems while imposing a limited set of basic requirements—including non-experience rating of paid leave benefits to guard against the type of discrimination you mention. States will have the flexibility to set up appropriate tax structures to fund their paid leave programs. In States that have large Unemployment Trust Fund balances, tax increases may not be necessary, particularly initially. The Budget also includes a proposal to strengthen the existing Federal Unemployment Tax

Act (FUTA) credit reduction structure to better incentivize States to maintain solvency in their Unemployment Trust Fund accounts. In addition, States that have an existing paid leave program or that set up a paid leave system that provides at least six weeks of benefits outside of the Unemployment Insurance system may opt out of the requirement to set up a paid leave benefit within their Unemployment Insurance program. States that set up the benefit within their Unemployment Insurance program will have flexibility to set the exact benefit levels, but we expect that they would be in line with the State's current unemployment benefit levels, which currently average approximately $350 per week across the country.

The Administration recognizes there are many ways to achieve the policy objective of giving new parents access to paid family leave. We look forward to working with you and other members of Congress to create a program that balances the needs of families, workers, employers, and taxpayers.

Sen. Wyden

Question #4

In Oregon, over 250,000 seniors are living in or near poverty. Over 140,000 seniors are in a position where they don't always know where their next meal will come from, or how they will keep a roof over their heads. With the help of federal grants, the Meals on Wheels program has served over 2.5 million meals to nearly 46,000 Oregon seniors iu need. But the President's budget eliminates Community Development Block Grant that funds the Meals on Wheels program in many states across the country.

In addition, many households across the country struggle to afford a decent, safe place to live. Rents continue to rise as the number of renters who need access to affordable units has also increased, too often resulting in homelessness for extremely low income individuals and families. According to the Urban Institute, the market provides 21 adequate, affordable, and available units for every 100 renter households with income at or below 30 percent of area median income. In Oregon, the CDBG program provides critical funding for projects that address specifically tailored to address homelessness and housing.

The budget offers two justifications for eliminating CDBG, claiming (1) that "the program has not demonstrated results," and (2) the allocation formula is poorly targeted and outdated.

How is it that CDBG has "not demonstrated results," when Meals on Wheels alone has served over 2.5 million meals to nearly 46,000 Oregon seniors in need?

Please provide greater detail on what economic evidence OMB used and what program evaluations OMB performed in reaching the conclusion that CDBG has "not demonstrated results."

If it is the Administration's view that the CDBG program's allocation formula could be improved, why did the budget not propose reforms to the program, rather than eliminating the program?

Why does the Admiuistration believe the possibility of program improvements provides sufficient justification for the elimination of a program?

The Budget eliminates the Community Development Block Grant (CDBG) program, stating that the program is not well-targeted to the poorest populations and has not demonstrated a measurable impact on communities. In addition, this Budget recognizes that State and local governments are better positioned to address and fund local community and economic development needs.

The primary objective of CDBG is "the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income" (42 U.S.C. 5301). At the activity level, funds are used for a wide array of projects that serve many people. Program level evaluations have been unable to demonstrate that communities improved in a measurable way due to CDBG, and some OIG, GAO and news reports have identified potential areas of fraud, waste, and abuse.

In addition, studies have shown that the allocation formula poorly targets funds to the areas of greatest economic need, and many aspects of the program are outdated or ineffective (e.g., program and accounting rules on income targeting and performance measures). These challenges are exacerbated by the fact that decreasing appropriations combined with an increasing number of localities qualifying for CDBG allocations have reduced the size of the individual grants over time, making CDBG less impactful. There have been many prior efforts from multiple Administrations to reform the program and its formula, all of which received no Congressional support. [Sample References: Multiple summary articles contained in the *Housing Policy Debate: CDBG at 40: Its Record and Potential*, Volume 24, Issue 1, (2014); and *GAO-12-575R. HUD has Identified Performance Measures for Its Block Grant Programs, but Information on Impact is Limited*, (2012)].

With respect to Meals on Wheels, CDBG is not the primary source of funding for such programs. The amount of CDBG funding spent on Meals on Wheels is not specifically tracked by HUD, but is at most 1.5% of annual expenditures. The vast majority of Federal funding for senior nutrition programs comes from the Older Americans Act (OAA, administered by the Administration for Community Living at HHS). The Budget maintains funding for ACL's OAA nutrition programs at 2017 CR levels ($833 million). These are the programs that have as their primary mission providing nutrition services for older Americans.

Sen. Wyden

Question #5

The President's Fiscal Year 2018 budget did not include the Acting Social Security Commissioner's unrevised budget, which appears to be in clear violation of the law. Section 104 of the Social Security Independence and Program Improvements Act of 1994 explicitly states that the "[Social Security] Commissioner shall prepare an annual budget for the Administration, which shall be submitted by the President to the Congress without revision, together with the President's annual budget for the Administration." The unrevised budget - for both confirmed Commissioners and Acting Commissioners - has always been included in the President's budget every year since 1996.

Can you explain why the Commissioner's unrevised budget was not included in the President's budget?

When will the Congress receive the Commissioner's unrevised budget for Fiscal Year 2018?

The Budget materials did not reference the Acting SSA Commissioner's request to OMB because SSA did not provide a FY 2018 Budget request that satisfied the requirements of section 104 of the Social Security Independence and Program Improvements Act of 1994 ("the Act"). Section 104 of the Act requires the Commissioner to submit an annual budget for SSA and directs the President to submit such budget with his annual budget request. Although the former Commissioner submitted a budget proposal for FY 2018 last September, OMB does not believe that request satisfied the requirements of section 104 of the Act because it did not reflect the views of the SSA's current Acting Commissioner, who also did not submit an independent FY 2018 budget proposal. Additionally, the former Commissioner's request was based on amounts and assumptions provided for SSA in the FY 2017 Budget request, not on assumptions underlying the FY 2018 President's Budget request. OMB Circular A-11 provides that agencies may not release historical budget development materials without OMB approval. The Act does not require the President to submit a request on behalf of a former SSA Commissioner or based on data from a previous fiscal year. The President's FY 2018 request therefore satisfied the requirements of the Act. OMB expects to receive and transmit a FY 2019 request from SSA as required by the Act as part of the FY 2019 Budget process.

Sen. Wyden

Question #6

The Trump Budget proposes a "sliding scale" for disability benefits that considers the number of family recipients. The budget claims there are "economies of scale ... [that] means that two children generally do not need twice the income as one child." This policy change ignores the enormous challenges that confront poor families raising children with disabilities.

Can you explain how there are "economies of scale" when each child may have individual therapies?

Can you explain how there are "economies of scale" when each child may need specialized adaptive equipment - such as wheelchairs?

Can you explain how there are "economies of scale" when each child may have different medically prescribed diets?

Can you explain how there are "economies of scale" when each child needs different medications?

Please explain the "economies of scale" for each set of circumstances.

The 2018 Budget proposes a sliding scale for multi-recipient SSI families. Currently, families receive an equal amount for each SSI child recipient. However, economies of scale reduce per capita living expenses. Federal poverty guidelines and other means-tested benefits take into account these savings, and the SSI program already incorporates economies of scale when both individuals in a married couple are eligible for SSI by providing each recipient with 75 percent of the federal benefits rate. More specifically, research reveals that the majority (over 75 percent) of SSI children with medical out-of-pocket expenses report them to be less than 10 percent of their annual SSI payment amount, in large part due to their Medicaid coverage. Further, a 2012 SSA OIG report recommended extending the economies of scale concept, in effect for married couples, to multi-recipient SSI families and an earlier Social Security Advisory Board analysis (2009) recommended exploring how economies of scale could be applied to SSI benefits.

Sen. Wyden

Question #7

Current law allows workers approved for disability up to 12 months of retroactive benefits from the time they applied. The current law policy protects workers from being penalized if their health condition or its treatment is so devastating that it prevents them from applying, when they are trying to find a job they can still do, or are working despite struggling with a severe disability. The current policy for 12 months of retroactive benefits for Social Security Disability Insurance rather than the six months of retroactive benefits for Social Security Old-Age and Survivors Insurance is because there is no bright line, such as attainment of a certain age, that helps a disabled person decide when to file. As a result, many people lose out on months of earned benefits that they should have received. Current policy allows workers to continue to look for new work or work as long as they can without having to worry about forgoing earned benefits if they delay applying for Social Security Disability Insurance.

Why does the Trump Budget want to create a disincentive to work and reduce this important protection for workers who were eligible for Social Security Disability Insurance but delayed applying because they were still trying to work?

The main goal of the reforms included in the President's Budget is to increase the labor force participation (LFP) of people with disabilities, who have low rates of LFP--20 percent--which is less than a third of the LFP rate of the overall working age population. The 2018 Budget does so by proposing to evaluate alternative program designs that will help individuals with disabilities remain attached to the labor force and individuals with temporary work disabilities return-to-work.

As you note in your question, this proposal aligns the retroactive benefits for disabled workers with the six-month policy in effect for individuals receiving retirement benefits. However, the proposal may also result in unintended consequences, which the Administration will work with you to fix in the final legislation.

Sen. Wyden

Question #8

The Trump Budget proposes to prevent individuals from receiving both Unemployment Insurance and disability benefits. The budget argues this is double dipping: one agency determines that the person cannot work and another agency supports them while they are looking for work. A careful examination of both systems of support, however, shows that current law supports the most vulnerable who are striving to remain in the workforce. Social Security disability beneficiaries are encouraged to work and can earn up to $1,170 a month without it affecting their benefits.

If the beneficiary loses her current job, why should she not be allowed to receive the disability benefits she qualifies for and the support of UI while looking for another job - an important protection to individuals trying to remain in the labor force?

How does the policy in the Trump Budget not penalize individuals with disabilities who are trying to find work?

The goal of the Budget proposal is to reduce double dipping by eliminating duplicative payments aimed at compensating an unemployed worker for the same period of unemployment. As you point out in your question, there are a small number of cases where such overlapping payments may be warranted for valid reasons, particularly incentivizing DI recipients to remain engaged in the labor market rather than dropping out altogether. We look forward to working with you and other members of Congress to draft legislation that accomplishes the proposal's goal while accounting for circumstances in which exceptions would be warranted.

Sen. Wyden

Question #9

The President's Budget proposes changes to the disability programs, in part, by expanding the Social Security Administration's demonstration authority. The budget proposes to make participation in these demonstrations mandatory and subject Social Security beneficiaries to untested program changes without their consent.

Why is the Administration proposing to reverse the bipartisan policy set forth in Section 822 of the Bipartisan Budget Act of 2015, which requires "the Commissioner ... shall ensure ... the voluntary participation of individuals in such experiment or demonstration project is obtained through informed written consent ... for use in such experiment or demonstration project in which human subjects are at risk?"

What protections will be in place to ensure that disabled individuals who are forced to participate are not financially harmed by virtue of their doing so?

Prior demonstration projects have increased earnings among participants but have not resulted in significantly reduced program costs or significantly improved labor force participation.

What data do you have that suggests this expanded authority will achieve different results?

Currently, people with disabilities have low rates of LFP--20 percent--which is less than a third of the LFP rate of the overall working age population. There is a common expectation that receipt of disability insurance benefits results in a permanent exit from the labor force.

The 2018 Budget challenges this assumption by evaluating alternative program designs that will help individuals with disabilities remain attached to the labor force and individuals with temporary work disabilities return-to-work. This is a compassionate policy. As part of this reform effort, the Administration would call on Congress to establish an expert panel that will identify specific changes to program rules that increase LFP and reduce participation on disability programs based on the results of successful demonstrations and other evidence. This panel would be responsible for making recommendations to reduce participation levels that would be directly tied to reaching a 5 percent reduction in Disability Insurance (DI) and Supplemental Security Income (SSI) projected outlays by FY 2027. The end result is to get more people into the labor force and be able to earn higher salaries.

Mandatory participation is proposed for a number of reasons. The most important is to ensure *universal engagement* of persons with a disability, which is the premise of the Americans with Disabilities Act, that like everyone else these persons want to work and can work. Mandatory participation/universal engagement means engaging everyone who is applying for disability benefits, to help as many as possible keep working or return to work.

Another advantage of mandatory participation/universal engagement is to create structure and support that reflect recent research regarding smart program design, to build motivation, and prompt and sustain activity.

Another reason for mandatory participation/universal engagement is that, without it, it's essentially impossible to test program improvements. Purely voluntary participation leads to "selection bias" and also small statistical samples, which undermine the validity of findings. In order to test possible improvements in core disability programs, it is critical to ensure rigorous evaluation before making any permanent program changes.

Sen. Wyden

Question #10

Pacific salmon are iconic fish, a major economic driver in our region, and vital to the cultural heritage of tribes and our communities. According to National Oceanic and Atmospheric Administration (NOAA) the commercial Pacific salmon fishery is the second largest in the United States, providing thousands of Americans with fishing and processing jobs. In order to maintain these crucial economic drivers, Pacific salmon ecosystems must be restored and protected.

The Pacific Coastal Salmon Restoration Fund (PCSRF) supports the conservation and recovery of salmon throughout Washington, Oregon, Alaska, Idaho, Nevada, and California. It is the most critical federal program addressing major threats to Pacific salmon and ensures that these fish can continue to sustain economies, cultural values, recreation, and ecosystem health.

Considering that fisheries management is stated to be a NOAA priority by Commerce Secretary Ross, how is eliminating the primary program that maintains a nationally vital fishery consistent with either stated priorities of fisheries management or creating jobs that sustain American rural and coastal communities?

The 2018 Budget restores fiscal responsibility by reducing non-defense spending and redefining the proper role of the Federal government. As a result, the Budget refocuses Federal grants on the highest priority areas for Federal support, reduces funding for unauthorized programs, and recognizes a greater role for State and local governments and the private sector.

For NOAA, this meant prioritizing its core government functions, such as those related to weather forecasts and observational infrastructure, while ending activities that can be performed by other levels of government, non-governmental entities, or the private sector. NOAA stands ready to provide technical assistance to support those endeavors, as appropriate.

In addition, the Budget supports the regionally-led Fishery Management Councils, which work with NOAA and other stakeholders to ensure fisheries and fishing communities are sustainable.

Sen. Wyden

Question #11

In a budget briefing on Thursday, May 25, 2017, Secretary Wilbur Ross remarked that the administration's budget prioritizes savings, efficiency, and "programs that provide a good return to taxpayers." He followed up by saying that the National Sea Grant College Program (administered through NOAA) which invests vital dollars in coastal businesses and communities is a "lower priority."

Nationwide, Sea Grant programs generate $575 million in economic activity from an investment of approximately $67 million. How exactly is an 854% return on investment, and 20,770 annually created or sustained jobs a poor return for taxpayers?

The 2018 Budget restores fiscal responsibility by reducing non-defense spending and redefining the proper role of the Federal government. As a result, the Budget refocuses Federal grants on the highest priority areas for Federal support, reduces funding for unauthorized programs, and recognizes a greater role for State and local governments and the private sector.

For NOAA, this meant prioritizing its core government functions, such as those related to weather forecasts and observational infrastructure, while ending activities that can be performed by other levels of government, Non-governmental organizations, or the private sector. NOAA stands ready to provide technical assistance to support those endeavors as appropriate, and has the discretion to continue research it deems of high value through other NOAA research programs.

Sen. Wyden

Question #12

I'm seriously concerned about the Administration's proposal to privatize the transmission assets of the Bonneville Power Administration. This amounts to highway robbery in the Northwest. Oregon families' dollars -- especially the communities in rural Oregon, who most rely on the Bonneville system -- are already stretched too thin without the administration trying to raise their monthly utility bills. Other administrations have tried this before, and I fought it. When a similar privatization gimmick was proposed by the Bush Administration, I asked Energy Secretaries Abraham and Bodman, dnring their confirmation hearings, to commit to opposing the sale or privatization of Bonneville. I will oppose this attempt as well.

Can you give justification for the Administration's decision to propose selling off or privatizing Bonneville?

The 2018 Budget does not propose to privatize Bonneville Power Administration (Bonneville); rather, it proposes to divest the transmission assets of the Power Marketing Administrations (PMAs), which includes those owned and operated by Bonneville. Divestiture of Federal assets can encourage private capital investment in the Nation's infrastructure and relieve long-term pressure on the deficit related to future capital investments. The vast majority of the Nation's electricity infrastructure is owned and operated by for-profit investor owned utilities. Ownership of transmission assets is best carried out by the private sector where there are appropriate market and regulatory incentives. Eliminating or reducing the PMA's role in electricity transmission and increasing the private sector's role will encourage a more efficient allocation of economic resources and mitigate risk to taxpayers.

Sen. Wyden

Question #13

The Pacific Northwest has been a dumping ground for high-level, radioactive nuclear waste going back to the Manhattan Project. The Federal Government has an obligation to clean up this waste - and this is a problem that both Democratic and Republican Administrations have failed to fix. Unfortunately, the proposed budget made by this administration makes a 22% cut to Hanford - that's $200 million taken from a long-beleaguered facility with real clean-up needs.

What justification does the Administration have for making such drastic cuts?

The 2018 Budget proposes $2.3 billion ($111 million below the 2017 enacted level), which reflects the progress in completing major cleanup activities at the Hanford site such as demolition of the Plutonium Finishing Plant. The Budget provides resources to advance cleanup of the Hanford site to meet the goals of the Tri-Party Agreement and the Consent Decree to protect human health and the environment.

Sen. Wyden

Question #14

The 17 DOE laboratories make up a federal research powerhouse, providing the United States with the best in energy technology innovation and scientific research.

Does the Administration disagree that the DOE national labs, like the National Energy Technology Lab facility located in Albany, Oregon, represent crucial one-of-a-kind assets to this country that should be maintained and invested in?

What justification does the Administration have for calling for closing the existing network of labs?

Funding in the 2018 Budget for non-defense programs at the Department ensures that associated laboratories remain open and operational. Recognizing the importance of the laboratories, the 2018 Budget request refocuses the Department's energy and science programs on early-stage research and development (R&D) at the national laboratories to advance American primacy in scientific and energy research in an efficient and cost effective manner.

As part of the Department's effort to operate more efficiently, the budget request for the Fossil Energy Research and Development program includes a phased approach to merging the National Energy Technology Laboratory's (NETL) disparate research sites located in Oregon, West Virginia, and Pennsylvania. The first proposed phase is to consolidate NETL's Albany research operations into NETL's Eastern sites and commissioning of a Mission Alignment study beginning in Q3 FY 2017 that includes: (1) Evaluation of alternatives for locating NETL's Alloy Metallurgy Capabilities; (2) Study of Environmental Impacts Responsibility & Remediation at the Albany site; and (3) Analysis of Alternatives for Configuration of NETL's Eastern Sites. NETL is one of the only DOE laboratories that has three distinct research sites, and thus the consolidation seeks to make NETL more efficient and effective by moving towards having all R&D conducted at one central site.

Sen. Wyden

Question #15

The President's budget contains massive cuts to the Bureau of Indian Affairs, which could have profound negative impacts on Tribal economic development and self-sufficiency.

Can you please explain to what extent OMB engaged in consultation with Indian Tribes in Oregon and throughout the country to determine the impact of these cuts and the adequacy of the requested funding levels for BIA?

OMB formulated the President's 2018 Budget for the Bureau of Indian Affairs (BIA) based on input from the Department of the Interior (DOI). DOI's recommendation was the result of cooperative participation with tribes through the Tribal – Interior Budget Council (TIBC). TIBC provides a forum and process for tribes and Federal officials to work together in developing annual budget requests for BIA and other Indian Affairs programs at DOI.

Sen. Wyden

Question #16

I have heard an awful lot of talk from the President about boosting the nation's infrastructure. In my view, being committed to infrastructure must include funding the country's small ports and harbors, like those in my state of Oregon. These small ports are key economic drivers in rural America, and keeping them open requires adequate funding for dredging and jetty maintenance.

An important piece of the small ports funding equation is the Harbor Maintenance Trust Fund (HMTF) -- a dedicated funding source aimed at keeping ports open. While expenditures from the trust fund are discretionary, Congress set clear funding targets for HMTF expenditures in both the 2014 Water Resources Development Act and the 2016 Water Infrastructure and Innovation for the Nation Act. Unfortunately, the President's budget appears to ignore Congress's funding targets.

Can you please state for the record whether you agree that small ports and harbors are critical economic drivers in rural communities.

Please explain your understanding of what the intended purpose of the Harbor Maintenance Trust Fund is.

Please explain the decision-making process behind requesting such a low portion of the Harbor Maintenance Trust Fund being used for its dedicated purpose.

I agree that small ports and harbors are often important local economic drivers for rural communities. The Corps program focuses on investments within its primary mission areas (commercial navigation, flood and storm damage reduction, and aquatic ecosystem restoration) that provide a high economic or environmental return to the Nation or which address a significant risk to public safety.

The Corps pays 100 percent of the costs for eligible harbor maintenance and related work through discretionary appropriations. The Congress finances this work through the harbor maintenance tax, which a subset of port users pay (exporters are exempt). Harbor maintenance tax revenues are held within the Harbor Maintenance Trust Fund (HMTF) until appropriated by the Congress.

The Budget proposes $965 million in spending from the Trust Fund for eligible work. The amount proposed in the Budget reflects consideration for the overall economic and safety return on investment, as well as a comparison with other potential uses of available funds.

Sen. Wyden

Question #17

Treasury Secretary Mnuchin is asking Congress to raise the debt ceiling before the end of August without any deficit-decreasing policy riders. The House Freedom Caucus, of which you were a founding member, opposes increasing the debt ceiling without including deficit-decreasing policy riders.

As OMB Director, do you support increasing the debt ceiling without policy riders? Will you be recommending to the President that the debt ceiling be increased without policy riders?

Does Secretary Mnuchin's request to Congress reflect the position of the Administration? If so, understanding that the Administration disagrees with the House Freedom Caucus, will the Administration support passing a clean debt ceiling increase by relying on Democratic votes?

When I met with the President's nominee to be your Deputy at OMB, Russ Vought, he told me he would recommend to the President that deficit-decreasing policy riders be included in any debt ceiling increase. Does his position on the debt ceiling reflect the position of the Administration?

It is essential that we address the debt ceiling, and we are confident that Congress will take the necessary action on the debt ceiling.

The Administration has not yet settled on a specific legislative approach for addressing the debt ceiling. Once the Administration has settled on a preferred approach, Secretary Mnuchin will speak for the Administration in communicating that approach to the Congress.

Sen. Wyden

Question #18

I asked Secretary Mnuchin when he was before the Finance Committee whether the President's budget intentionally double counted roughly $2 trillion in deficit reduction that OMB claims would result from tax reform. The Secretary said the Admiuistration did not "intend" to double count $2 trillion in deficit reduction in the budget. As Director of OMB, can you confirm that the double counting of the $2 trillion dollars was unintentional? Was it a mistake? In front of the Senate Budget Committee, you implied that tax reform would have to be deficit-neutral on a *static basis* (i.e., not according to dynamic scoring) in order for the President's budget to *not* be double counting this $2 trillion in deficit reduction.

Is it correct that, if the budget assumed any tax reform plan that is *not* deficit-neutral according to *static* scoring, the budget would be double counting the $2 trillion in deficit reduction? In other words, if the Administration ultimately puts forward a tax reform plan that is only deficit-neutral ou a dynamic basis, will you admit that this means the President's budget double counts the deficit reduction due to economic growth?

The Budget assumes that tax reform will be deficit neutral; that is, that revenue lost from the rate reductions included in tax reform will be offset by eliminating or limiting deductions, exclusions, and tax expenditures. The Budget does not propose to use the effects of economic feedback or additional revenues generated due to economic growth to pay for deficit neutral tax reform. The additional revenues due to economic growth are counted once, for deficit reduction. A tax reform plan which is deficit-neutral only on a dynamic basis would not reflect the Budget's assumption that tax reform would be deficit-neutral on a static basis.

Sen. Wyden

Question #19

Director Mulvaney, you have referenced economic assumptions made in the Obama administration's first budget in order to defend your budget's assumptions about economic growth. However, at the time, those projections were largely in line with CBO forecasts. Below is a comparison of CBO and OMB economic projections from January and February of 2009.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP (CBO)	-2.2	1.5	4.2	4.4	4.1	3.5	2.8	2.5	2.3	2.2	2.2
Real GDP (Obama)	-1.2	3.2	4.0	4.6	4.2	2.9	2.6	2.6	2.6	2.6	2.6

By contrast, your budget assumes levels of GDP growth that are consistently a full percentage point or greater than CBO's GDP growth forecasts.

	Projected GDP Growth (year-over-year % change in real GDP)											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
OMB FY'18	1.6	2.3	2.4	2.7	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0
CBO (Jan)	1.6	2.3	2.0	1.7	1.5	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Admin.-CBO	0.0	0.0	0.4	1.0	1.4	1.2	1.1	1.1	1.1	1.1	1.1	1.1

In questions posed to you for the record after your nomination hearing before the Senate Budget Committee, I brought up the "Mulvaney Credibility Test" for economic growth assumptions in Presidential budgets, as based on your questioning of Treasury Secretary Lew in 2011.

In a February 2011 House Budget Committee hearing with Secretary Lew, you criticized President Obama's FY2012 budget for not containing credible economic growth assumptions. You said: "You take a look at the GDP, another one of your assumptions—Mr. Ryan mentioned it earlier, the Washington Post beat you up on it today—you're assuming rates of growth in the economy that dramatically exceed

even what the CBO is assuming." For this and other reasons, you called the budget "not a credible document."

I asked you whether you would commit, as OMB Director, to producing Presidential Budgets that meet the "Mulvaney Credibility Test," namely by making economic growth assumptions that are close to the CBO's assumptions and are therefore "credible." You responded: "I am committed to producing Presidential Budgets that use realistic assumptions about economic growth and other factors."

Do you believe President Trump FY18 budget satisfies the "Mulvaney Credibility Test"?

Does the budget honor your commitment to "use realistic assumptions about economic growth" as OMB Director?

Please explain whether the Trump FYI 8 budget is subject to the same criticisms about economic growth assumptions that you levelled at President Obama's FY12 budget.

- Do you believe President Trump's FY18 budget satisfies the "Mulvaney Credibility Test"?
  - The Administration believes that its economic forecast that informs the 2018 Budget is credible.
  - Although CBO projects a much lower long-run rate of economic growth than the Administration does, it assumes no changes to current law, while the Administration's forecast incorporates the productivity-enhancing effects of tax reform, regulatory reform, an improved budget outlook, and infrastructure investments.
  - In addition, the Administration believes that its policies will induce prime-age workers who have fallen out of the labor force to reenter it, which will help to augment the gains associated with faster productivity growth.
- Does the budget honor your commitment to "use realistic assumptions about economic growth" as OMB Director?
  - The Administration believes that its assumptions about economic growth are realistic.
  - Between 1947 and 2007, annual GDP growth averaged approximately 3.5 percent, a much faster rate than the Administration is forecasting in the long run.
  - Labor force participation among prime-age adults (those aged between 25 and 54 years) fell from a peak of 84.4 percent in early 2000 to 81.5 percent at the end of 2016. This decline suggests that there are millions of prime age workers that could potentially rejoin the workforce and contribute to faster growth.
- Please explain whether the Trump FY18 budget is subject to the same criticisms about economic growth assumptions that you levelled at President Obama's FY12 budget.
  - One of the prominent criticisms made of the Obama Administration's 2012 Budget was that it was "internally inconsistent" in that it forecasted

a long-run growth rate higher than that expected by CBO alongside interest rates lower than those forecast by CBO.

- The Administration's forecast does not suffer from this criticism. Although it expects higher growth in the long run than does CBO, it also expects higher interest rates in the long run than does CBO.
- The Administration also strongly believes that its policies, as stated above, will induce the higher productivity growth and higher labor force participation necessary to achieve these higher rates of economic growth.

Sen. Wyden

Question #20

The Trump administration has proposed providing $200 billion to support infrastructure investments, while noting that "more Federal spending" is "not the solution," and while gutting more than $200 billion in existing federal grant programs.

What is the intended use of the newly supplied $200 billion?

As part of the FY2018 budget, this administration has proposed cutting spending out of the Highway Trust Fund by $96 billion over 10 years, as it "conforms" the spending levels to the revenue baseline.

Is it the intention of this administration to reduce federal support for infrastructure through the Highway Trust Fund?

Various members of the administration have alluded to using a 10 percent tax the currently deferred offshore profits to pay for infrastructure investment.

Does the administratiou intend to use these revenues to pay for infrastructure investment?

The Congressional Budget Office has noted that federal investments in education, research and development, and infrastructure create additional, positive economic returns.

Does this administration believe that federal investment in infrastructure increases long-term economic growth?

Q. 1 The President's Infrastructure Initiative takes a fundamentally different approach to how the government funds infrastructure. As stated in the President's Budget and accompanying Infrastructure Fact Sheet, the target of $1 trillion in infrastructure investment will be funded through a combination of new Federal funding, incentivized non-Federal funding, and newly prioritized and expedited projects. The $200 billion in Federal investment will be structured to incentivize additional non-Federal funding, and reduce the cost associated with accepting Federal dollars to leverage at least $1 trillion in total infrastructure spending.

Q 2. The 2018 Budget reflects the reality that absent a long-term fix to the existing (Highway Trust Fund) HTF structural insolvency, the HTF will go bankrupt in 2021 – something all transportation stakeholders are acutely aware of. The Administration does not believe it is sound budgetary practice to show HTF reimbursements (e.g., outlays) to States and localities DOT would not be legally able to make. Therefore, while baseline construction rules require the Budget to show obligations and outlays irrespective of trust fund solvency, for policy presentation purposes the Administration is reflecting the outlay activity actually supported by current law revenues, which is $95 billion below the baseline presentation.

This presentation is not intended to indicate that the Administration proposes to reduce Federal support for infrastructure through the HTF. Rather, it highlights that projected spending cannot be supported by projected revenues, something that policy-makers will again have to contend with as FAST Act expiration approaches. HTF solvency is now a chronic concern; we need to consider different solutions to address it.

Q 3. The Administration looks forward to working with Congress to identify offsets for the infrastructure legislative package. The 2018 Budget reflects $200 billion in outlays to support the initiative, and that is funded in the context of eliminating the deficit within the 10 year window.

Q 4. If the Federal government were to make consistently sound investment decisions, the country's long-term growth potential would increase. Unfortunately, Federal investments are often not well targeted. There are many examples of Federal investments becoming politicized and inefficient. As a result, the Administration's policy is to use limited Federal resources to develop opportunities to stimulate and maximize investments by those who will most directly benefit from the infrastructure enhancement. The Administration also seeks to reduce the costs imposed by the Federal government on infrastructure investment.

Sen. Wyden

Question #21

There's been a lot of discussion about "cost-shariug reduction subsidies," or "CSRs." These are payments made directly to insurers that help cover things like deductibles and co-pays for those between 100-250% of the poverty who bought their insurance on the Exchange. Roughly 7 million Americans have these private plans. The President has been making these payments since he took office, but recently it's been reported that he is threatening to stop. We have heard from insurers, insurance commissioners, Governors, and other experts, that dangerous rhetoric about CSRs is causing uncertainty in health insurance markets, raising premium rates for hardworking Americaus.

The administration's lack of clarity on this is causing turmoil. There is no way that the private sector can continue to operate with this level of uncertainty. Insurers are starting to submit their proposed rates for 2018, and they cite the fact that CSRs remain unresolved as a main reason for premium increases.

With all of the discussion on whether or not CSRs would continue to be paid, my staff discovered that the President's own budget assumes they will be in 2018. I asked Secretary Mnuchin about this issue when he was before the Senate Finance Committee, and he would not provide a straight answer.

Will the President follow his own budget proposal and continue funding CSR payments next year?

If the Administration will not commit to funding CSR payments next year, why was it included in the budget?

The Administration is committed to a responsible repeal and replacement of the ACA, which this Budget reflects. Consistent with the Administration's priority to repeal and replace the ACA, the Budget does not propose a specific annual appropriation for cost-sharing reduction payments. No final decisions have been made, and we are continuing to weigh our options and evaluate the issues. Congress could resolve any uncertainty about the payments by passing the American Health Care Act and reforming the ACA's failed funding structure. To the extent you are seeking additional information, please be advised that these payments are at issue in ongoing litigation, and I would refer you to the Department of Justice for any additional information.

Sen. Wyden

Question #22

The President's budget assumes savings of $35 billion from repeal of the Dodd-Frank Wall Street Reform Act. The budget claims some of these savings would result from "reforms that prevent bailouts."

In assuming "reforms that prevent bailouts," is the Administration assuming adoption of the provision from the Financial CHOICE Act (H.R. 4894) that would repeal of the Federal Deposit Insurance Corporation's Orderly Liquidation Authority, and the associated Treasury fund intended to be used to wind down failing firms?

If so, does this budget signal the Administration's support for repeal of the FDIC's Orderly Liquidation Authority? The Congressional Budget Office scored the repeal of FDIC's Orderly Liquidation Authority as decreasing the deficit by by $15.2 billion over the 2017-2026 period.

Is this $15.2 billion part of the $35 billion in savings assumed by the President's budget from Dodd-Frank repeal?

Dodd-Frank requires that use of Orderly Liquidation Authority be entirely funded by assessments on the financial industry, so that the winding down of financial firms does not cost the taxpayer. Thus according to the CBO score of H.R. 4894, "CBO estimates that any spending by the OLF will eventually be offset by fees imposed on a portion of the financial industry." CBO then explains that repeal of OLA is only scored as decreasing the deficit because of the ten-year budget window: "Under current law CBO estimates there is a small chance that the OLF will be used over the next 10 years to resolve very costly financial failures of large firms ...However, because of the anticipated lag between OLF expenditures and fee collections, CBO estimates that the fund will operate at a net cost over the 2017-2026 period."

In assuming savings from Dodd-Frank repeal, was the Administration aware that the so-called "deficit reduction" from repealing the FDIC's Orderly Liquidation Authority is merely a budgetary gimmick and does not represent real savings? Please explain how this squares with your answer above regarding whether repeal of FDIC's Orderly Liquidation Authority was used to claim $15 billion in deficit reduction in the budget.

Answer 1: The Department of the Treasury is undergoing an extensive review of the Nation's financial regulatory framework. It is premature to detail the extent of the changes to current law and regulations that may result from these reviews. The savings in the Budget provide Treasury with flexibility to complete its analyses and report back to the President on the appropriate reforms.

Answer 2: N/A

Answer 3: The Budget assumes unspecified savings of $35 billion. It is premature to detail the extent of the changes to current law and regulations that may result from Treasury's reviews.

Answer 4: The Budget does not assume savings from specific proposals as Treasury's review of the Nation's financial regulatory framework is ongoing.

Sen. Wyden

Question #23

The President's budget eliminates the Minority Business Development Agency, which provides technical assistance and access to capital, contract, and new markets opportunities to minority entrepreneurs. MBDA is the only federal agency created specifically to foster the establishment and growth of minority-owned businesses in America. The budget offers two justifications for eliminating MBDA: it claims the program duplicates federal efforts at the Small Business Administration and at Small Business Development Centers, and that it is difficult to quantify the economic impact of the MBDA program.

Which specific programs and initiatives at SBA does the Administration claim the MBDA duplicates, such that the MBDA is redundant and unnecessary?

Please explain the Administration's reasoning behind the justification regarding quantifiable economic impacts. Is it the Administration's view that any federal program without easily quantifiable economic impacts should be targeted for cuts or elimination?

If not, why is that criterion being selectively used to target the MBDA?

The elimination of the Minority Business Development Agency (MBDA) is part of a broader effort to eliminate duplicative and unauthorized economic development programs across the Federal Government. The business support services offered by the MBDA centers are duplicative of several Small Business Administration (SBA) programs, including the Small Business Development Centers, Women's Business Centers, and the SCORE program. The Government Accountability Office (GAO) reached the same conclusion in multiple reports outlining duplication in government programs. In addition, MBDA's failure to establish and follow industry specific standards for its clients, such as the small business size standards used by SBA, results in overlap in the business entities served. As it pertains to the performance of MBDA's centers, I believe that quantifiable economic impact should be a goal for all Federally funded business centers. The combination of uncertain results with the duplication in services warrants the proposed elimination.

Sen. Wyden

Question #24

The President's budget cuts $210 million from Community Development Financial Institutions (CDFIs), which promote economic development by providing financial products to communities underserved by traditional financial institutions. As of last year, there were 20 CDFIs in Oregon playing a vital role in providing access to capital for small businesses throughout my state, including small businesses owned by women and minority entrepreneurs. The budget justifies cutting CDFIs by the program's "goal has been achieved" because there are 1,100 certified CDFIs, and this is now a "now mature industry."

Please explain in greater detail why the Administration believes the existence of 1,100 certified CDFIs justifies cutting CDFI funding.

What economic evidence did the Administration use in reaching the conclusion that CDFIs are a "mature industry" without room to grow and help more small businesses?

The Administration recognizes and appreciates the role CDFIs play, as a vibrant part of the financial services industry, in providing capital and extending credit to underserved communities across the country. Keeping the Nation on a responsible fiscal path, however, required many difficult trade-offs, and the Budget prioritized funding for programs that serve the most critical functions and continue to provide the best return on investment. Since 1994, the Treasury Department's CDFI Fund has awarded or committed over $2 billion in technical and financial assistance grants to CDFIs that supported the capacity-building, growth, and expansion of these institutions. The Federal government should not continue to provide taxpayer-financed subsidies to an established industry that has access to a range of State and local government, philanthropic, and private sources of capital to enable further growth.

The Budget maintains sufficient funding to support ongoing CDFI Fund program activities, including administration of the New Markets Tax Credit program and certification of new CDFIs, and proposes to extend and reform the CDFI Bond Guarantee Program, which offers certified CDFIs low-cost, long-term financing at no cost to taxpayers.

Sen. Wyden

Question #25

The positions of Federal Chief Information Officer and Federal Chief Information Officer at OMB are currently occupied by individuals in an acting capacity.

When do you intend to fill on a permanent basis these important cybersecurity positions?

I agree cybersecurity and IT service delivery are important functions. I am actively working to identify the Deputy Director for Management along with the other key management positions like Federal CIO.

Sen. Wyden

Question 26

In years past, it was routine for visitors to the White House to be asked to submit their social security numbers and other personal information, via email, to White House staff, so that the Secret Service could run a background check. In 2015, an improved WAVES (Workers and Visitors Entry System) was created, through which White House visitors could submit their data via an encrypted website, rather than via insecure email.

Is the secure WAVES website still operated by OMB aud used by the White House?

Is this the sole permitted method for visitors to transmit their social security numbers, or may staff still request and receive social security numbers via email?

Since January 20, have any OMB or White House staff requested and received social security numbers via email?

What penalties, if any, exist for staff who solicit social security numbers via email?

The Worker and Visitor Entrance System (WAVES) is a process used to manage appointments for entry to the White House Complex and is administered by the U.S. Secret Service. As OMB's offices are in the White House Complex, it uses WAVES to grant its visitors access. OMB does not operate WAVES and is not responsible for managing that database.

Sen. Wyden

Question #27

The Department of Homeland Security's Science and Technology Directorate had a 94 million dollar budget for cybersecurity research and development in Financial Year 2017. They requested a budget increase to 104 million in 2018, but were instead allocated 72 million in the President's budget.

Given the importance of cybersecurity, and the significance of the cybersecurity threats that our nation faces, why have you cut this critical area of cybersecurity related funding?

The 2018 Budget request for the Science and Technology Directorate (S&T) prioritizes the research and development (R&D) needs of DHS components, specifically for border security, immigration, and aviation security. The $72 million cyber R&D funding proposed in the President's Budget focuses primarily on programs that produce tools or technologies to help protect the cyber infrastructure from threats. The strategic reductions to S&T's cyber R&D portfolio do not directly impact the development of near-term operational tools that the Department, and the major infrastructure sectors, rely upon to respond cybersecurity threats, but eliminates lower-priority projects with limited value to DHS or its customers.

In addition to the cybersecurity R&D funding provided in the S&T account, the Budget requests a substantial increase in funding for cybersecurity programs in the National Protection and Programs Directorate (NPPD), some of which can be allocated to R&D if that proves necessary to further these programs and the mission. Specifically, the Budget proposes $719 million for NPPD's cybersecurity activities in FY 2018, an increase of $124 million over the annualized FY 2017 Continuing Resolution level. These additional funds will be used to defend Federal civilian networks from cyber intrusions through programs like Continuous Diagnostics and Mitigation and to promote improved cybersecurity nationwide.

Sen. Wyden

Question #28

Oregon's children received $10,765,240 through the 21st Century Community Learning Centers program in 2016, which funds before school, afterschool, and summer learning programs that work to improve student academic outcomes across the country. President Trump's budget eliminates this program entirely, cutting $1.16 billion nationwide from school aid. Children who attend afterschool and summer learning programs do better in class and are more likely to graduate from high school.

Why is the Administration cutting funding to programs that improve high school graduation rates?

Does the Administration believe that afterschool and summer learning programs that provide at-risk youth a safe place to occupy their time deserve federal support in order to expand opportunities that keep young people out of trouble?

The 21st Century Community Learning Centers program funds programs that give low income families meals and free books.

By cutting this funding, does the Administration believe that fewer books and meals should be provided to low income families that need them?

Does the Administration believe that federal dollars should go to programs to provide these families with food to eat and books to read during the afterschool hours and summer months?

This Administration is committed to investing limited Federal education dollars in programs that have a strong record of improving student outcomes. While there is research indicating the effectiveness of afterschool programs in general, performance data demonstrates the specific afterschool programs funded by the 21st Century Community Learning Centers (21stCCLC) are, overall, not helping students meet challenging academic goals. For example, on average from 2013 to 2015, less than 20 percent of program participants improved from not proficient to proficient on State assessments in reading and mathematics. Additionally, student improvement in academic grades was limited, with States reporting higher math and English grades for less than half of regular program participants.

Additionally, while many students are eligible to participate in the program, 21stCCLC has experienced low student attendance rates. For example, States reported fewer than half of all students served (752,000 out of 1.8 million) attended 21stCCLC programs for 30 days or more during the 2014-2015 school year. These recent results are consistent with findings of the last rigorous national evaluation of the program, conducted in 2005, which also found the program had limited academic impact and low student attendance rates.

These data strongly suggest that the 21stCCLC is not generating the benefits commensurate with an annual investment of more than $1 billion in limited Federal education funds. Moreover, the provision of before- and after-school academic enrichment opportunities may be better supported with other Federal, State, local or private funds including the $15 billion Title I Grants to Local Educational Agencies program.

Sen. Wyden

Question #29

Secretary Mnuchin has been saying since the Trump tax proposal was rolled out last month that the costs of the Trump tax cuts would be paid for by increasing economic growth. But in response to a question by Senator Whitehouse, you testified to the Committee that the Trump tax plan would be revenue neutral on a static basis. Both of you can't be correct.

Who speaks for the Administration on tax reform? Is it you or Secretary Mnuchin? And if it's you, is Secretary Mnuchin wrong in saying tax reform will be paid for by increased economic growth? And if he's not wrong then isn't the Administration double counting the potential revenue from growth in both the Trump budget and as an offset for tax reform?

Secretary Mnuchin has the lead role within the Administration for tax reform. However, the details of tax reform, including provisions that will offset the revenue losses resulting from the rate reductions, are still under development. For purposes of developing the 2018 Budget, we assumed that tax reform will be deficit neutral; that is, that revenue lost from the rate reductions included in tax reform will be offset by eliminating or limiting deductions, exclusions, and tax expenditures. The Budget does not propose to use the effects of economic feedback or additional revenues generated due to economic growth to pay for deficit neutral tax reform. The additional revenues due to economic growth are counted once, for deficit reduction.

Sen. Stabenow

Question 1

Conservation: In the USDA Farm Bill proposal the President proposes eliminating the Conservation Stewardship Program (CSP) and the Regional Conservation Partnership Program (RCPP), citing the need to better target conservation funding. At the same time, the President proposes increasing funding for the Environmental Quality Incentives Program (EQIP) and the Agricultural Conservation Easement Program (ACEP), which I assume means you think these programs are more successful at targeting conservation funding. However, on May 15 GAO released a report on EQIP which stated that the program has not been operating cost-effectively to optimize environmental benefits. Can you provide the evidence you used in making the determination that EQIP was a better way to target funding for conservation compared to CSP and RCPP?

The Administration has carefully weighed the benefits and drawbacks of all NRCS programs. In a September 2016 audit, the USDA Office of Inspector General (OIG) found major issues with the Conservation Stewardship Program (CSP), which warranted 26 recommendations. The audit on CSP revealed that NRCS's actions on their prior audit recommendations did not prevent issues from persisting. USDA's OIG also released an audit of the Environmental Quality Incentive Program (EQIP) in July 2014, while the investigation conducted by GAO was ongoing (the GAO reported on FY 2009 through FY 2015). The audit contained the same concern as the GAO report: that EQIP was not targeting funds as well as possible. NRCS responded on how they planned to address this concern, and OIG found the response acceptable. Overall, 6 recommendations were made to EQIP in the audit, a minimal number compared to CSP's audit. Finally, there is no concrete evidence that the benefits of the Regional Conservation Partnership Program (RCPP) outweigh the costs. For these reasons, the President's Budget eliminates CSP and RCPP and increases the funding for EQIP.

Sen. Stabenow

Question 2

Food Aid: At a time when four countries are facing famine and 800 million people around the globe are hungry, I was disappointed to see that the President's budget for FY2018 proposed significant cuts to international food assistance programs, including eliminating funding for the Food for Peace Title II aud McGovern-Dole Food for Education programs. However, I am also deeply concerned by reports that food aid funding for FY2017 - which has already been appropriated by Congress - has not yet been released, despite the urgent need around the world. Why has this funding been delayed? Will you commit to releasing this appropriated funding in a timely manner, as intended by Congress?

The Budget proposes to eliminate P.L. 480 Title II food aid (Title II) in order to focus on the highest priority, most efficient and effective foreign assistance efforts, while eliminating inefficient, slow, and high-cost programs. The foreign assistance request retains sufficient funding for emergency food assistance in the International Disaster Assistance (IDA) account, which already provides food aid through the most effective means for each crisis and provides U.S. food commodities where they are the most appropriate emergency response. The Budget eliminates the McGovern-Dole Food for Education program because it is duplicative of U.S. Agency for International Development (USAID) programs, lacks evidence of effective implementation, and has unaddressed oversight and performance monitoring challenges.

With respect to 2017 funding, food aid funding is available. In the case of people from the four countries in or at risk of famine, as announced on May 24, 2017, in FY 2017, the United States has already committed nearly $1.2 billion in humanitarian assistance, including nearly $565 million in International Disaster Assistance (IDA) and nearly $461 million in P.L. 480 Title II (Title II). We appreciate that the fiscal year 2017 appropriations included $990 million for famine prevention, relief, and mitigation and that the Security Assistance Appropriations Act, 2017 (SAAA) included funding for International Disaster Assistance (IDA), part of which is being used for affected populations in several of the countries that face famine or threat of famine.

OMB approved the U.S. Agency for International Development's (USAID's) apportionment request for the SAAA funds on April 6, 2017. Pursuant to OMB Circular A-11, OMB automatically apportioned the amounts provided in the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017 (the Act), on May 5, 2017, for a renewable period of 30 days. Once OMB receives a request for an account-specific apportionment under the Act, we anticipate approving those funds in a timely manner.

Sen. Stabenow

Question 3

SNAP: Combined with other cuts and cost shifting to state in this budget, do you believe states will have adequate resources to meet the 25% SNAP matching requirement without having to reduce benefits for eligible participants?

The Budget proposes a series of reforms in the Supplemental Nutrition Assistance Program (SNAP) that will close eligibility loopholes, target benefits to the neediest households, and provide States incentives to do more to get able-bodied adults to work. In addition to the significant savings these reforms generate, the Budget proposes to re-balance the Federal/State partnership in providing SNAP benefits to low-income households by gradually establishing a State match for benefit costs. Right now, 100 percent of SNAP benefits are federally funded. States have little stake in making conservative decisions in how they operate the program, or in building paths to self-sufficiency for the able-bodied adults participating in the program. This proposal would create a more balanced incentive structure for States to consider both benefit and administrative costs when making decisions about how to use available flexibilities to manage the Program.

Under our match proposal, States would cover a portion of the cost of the benefits issued to participants. A State's share of the cost would be based on a formula that would consider the number of people in poverty in a State, which is a key driver of SNAP participation, and the total taxable resources a State can draw on to support the program. Therefore, I do believe it is possible for States to meet the matching requirement without having to reduce benefit levels for participants. Our plan would phase-in the match gradually, beginning with a national average of 10 percent in 2020 and increasing to an average rate of 25 percent by FY 2023, to give States time to plan for the additional needed resources. Additional flexibilities would be offered to help States further manage their costs, while ensuring the adequacy of the benefits is maintained. Finally, our proposal assumes disaster related SNAP benefits will remain 100 percent federally funded.

Of course, I'm sensitive to State budget constraints, and welcome the opportunity to work with Congress to consider potential refinements to this proposal.

Sen. Stabenow

Question 4

SNAP: Seniors frequently receive the minimum SNAP benefit. Please provide estimates on how many seniors will have their SNAP benefits reduced if the minimum benefit was eliminated.

Does your budget also assume some individuals and seniors will simply drop off of SNAP because their benefit allocation is no longer enough to warrant the paperwork to apply?

Under the Supplemental Nutrition Assistance Program (SNAP), eligible households are expected to spend a portion of their income, after deductions, on food. Therefore, SNAP benefit allotments are reduced by a household's countable net income, and some eligible households have enough income that their benefit allotment nets out to zero. The SNAP statute sets a floor, or minimum, on the calculated benefit allotment for eligible one or two person households – at $16.

Our proposal to eliminate the guaranteed minimum benefit in SNAP assumes that benefit calculations will not be artificially held at no less than $16 for one or two person households. This means a one or two person household could receive less than $16 per month, or in some cases zero benefits, in the same way benefits are calculated for households of three or more members, such as a working couple with a child.

By our estimate, if this proposal is enacted, approximately 100,000 senior SNAP participants would see their monthly benefit drop to less than $16, and an estimated 700,000 seniors would not receive SNAP in FY 2018 because their countable net income is high enough that the calculated benefit allotment is $0 (or less).

Sen. Whitehouse

1. In answering my questions at today's hearing, you denied reports that your budget double couuts saviugs from economic growth.

Will you confirm that the President's budget uses the $2.062 trillion in "economic feedback" you project over the next decade (Table S-2) for deficit reduction and does not propose using this money to pay for "deficit neutral tax reform"?

In describing the President's tax reform proposal at the Milken Institute Global Conference on May 1, Treasury Secretary Mnuchin said, "We expect to pay for this through economic growth and through eliminating a lot of deductions." He continued, "When you talk about economic growth the difference between roughly 2 and 3 percent GDP is close to $2 trillion of revenues over a 10-year period of time. It's a big number." Given that the President's budget dedicates the $2.062 trillion from "economic feedback" to deficit reduction, was Treasury Secretary Mnuchin mistaken when he suggested the President's "deficit neutral" tax reform plan would be paid for, in part, with $2 trillion of "economic growth"?

The Committee for a Responsible Federal Budget estimates that the cutting tax rates, repealing the estate tax, and making the other changes the President has proposed would cost between $3 trillion and $7 trillion. To pay for his tax reform plan, are there $3 trillion worth of deductions and credits the President would support ending?

The Budget assumes that tax reform will be deficit neutral; that is, that revenue lost from the rate reductions included in tax reform will be offset by eliminating or limiting deductions, exclusions, and tax expenditures. The Budget does not propose to use the effects of economic feedback or additional revenues generated due to economic growth to pay for deficit neutral tax reform. The additional revenues due to economic growth are counted once, for deficit reduction. A tax reform plan which is deficit-neutral only on a dynamic basis would not reflect the Budget's assumption that tax reform would be deficit-neutral on a static basis. The Budget details tax expenditures and restates that the President is committed to continue working with the Congress to create a tax system that is fair, simple, and efficient - including eliminating most special interest tax breaks to make the tax code more equitable.

Sen. Whitehouse

2. According to CRS, in 2016 alone, tax spending-in the form of credits, deductions, exclusions, and other loopholes-exceeded $1.3 trillion. That's more than the $1.1 trillion we spent on all of the federal health care programs combined. Wheu we had our courtesy meeting before your confirmation hearing, you said you planned to recommend closing the carried interest loophole and other wasteful tax spending in the President's first full budget request. You did not do so.

Would you acknowledge that spending through the tax code is real spending? If the government offers you a $1 bill or $1 of savings on your taxes, that's economically the same thing, correct?

Would you agree that as we look for ways to reduce the deficit, it makes sense to review all spending, whether it comes in the form of a benefit check or a tax rebate?

Does the President support ending wasteful tax spending as one way of reducing the deficit?

Does President Trump support closing the carried interest loophole?

A dollar of forgone revenue and a dollar of spending have the same effect on the deficit. However, a $1 bill is economically equivalent to $1 of savings on one's taxes only to the extent one has tax liability to offset. In looking for ways to reduce the deficit it makes sense to review all spending regardless of form. The Administration has articulated several core principles regarding tax reform including the elimination of most special interest tax breaks to make the tax code more equitable, but many of the specific provisions to be included in tax reform are still under development.

Sen. Whitehouse

3. The Treasury Department has estimated that every additional dollar spent on tax enforcement yields four dollars in additional revenue. Despite the fact that investing in tax enforcement can help to close the tax gap and reduce the deficit, Congress has substantially cut the budget of the IRS since 2010. Treasury Secretary Mnuchin previously stated, "staffing of the IRS is an important part of fixing the tax gap," yet the President's FY 2018 budget proposal requests further cuts in funding for the IRS.

Do you agree that increasing funding for tax enforcement can help to reduce the deficit?

I am familiar with the reports linking tax enforcement staffing with increased revenues. However, a simpler tax code would make it much easier to increase collections and reduce the deficit without needing to increase the number of IRS personnel.

Sen. Whitehouse

4. For all of the partisan attacks against the Affordable Care Act, we've seen a dramatic improvement since 2010 on the budgetary outlook for health care spending. If we extend the 2010 baseline for Medicare, Medicaid, and other federal health spending out to the current budget window, we see that today's projections are $3.3 trillion lower than they were just after the ACA passed. That's a staggering figure even in this town. While researchers continue to study what caused this lower health care cost growth, it is becoming increasingly clear that the ACA had a lot to do with it. For instance, last year, CBO Director Hall testified that CBO had found "no direct link between the recession and slower growth in spending for Medicare." Things are moving in the right direction, but with health spending amounting to 16.6 percent of GDP, we still spend a larger share of our economy on health care than any other OECD nation. The second-highest health spenders are Switzerland and Japan at 11.4 percent. And for all of the extra money we spend, we don't necessarily get better outcomes, at 78.8 years, U.S. life expectancy is well below nations that spend much less on health care. So I ask you:

Do you acknowledge that CBO projections for federal health spending have fallen dramatically since the enactment of the ACA?

Do you support preserving the pieces of the ACA that have driven cost-cutting and care-improving delivery system reforms?

It is my understanding that multiple factors, including the economic recession and the Supreme Court's decision to make the Medicaid expansion optional for states, contributed to the decline in CBO's projected health care spending. More importantly, health care spending has continued to increase year after year since the enactment of the ACA. As the President's Budget reflects, the Administration supports policies to control health care costs and put health care spending on a sustainable path.

The President's Budget demonstrates the Administration's commitment to policies that put the budget on the path to balance. I also look forward to working with the Department of Health and Human Services to promote efforts that increase efficiency and reduce waste.

Sen. Whitehouse

5. There is a significant amount of savings in waste and inefficiency to wring out of our health care system. Experts from the President's Council of Economic Advisors to former Bush Treasury Secretary Paul O'Neill have estimated the potential for savings in our health care system at $700 billion a year to $1 trillion a year respectively. Do you agree that we can achieve significant savings - in the range of $700 billion to $1 trillion annually-by wringing out wasteful or inefficient health care spending from our health care system?

Waste and inefficiency in the health care system can take many forms, including unnecessary or redundant services and tests, poor care coordination, medical errors, and fraud and abuse. The Administration is committed to ensuring Americans have access to high quality and efficient health care and addressing wasteful spending. The President's Budget includes investments in activities to strengthen the integrity and sustainability of the Medicare and Medicaid programs and a commitment to reducing improper payments government-wide. We look forward to working with the Congress on these priorities.

Sen. Whitehouse

6. On May 16, 2017, you wrote to the Director of the Office of Government Ethics, Walter Shaub, asking him to "stay" his April 28, 2017 data call for waivers to the Trump Ethics Pledge. You made this request because of "legal questions regarding the scope of OGE's authorities" which required you to consult with the Department of Justice's Office of Legal Counsel.

What are the legal questions OMB has with the scope of Director Schaub's authorities?

Has OMB requested a legal opinion from the Office of Legal Counsel? If so, when did it make that request?

What specific issue did OMB request OLC to review?

Will you provide to me any legal opinion you receive from the Office of Legal Counsel on this issue?

Will you commit to making it public?

Both questions 6 and 7 pertain to the Office of Government Ethics' (OGE) April 28, 2017 data call to Federal agencies regarding certain waivers and authorizations. Due to the unusual nature of this data call, and the lack of a standard process for such a request, including requiring agencies to provide the requested material on June 1, 2017, just a few weeks after the request was made, agencies sought guidance on this matter. Accordingly, in my May 17, 2017 letter to OGE (attached), I requested that they stay this data call, to allow OMB time to examine whether this unique request complied with all statutory and regulatory requirements.

By letter dated May 22, 2017, OGE responded to my request for a stay and in doing so mischaracterized OMB's letter and intentions in sending that letter. As further clarified in my May 26, 2017 letter to OGE (attached), OMB never sought to impede OGE or prevent others, including agencies, from acting as required by law. OMB merely requested that OGE temporarily delay the return date of the data. In an effort to further clarify that OMB's concern was with the process related to the data call, and that it did not object to the substance of the call, OMB voluntarily responded to the data call in its May 26 letter to OGE. As indicated above, OMB's correspondence with OGE on this matter is attached here.

Sen. Whitehouse

7. Marilyn Glynn was the General Connsel and Acting Director of OGE under the Bush Administration was reported as saying your May 16, 2017 letter to Walter Shaub was "unprecedented and extremely troubling."

Can you point to any precedent that supports your attempt to prevent Director Shaub from collecting information on ethics waivers?

Do you believe that Congress has the authority to obtain of waivers to the Trump Ethics Pledge? If not, please explain the legal basis for your conclusion.

If you believe Congress has the legal authority to obtain these waivers, will you commit to not interfere with the production of those documents by agencies if Congress requests them?

Have you or anyone at OMB instructed agency officials not to release waivers or authorizations issued under the President's executive order, ethics laws, or ethics regulations, in response to Freedom of Information Act requests? If so, what is the legal basis for your instruction?

Please identify all individuals at OMB who are designees of the President for the purpose of granting waivers to his Ethics Pledge pursuant to section 3(a) of Executive Order 13770. For each person identified, please list the names of the federal employees who were granted a waiver by that individual, the date on which the waiver was granted, and the basis on which the waiver was granted.

See answer above.

Sen. Warner

Question #1:

Your budget closes the deficit in 2027 and projects debt will fall from 77% of GDP to below 60% of GDP by 2027.

One of the main reasons this budget is able to balance in 10 years - in addition to the extremely optimistic economic growth assumptions - is that it simply passes the cost of programs on to the states. As a former governor, I find that incredible alarming.

As I look at this budget, I see billions of dollars in Medicaid spending passed on to states. I see billions of dollars in needed infrastructure repairs and improvements passed on to the states. I see billions of dollars in SNAP benefits passed on to states.

A. How do you categorize these measures as "savings" when, in effect, you're just making states foot the bill?

B. In formulating this budget proposal, did OMB consult with any governors to get their thoughts on how this would affect state budgets? Did OMB think about the cost burdens that were being shifted on to the states?

The 2018 Budget refocuses Federal grants on the highest priority areas for Federal support, and recognizes a greater role for State and local governments and the private sector as part of the Budget's proposals to restore Federal fiscal responsibility. The Budget takes the important step of eliminating some lower priority, duplicative, or ineffective programs and reforming others to meet the fiscal goal of achieving a balanced budget. OMB consulted with a wide array of stakeholders in the development of the Budget. State and local governments, which are much closer to the people they serve, are in a better position to effectively and efficiently implement programs to meet the specific needs of their residents. Federal grant programs can also play an important role, which is why, under the Budget, overall grant spending is estimated to increase in 2018. The Budget supports the SNAP program at a level of $7,405 billion while proposing important reforms, such as closing eligibility loopholes, targeting benefits to the neediest households, and providing States an incentive to do more to get able-bodied adults to work.

Sen. Warner

Question #2:

As a former Governor, I analyzed this budget not only from a federal lens but also from a state perspective.

A. For clarification, what is the total Medicaid reductions/savings, relative to current law, in the budget?

B. What are the components of these savings? Federal Medicaid funding ($4.1 billion in 2015) makes up nearly 43% of all federal funding in Virginia's budget.

C. How much federal support would Virginia lose according to you numbers? And in what ways, if any, do you envision states absorbing the reduction in federal support?

The Budget specifically includes $610 billion in Medicaid savings from reforming Medicaid financing and providing additional flexibility to States. In addition, the Budget includes a placeholder to repeal and replace Obamacare, though the specific impact to Medicaid will be determined by the final bill passed by Congress. Under the President's Budget, Medicaid would still see growth over FY 2017, but the Budget policies would slow growth in Medicaid spending. By giving States the choice of either a per capita cap or block grant and providing new flexibilities, States will be best positioned to design programs that work for the needs of those most truly vulnerable.

Specific State-by-State projections are not available, given it depends on the final specifics of the proposal and how States opt to implement. The Administration looks forward to working with Congress to repeal Obamacare and reform Medicaid's outdated and burdensome structure.

Sen. Warner

Question #3:

Director Mulvaney, in your hearing before the House Budget Committee on May 24, 2017, you seemed to suggest that we may be approaching the debt ceiling more quickly than originally expected. You said that "receipts are coming in a little bit slower than expected" and that we "may soon hear from Mr. Mnuchin regarding a change in the date."

A. How would you characterize revenues for March and April? Were they higher or lower than expected?

B. Do you have a new estimate of when we will be hitting the debt ceiling?

C. If you are unable to provide a new estimate, when can we expect a new estimate?

Revenues for March and April have been lower than previously expected.

Treasury has stated that it expects that its extraordinary measures for continuing Government operations while at the debt ceiling will be exhausted in the second half of 2017.

Any updates on the timing of projected exhaustion of extraordinary measures will be provided by Treasury.

Sen. Warner

Question #4:

I'm pleased to see that the President's Budget includes some targeted iucreases in cybersecurity - including an increase for the Department of Homeland Security's National Protection and Programs Directorate and, borrowing from legislation I've co-sponsored, the creation of a S238MM central fund for IT modernization. And it seems the Office of Management and Budget has taken pride in these aspects of the Budget, touting these aspects in various releases and press statements.

It's difficult for me to reconcile this Administration's professed interest in cybersecurity, however, with broader aspects of the proposed Budget that would significantly weaken our overall cybersecurity posture.

For instance, despite a global ransomware outbreak that impacted hospitals worldwide, the Budget proposes to cut the Office of the National Coordinator for Health Information Technology's budget by 37% - despite it being the *key* division within the Department of Health and Human Services developing resources and risk management tools for cybersecurity in the health care sector. The Budget also proposes cutting the Office of Civil Rights at HHS - the division responsible for overseeing HIPPA privacy and security compliance - by 15%.

More broadly, the Budget proposes cutting the key agency responsible for the security and integrity of our nation's communications networks - the Federal Communications Commission - by 13% and shrinking its workforce to the smallest it's been in 35 years. Finally, it proposes to dramatically reduce - by nearly a billion dollars - support for NSF, which is one of the key grant-making agencies for critical cybersecurity research.

A. How do you reconcile the proposed cuts in this Budget with the President's professed concern for our nation's cybersecurity?

B. Why are you proposing to cut the key Department of Energy office responsible for the cybersecurity of our energy delivery system and electrical grid by 42%?

C. Why are you proposing to cut the key Health and Human Services offices responsible for health care sector cybersecurity - the Office of National Coordinator for Health Information Technology and the Office of Civil Rights - by 37% and 15%, respectively?

D. Why are you proposing to cut the FCC, the agency responsible for the security of our nation's communications networks, by 13%?

E. Why do you believe that cuts to NSF, one of the largest grant-making agencies for cybersecurity research, will improve our nation's cybersecurity posture? To the extent that you believe that commensurate sources of capital are available in the private sector to fund basic research, please indicate the specific entities (and estimated levels of funding) you think can fill in for NSF.

A - The President's 2018 Budget provides critical funding, including significant investments in core areas, to improve cybersecurity for the Federal government and for the nation. Beyond specific increases for agencies such as DHS, other particular investments, such as in the establishment of the Technology Modernization Fund, further signal the President's commitment to helping the Federal government improve its IT mission delivery and information security.

However, the Budget is just one part in this Administration's vision to transform the way the Federal government protects Federal networks and data, while improving performance and accountability in all agencies. The recently signed Cybersecurity Executive Order encourages agencies to identify critical risks, in order to help OMB direct funds to the most important Federal cybersecurity needs. Additionally, the Executive Order will provide a baseline for moving the Federal government to a more modern network architecture and prioritization of shared services, which will reduce costs, improve performance, and increase cybersecurity throughout the government. Further, the Reorganization Plans that OMB will receive and adjudicate from agencies will help OMB provide needed flexibilities and prioritize resources to agencies that will help them modernize their workforce, better automate key security processes, and improve the cybersecurity of their agency enterprise.

OMB will continue to work closely with all agencies to define spending priorities and performance objectives, especially those that improve Federal cybersecurity, for inclusion into the President's 2019 Budget and OMB guidance.

B - Overall cybersecurity funding within DOE's Office of Electricity Delivery and Energy Reliability (OE) was held roughly flat with FY 2017 after removal of programs that have concluded and, therefore, are no longer proposed for funding. Cybersecurity was the highest priority line item within OE's FY 2018 request.

C - The principal HHS office responsible for HHS cybersecurity activities is the Office of the Chief Information Officer (OCIO). The 2018 Budget increases the OCIO Cybersecurity Program budget authority by $22 million, or an increase of 45 percent, above the FY 2017 Annualized CR level. The Cybersecurity Program is tasked with implementing cybersecurity capabilities, cultivating cybersecurity partnerships in the public and private sectors, engaging in HHS-wide security collaboration efforts to protect the critical information with which the Department is entrusted.

The Office of the National Coordinator for Health Information Technology (ONC) and the Office for Civil Rights (OCR) also play important roles in cybersecurity activities. The 2018 Budget will restructure ONC by focusing resources on the highest health information technology (IT) priorities in order to improve ONC's ability to be an effective coordinator of nationwide health IT activities and increase the agency's efficiencies. In FY 2018, ONC's Chief Privacy Officer will continue to ensure that health IT privacy and security standards are addressed in a consistent manner that reinforces the protection of private health information. In addition, ONC will develop reporting criteria that measure security and usability of electronic health records as part of a new program created by the 21st Century Cures Act.

The 2018 Budget will also continue to support OCR's essential programmatic functions, including the administration and enforcement of the Health Insurance Portability and

Accountability Act (HIPAA) Privacy and Security Rules, which protect the privacy and security of individually identifiable health information. In FY 2018, OCR will reduce attorney services and other overhead and non-personnel costs. To offset a portion of these reductions, OCR will begin utilizing its civil monetary settlement funds to support HIPAA enforcement activities.

D – The FCC is primarily responsible for ensuring the integrity of the spectrum and the rights of commercial licensees to operate on their assigned spectrum; they have a consultative and sometimes joint role statutorily with other agencies with regard to their role as the independent regulatory agency that licenses and regulates commercial telecommunications services. The nation's telecommunications networks are owned, operated, and maintained by private entities and the FCC is not directly involved in securing those networks. Expanding into such areas may be viewed as overstepping regulatory authority.

Consistent with the FCC's stated strategic goal of managing and modernizing their information technology, financial, record keeping, facilities, and human capital resources to best achieve the FCC's mission, the budget requests $322 million in budget authority from regulatory fee offsetting collections. This request represents a decrease of $18 million or 5.2 percent from the FY 2017 level of $340 million (excluding the one-time funding amount of $17 million for the relocation of FCC's headquarters.)

E -The 2018 Budget made tough decisions to reduce funding in support of stronger security. With an 11 percent reduction from FY 2016 levels, NSF spread that reduction across most of their programs, including cybersecurity. In recognition of the importance of NSF's role in basic research for cybersecurity, the reductions to cybersecurity research were notably less than the reductions to other NSF programs.

A significant fraction of cybersecurity spending takes place in the private sector, which could potentially increase its funding for more basic cybersecurity research. The reduction was not, however, based on the assumption that the private sector would fill in for NSF.

Sen. Warner

Question #5:

The Center for Budget and Policy Priorities states that the President's Budget would cut funding for job training programs by 40% from $2. 7 billion down to $1.6 billion. Apprenticeships, which the President has touted, have received no increase since FY16. In an era when Americans no longer stay at one job or within one industry for their entire careers, but instead change jobs on average every 3 to 5 years, businesses have lost some economic incentive to invest in their workers.

A. Do you agree that investing in our American workforce through effective skills training is as important now as it has been in the past?

B. Do you agree that employer-provided training for the purpose of upskilling workers from their first to their second, third, and fourth jobs is a worthwhile investment in our workforce?

The Administration agrees with the importance of ensuring that American workers have the right skills to fill good jobs in the 21st Century economy and move up the economic ladder. However, the Administration does not believe these goals are best met by continuing to invest in programs that cannot demonstrate effectiveness. The Budget reflects the Administration's efforts to streamline employment and training programs by prioritizing proven models, such as apprenticeship and Reemployment Services and Eligibility Assessments, while eliminating funding for duplicative, ineffective, and peripheral programs. The Budget also shifts some responsibility for funding training and employment services to States, localities, and employers, while giving them more flexibility to make decisions about how to structure their programs.

THE PRESIDENT'S FISCAL YEAR 2018 BUDGET AND REVENUE PROPOSALS

TUESDAY, JUNE 13, 2017

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, chairman of the committee, presiding.

Present: Senators Enzi, Grassley, Crapo, Toomey, Johnson, Perdue, Gardner, Kennedy, Sanders, Wyden, Whitehouse, Merkley, Kaine, Van Hollen, and Harris.

Staff present: Eric Ueland, Republican staff director, and Warren Gunnels, minority staff director.

OPENING STATEMENT OF CHAIRMAN MICHAEL B. ENZI

Chairman ENZI. I will call to order this hearing for budget and revenue proposals.

Good morning, and welcome to our hearing on the President's fiscal year 2018 budget and revenue proposals. I want to thank you, Mr. Secretary, for agreeing to testify today on the budget. Your agency, the Department of Treasury, has responsibility for fostering our Nation's economic growth and ensuring fiscal stability across our financial system.

Our country's growing debt and underperforming economy should be front and center in these conversations. America is faced with a mammoth national debt that totals almost $20 trillion and the sluggish economy that is holding back more robust growth. Economic forecasts for the future expand at a modest 2 percent rate. Over the next 30 years, the debt is projected to nearly double as a percentage of gross domestic product (GDP) from 77 percent in 2017 to 150 percent in 2047.

In order for Congress to tackle this enormous fiscal challenge, it must reduce spending and ensure outlay growth does not outpace our economy. But we also must focus on the other critical part of the equation: growing our gross domestic product. I have suggested including long-term debt-to-GDP targets in the Federal budget process, which would provide key goals and benchmarks for the budgets of both Congress and the President. If baseline projections do not comply with these targets, the administration would need to submit a plan to bring the current law projections back into compliance.

Congress will be asked to raise the debt ceiling again this year to cover spending that is already obligated or essentially already spent. We must also prioritize changing the trajectory of our overspending. The administration has proposed a budget that balances, and it has been years since the White House has even attempted to accomplish that goal. But Congress must implement these reductions and deficit spending and economic growth policies to put our Nation on a better fiscal path.

One way to promote economic growth is through tax reform that does not increase the debt. Both parties and many administrations have recognized the inefficiencies in our Tax Code and the negative impact it has on economic growth. If we can broaden the base while lowering tax rates and simplify our tax laws, it will help limit Government distortion of market-based decisions, increase investment and growth of businesses.

I appreciate that President Trump and the Treasury have identified guiding tax reform principles and want to engage Congress about navigating a path forward. We do need a simpler, fairer, and more transparent tax system. We all agree that tax reform is long overdue, and we need to take the steps to reform our tax system while promoting economic and job growth.

I am confident that having an administration that set tax reform and stronger economic growth as priorities and that has committed to working with Congress will allow us to get a bill across the finish line. How the Budget Committee scores a comprehensive overhaul of our tax code is one question we will continue to work on with the administration. Past scoring practices do not include the reaction of the general economy to major policy changes. That means lawmakers are only getting a partial picture of how an important policy might actually affect the economy. Dynamic scoring can add missing economic information that static scores do not provide, making the score more complete.

The Joint Committee on Taxation has multiple dynamic models which they combine with different assumptions about Federal Reserve policy and labor supply elasticity that produce a range of results. They have been running and refining these models for decades in order to provide legislators with critical information on major policies that can promote growth. And they have consistently recognized the link between taxes and output in the economy. Having the Joint Tax Committee select a single best point estimate for Congress to weigh against the current law baseline is how we enforce the budget. This committee continues to discuss how dynamic feedback can be used for enforcement, and we welcome input from the administration and the Treasury on this matter.

Treasury also plays a key role in many of the other growth policies proposed by President Trump: regulatory relief, international trade, incentivizing private investment in the infrastructure, to name a few. The administration has proposed a financial deregulation plan to rid the banking system of red tape caused by the Dodd-Frank Act and announced a withdrawal from the Paris climate agreement. Each step gets us closer to 3 percent economic growth, which returns our economy to its historic average rate. The Budget Committee sets Congress' preferred legislative path for growth. I look forward to considering a fiscal year 2018 budget that promotes the economy, creates jobs, and tackles our mammoth national debt.

Thank you for being willing to serve, and I thank you for the great people that you have gotten to help you out.

Senator Sanders.

OPENING STATEMENT OF SENATOR BERNARD SANDERS

Senator SANDERS. Thank you, Mr. Chairman, for holding this important hearing. Mr. Mnuchin, welcome.

Mr. Chairman, during his campaign for President, Donald Trump told us—at a time of massive income and wealth inequality, the very, very rich are getting richer, almost everybody else is getting poorer—that he, Donald Trump, was going to stand up for the working families of this country, he was going to take on the establishment, and he was especially harsh in his words about Wall Street greed. He said he was going to "drain the swamp." He said, and I quote, "We cannot fix a rigged system by relying on the people who rigged it in the first place."

He said, "I am not going to let Wall Street get away with murder. Wall Street has caused tremendous problems for us." That is an exact quote from Donald Trump.

He included language, pushed language into the Republican platform, which I happen to agree with, stating, "We support reinstating the Glass-Steagall Act of 1933 which prohibits commercial banks from engaging in high-risk investment."

He said that he was the only person in America, the only one, who could take on the corrupt political and economic establishment. He said, "We are going to send the special interests packing, and we are going to once again have a Government of the people, by the people, and for the people."

Wow, those are really dramatic statements. Here we have a President who ran, he was going to take on Wall Street. He was going to stand up for the working families of this country. And those words no doubt must have gotten the billionaire class really, really nervous because he was saying all these things during the campaign.

Unfortunately, as I think most Americans understand, all of those words of Donald Trump were never meant to be taken seriously. It was just campaign rhetoric—good rhetoric, I must say—to get votes but nothing that he ever had any intention of actually implementing.

Donald Trump talked about draining the swamp, talked about taking on Wall Street, but he now has more billionaires in his administration than any President in American history. Funny way to take on the establishment by having more billionaires in your administration than any President in American history.

His administration—this is the guy who was going to take on Wall Street—is filled with executive after executive from Goldman Sachs, one of the largest and most powerful financial institutions on Wall Street. His chief economic adviser is Gary Cohn—chief economic adviser, Gary Cohn—who was the president of Goldman Sachs and the man who received a $285 million severance package. His Treasury Secretary—and we are delighted that you are with us today, Secretary Mnuchin—worked at Goldman Sachs for 17 years.

Mr. Chairman, one of the great scandals of our time, which is still impacting millions of Americans today, is that virtually every major Wall Street institution was involved in reckless, irresponsible, and illegal behavior which led to the great crash of 2008, which caused massive unemployment in this country, people lost their homes, people lost their savings.

We had financial institutions who sold mortgage-backed securities that were worthless while they ripped off low-income and working families throughout the country. In fact, among virtually every other major financial institution, as a result of their illegal activities, Goldman Sachs alone paid a fine of more than $5 billion to the Federal Government.

But instead of reforming Wall Street, which is what the President said he would do, instead of reinstating Glass-Steagall, as he promised he would do during the campaign, President Trump endorsed a bill that passed the House last week that would deregulate Wall Street, increasing the odds of yet another taxpayer bailout even bigger than 2008. Campaigned for Glass-Steagall. Now he is deregulating Wall Street.

In my view, if financial institutions are too big to fail, they are too big to exist. It is time to break them up.

Now, Mr. Chairman, with a Cabinet of billionaires, it should come as no surprise that the budget that President Trump has proposed has been written by the billionaire class and for the billionaire class. Frankly, this budget that we have recently received is the most anti-working-class budget, the most destructive budget in the modern history of America. This budget follows in the footsteps of the Trump-Ryan health care bill, which gives massive tax breaks to the people on top and throws 23 million Americans off of health insurance, cuts Medicaid by over $800 billion, defunds Planned Parenthood.

The Trump budget—and I hope to be questioning Mr. Mnuchin about this—would cause devastating pain to tens of millions of families in our country by cutting nutrition programs, by slashing Head Start, by making massive cuts to affordable housing, by doing away with programs, life-and-death programs, for working families. But guess what? Guess what? As part of a budget, we are looking at $3 trillion in tax breaks over a 10-year period to the top 1 percent. So the very rich get richer; the working class in this country is shrinking. The Trump budget gives unbelievable tax breaks to the wealthiest family in this country.

It is an immoral budget. It is a budget that must be defeated by the U.S. Congress.

So, Mr. Chairman, thank you for holding this hearing. There is a lot to discuss, and I look forward to chatting with Mr. Mnuchin on some of these issues.

Chairman ENZI. Thank you, Senator Sanders.

I will now introduce our witness. Our witness today is the Honorable Steve Mnuchin, the Secretary of the United States Treasury. The Secretary has a remarkable career, including being a partner and chief information officer at the Goldman Sachs Group, founder and CEO of the OneWest Bank Group, and founder, chairman, and CEO of Dune Capital Management. Prior to being sworn in as Secretary of the Treasury, he was a senior economic adviser to then-President-elect Trump and finance chairman for his campaign.

Apart from his professional roles, Secretary Mnuchin has been committed to various philanthropic and charitable causes. Those causes include the UCLA Health System Board, the L.A. Police Foundation, and the Hirshhorn Museum and Sculpture Garden right here in DC, just to name a few.

Thank you for taking your time to be with us today and for being willing to serve. We look forward to receiving your testimony. Please begin.

STATEMENT OF THE HONORABLE STEVEN T. MNUCHIN, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Secretary MNUCHIN. Thank you very much. Chairman Enzi, Ranking Member Sanders, and members of the committee, it is an honor to be here with you today. I am looking forward to working with Members of Congress and this committee on passing important legislation for the American people.

My No. 1 priority as Treasury Secretary is creating sustainable economic growth for all Americans. The best way to achieve this is through a combination of tax reform, regulatory relief, and protecting taxpayers; this also includes making some difficult decisions with respect to our budget. We are currently bearing the costs of excessive Government commitments of previous years, and this has forced us into hard choices.

But the remarkable thing about economic growth is that it builds on itself. If we develop the right policies today, our children and grandchildren will reap the benefits of an ever-growing economy. Indeed, in the next 10 years, if we return to the modern historic average of above 3 percent annual GDP, our economy would grow by trillions of dollars. This will be meaningful to every man, woman, and child in this country and future generations.

Tax reform will play a major role in our campaign for growth. It has been more than 30 years since we have had comprehensive tax reform in this country. This administration is committed to changing that. We have over 100 people working at Treasury on this issue.

We are working diligently to bring tax relief to lower and middle-income Americans as well as make American businesses competitive again. All of this comes as we simplify the Tax Code and make it easier for hardworking Americans to file their returns.

Finally, I would like to speak about the importance of free and fair international trade. Few doubt that trade is a crucial component of economic growth. But trade deals that disadvantage American workers and business can hardly be considered either free or fair.

In meetings with my international counterparts, I have stressed this dual importance. Just 2 weeks ago, I had productive meetings with the finance ministers of the G–7, and earlier, I met with members of the International Monetary Fund (IMF) and World Bank. They understand our concerns, and we have approached our international dialog with a renewed spirit of mutual understanding.

In the President's Joint Session to Congress, he spoke about the marvels that this country is capable of when its citizens are set free to pursue their visions. Fundamental to that freedom is removing imprudent regulation and uncompetitive taxes from blocking their way.

This has been a significant few months at Treasury. We have been studying, developing, and implementing policies that will put this country on the path toward sustained economic growth.

In the current months, we will work with this committee and Congress in what we will look back on as an important time for this Nation's economy and our history.

Thank you and I look forward to answering your questions today.

[The prepared statement of Secretary Mnuchin follows:]

Statement of
Steven T. Mnuchin
Secretary
United States Department of the Treasury
before the
Committee on the Budget
United States Senate
June 13, 2017

Chairman Enzi, Ranking Member Sanders, and members of the Committee, it is an honor to be here today. I am looking forward to working with members of Congress and this committee on passing important legislation for the American people.

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Chairman ENZI. Thank you, Mr. Secretary.

As we turn to questions, let me take a minute to explain the process for the committee members. Each member will have 5 minutes for questions, beginning with myself and then Senator Sanders. Following the two of us, we will alternate questions between Republicans and the minority. All members who were in attendance when the hearing began will be recognized in order of seniority; those who arrived after it began, in order of arrival. I will begin with my questions.

Mr. Secretary, the original estimate for exhaustion of extraordinary measures was for the fall for the debt limit, but there has been an interest in raising or suspending the debt ceiling prior to the August recess. Can you give us an update on when the debt limit needs to be addressed?

Secretary MNUCHIN. Sure. Thank you very much, Mr. Chairman.

First, let me say, as I notified Congress earlier in March when we had an issue with the debt limit, my strong preference is for the House and the Senate to address this as soon as possible, and my preference is for you to do this before you leave for the August recess. I think that the U.S. dollar is the reserve currency in the world. We have the strongest credit, and we need to maintain that. So I would urge you and the House to do this.

In regards to the specific timing, we do have plans, if you do not do it beforehand, that we can fund the Government through September when you get back. But, again, I urge, given the importance of this, that we send a message to the rest of the world and to the markets that we take our credit very seriously.

Chairman ENZI. Thank you. The President's budget assumes deficit-neutral tax reform and provides core principles for discussions with Congress. It assumes a more efficient Tax Code can get our economy growing again. Can you expand on the administration's view on tax reform and economic growth?

Secretary MNUCHIN. Sure. Let me first say that fundamentally we believe that we can get back to 3 percent sustained economic growth. That is not this year and that is not next year, but we can get there. And that is going to be a combination through tax reform, regulatory relief, and trade.

On the tax side, our fundamental principles are we need to simplify personal taxes, cut down the number of brackets, cut down special interest deductions, and make it so that most Americans can fill out their tax returns on a large postcard.

On the business side, we have a very uncompetitive system. Our taxes are some of the highest in the world. We tax our companies on worldwide income. We have a system of deferral which leads our companies to leave trillions of dollars offshore.

We want to correct that. We want to make our companies competitive, and we want to bring back trillions of dollars so it can be invested here in America to create American jobs.

Chairman ENZI. Thank you, which is a good lead into my next question. In 2012, I introduced the United States Job Creation and International Tax Reform Act that would help fix our Tax Code and promote U.S. economic and job growth. The bill would modernize our international tax rules for 21st century commerce and make them more certain so that U.S. companies are not at a competitive disadvantage with foreign companies. It would give American companies incentives to create jobs in the United States and undertake activities here at home so they can win globally. It would encourage U.S. companies to develop and keep rights to their ideas and inventions in the United States rather than shift them offshore.

Do you agree that our current international tax system is outdated and places U.S. companies at a competitive disadvantage, that our system should move forward toward a territorial system?

Secretary MNUCHIN. Yes, Mr. Chairman. First of all, let me applaud you on the work that you have done, and we have studied this as we look forward to tax reform. I completely agree that the system is outdated. We have not had tax reform for 30 years. That is way too long. And, yes, I also agree that we should be moving to a territorial system. Our worldwide system encourages companies to leave their money abroad as opposed to bringing it home.

Chairman ENZI. Thank you. I also am hoping that as we do the corporate tax reform, we keep in mind those thousands and thousands of small businesses that are pass-through businesses so that we can keep it fair for both. But I know that you will have some questions about estate tax, and I have a lot of ranchers, farmers, small and medium-sized businesses in my home State of Wyoming. And I believe that family owned businesses should not face the threat of financial ruin caused by a tax on a tax. I mean, when they earned it, they paid for it. When they die, they have to pay again. We should free Americans from that burden of the death tax, allowing them to preserve the livelihoods for their families and future generations.

Does the administration share this concern? And if so, how does it plan to address that tax reform?

Secretary MNUCHIN. Yes, Mr. Chairman, we do share your concern. We think that Americans should be taxed once and not twice, that the death tax is unfair, and especially for those family businesses that want to continue on and have been a large engine of driving growth in this country.

Chairman ENZI. Thank you. I appreciate the brevity of your answers as well.

Senator Sanders.

Senator SANDERS. Chairman, thank you. Thank you for leading me right into the question that I wanted to begin with. We have a little bit different take on it.

Mr. Mnuchin, as you know, the estate tax applies only to the top two-tenths of 1 percent; 99.8 percent of Americans will not gain a nickel if the estate tax were repealed. So my first question is: Why do you think at a time when the middle class is shrinking and millions of our families are struggling to put bread on the table, they are working 50, 60, 70 hours a week—not uncommon in my State of Vermont that people would be working three jobs. Why do you think it is a good idea to throw 23 million people off of health insurance, to cut nutrition programs for low-income pregnant women and their babies, why do you think it is a good idea to make massive cuts in the Low Income Home Energy Assistance Program (LIHEAP) so that older people in Vermont can stay warm in the wintertime, why do you think it is a good idea when all over this country people are paying 50, 60 percent of their limited incomes for housing, why do you think it is a good idea to make massive cuts in those programs and yet, with regard to repealing the estate tax, give the wealthiest family in this country, the Walton family, up to a $52 billion tax break? Do you think most Americans who are struggling think it is a great idea to cut programs that impact working families and give unbelievable tax breaks to the wealthiest families in America?

Secretary MNUCHIN. Well, thank you for your question. Let me first assure you that as part of tax reform, the President very much wants us to have a middle-income tax cut that is focused on spurring the economy.

Now, as it relates to the estate tax, the super rich have plenty of gimmicks so that they do not need to pay the estate tax. This is about eliminating the estate tax so that Americans who have built businesses and created jobs and want to pass those companies on and continue their farms and continue their industry do not have to sell those businesses to pay the death tax.

Senator SANDERS. No, actually, that is not what it is about. In fact, my good friend Chairman Enzi mentioned ranchers and farmers, and we are all concerned about it. The last study I saw thought that maybe 50—5–0—ranchers and farmers may be impacted.

What this is really about—and we should be honest about it—is that people like the Koch brothers, second wealthiest family in America, have spent hundreds and hundreds of millions of dollars to get benefits like this. So do you really think, when you talk about families like the Koch brothers and the Walton family—and, by the way, the Trump family, who would get something like a $4 billion tax break. Do you really think that it makes sense, again, to cut programs that people desperately need, need to stay alive, and give massive tax breaks to the children of the wealthiest family in this country?

Secretary MNUCHIN. Well, I am not going to comment on the specifics of the Waltons or the Kochs. I am sure they have done plenty of estate planning, and they have both been very philanthropic in their charitable contributions.

What this budget is about—and our tax reform is about creating 3 percent growth, and what this budget is about is sending a message that, one, the Trump administration believes we should have a balanced budget; and, two, we have made very difficult decisions, and I understand some of those programs I agree with are quite worthy, but we have made very difficult decisions to fund the military, to protect Americans. We have——

Senator SANDERS. I apologize for interrupting. We just do not have a lot of time, so please accept my apology here. You made difficult decisions to give tax breaks to multibillionaires and to cut programs for working families. I do not think those are difficult decisions. I think those are immoral decisions.

Let me ask you another question. President Trump campaigned on the fact that he was going to take on Wall Street. He supported a 21st century Glass-Steagall Act. That is what he said during the campaign. You just recently introduced a report on Wall Street reform. Can you tell me where I could find the establishment of a 21st century Glass-Steagall Act, which would separate commercial banking from risky investment banking, something the President campaigned on? On what page might I find that?

Secretary MNUCHIN. OK. First of all, let me just comment that I think, as you know, I had the pleasure of traveling the country with the President during the campaign. I met with hundreds and hundreds of small and medium-sized businesses. During the campaign we specifically said that we believed in a 21st century Glass-Steagall. That was differentiated from what was the Republican Party view of Glass-Steagall, and——

Senator SANDERS. Whoa, whoa. Let me get this straight. I do not mean to interrupt you, Mr. Secretary, but you are telling me——

Secretary MNUCHIN. But you are interrupting me. You are not letting me finish my comment.

Senator SANDERS. But I have very limited time, and what you are saying is that the language that Trump put into the Republican platform is not really the language that he believed in.

Secretary MNUCHIN. Again, let me be clear: The President did not put everything into the Republican platform. There was the Republican platform, and there was the Trump position, which I was very involved in, and I had the pleasure of speaking to Senator Warren about this when I testified several weeks ago, and I followed up with her office and had a personal meeting with her, and I explained to her the difference between what we had thought of as a 21st century Glass-Steagall and Glass-Steagall, and made it very clear in my last testimony in front of the Senate that the President did not support breaking up big banks. We think that that would hurt the economy, that would ruin liquidity in the market.

What we are focused on is safe and prudent regulation for the large banks so we do not have taxpayer risk.

Senator SANDERS. In other words, the campaign, the Trump campaign, campaigned on reinstating Glass-Steagall——

Secretary MNUCHIN. No, it did not. It never campaigned on that, Senator, and with all due respect——

Senator SANDERS. But just put it into the Republican platform. I stand corrected.

Secretary MNUCHIN. Again, we differentiated, and we were very clear, and as I had said to Senator Warren, if we believed in it, we would have not labeled it a "21st century Glass-Steagall"——

Senator SANDERS. That is the name of legislation right now, as you know.

Secretary MNUCHIN. I understand that is hers, and that is an unfortunate coincidence.

Senator SANDERS. Right.

Chairman ENZI. Senator Crapo.

Senator CRAPO. Thank you, Mr. Chairman, and, Secretary Mnuchin, I appreciate you being here. I do not know that I have ever seen a Secretary of the Treasury who has been more willing to engage with Congress, whether it is in testimony at hearings or coming out, as you just indicated, and meeting individually with Senators or with committees and working with us to achieve the objectives that we agree need to be achieved. So thank you for that.

Secretary MNUCHIN. Thank you.

Senator CRAPO. With regard to your opening statement, it basically covered what I was going to go through in my questions. I appreciate the approach you have taken. I just want to quickly highlight something. You have indicated that the budget that you are working on assumes about 2.9 percent growth over 10 years. Is that correct?

Secretary MNUCHIN. That is correct, and that is significantly lower than what President Obama used in his original budget of above 4 percent growth, I might just point out.

Senator CRAPO. Well, you beat me to my question again. That was going to be my question. Just by way of comparison, President Obama had assumed almost a percent of growth higher for the first 4 years of his budget. And something you already said, but just for context, I would like to get this out as well. A 3 percent growth rate, to see a 3 percent growth rate for our country is not an unusual thing, is it? What is the historic average of growth in the United States economy?

Secretary MNUCHIN. It is higher than that.

Senator CRAPO. That is what I thought.

Let me move for the remaining time that I have to the Treasury report that was issued just last night, the one that was just referenced by Senator Sanders. I was very pleased to see this report come out. You have been tasked by the President and the Financial Stability Oversight Council (FSOC) and others have been working to analyze our regulatory system, which I believe is becoming one of the biggest drains on our ability to achieve economic growth. The regulatory burden in this country is estimated by some groups to be as much as $1.8 trillion of costs to our economy on a yearly basis. That is not a 10-year summary. That is a yearly estimate. And so I appreciate the report that you issued.

This report is an important step in the effort to evaluate the effectiveness of post-crisis regulatory regimes, and I commend the excellent work you have done. It includes a plethora of helpful recommendations on a wide range of topics, including regulatory structure, capital and liquidity rules, stress testing, living wills, mortgage rules, and the Volcker rule.

While I am still going through the report, I am encouraged by the report's recognition that rules need to be better tailored to reflect the size and complexity of the business models of the businesses that are regulated.

Can you talk a little bit about the need to tailor and to give examples maybe to us of rules that can be more effectively tailored to reduce the overwhelming compliance burdens that institutions in America are facing?

Secretary MNUCHIN. Sure. Thank you very much, Senator. So, first, let me comment. I think that it has been a significant amount of time since Dodd-Frank was passed, and there are lessons learned, and the good news is that our banking system is now sufficiently capitalized.

Our overarching theme is that we want to make sure that community banks, credit unions, and regional banks can grow properly. The top eight G–SIBs account for 50 percent of the assets in the U.S. banking system while over 12,000 regional banks and community banks and credit unions make up the rest. Those are not the banks that are putting our system at risk, so we want to make sure that the regulations are tailored, that small community banks do not have undue burdens of regulation, that they can afford to lend to small and medium-sized businesses. They understand how to make credit decisions. They understand community banking. And the primary focus of the report is around that sector of banking.

Senator CRAPO. Well, thank you very much for that.

Last Congress, there was some bipartisan support for changing the Systemically Important Financial Institution (SIFI) threshold and the application of the enhanced prudential standards and the Comprehensive Capital Analysis and Review (CCAR). If Congress exempted some non-complex regional banks and streamlined the requirements for other banks, how would that impact broader economic growth?

Secretary MNUCHIN. We think that is critical to economic growth, and we think that is also critical to not having the large banks entirely fund the U.S. economy and have a situation where we do not put taxpayers at risk.

So as I had said earlier, part of our mission in getting to 3 percent growth, tax reform, regulatory reform, and trade. And our part of the regulatory reform is around financial services, so thank you.

Senator CRAPO. Thank you. And one last question. The report makes a number of recommendations to simplify and clarify the requirements of the Volcker rule and ensure the rule is applied in a more targeted fashion. Can you discuss broadly the costs and difficulties institutions have had trying to comply with the rule in its current form and how simplifying it can help spur economic growth?

Secretary MNUCHIN. Yes, so let me just say, you know, I do not think the Volcker rule is what created the financial crisis, and I know that Chairman Hensarling and others in the CHOICE Act called for a repeal of it, which we look forward to you working with him on additional legislation.

Our main focus is what can we get done to fix it right now, and I have already been working with FSOC members, and our biggest concern is that we want to make sure that market makers can provide liquidity in market making, and we are going to work with the different regulators around the definition of the rule, not to allow proprietary trading within these banks but to make sure that proper market-making functions do occur.

I was really at the G–7, and one of the economists spoke on this, and they said that banks' trading desks needed a lawyer and a psychiatrist to sit there and interpret what a trader was doing to be in compliance.

Senator CRAPO. Thank you.

Chairman ENZI. Senator Wyden, you get to question the witness at the Finance Committee and here.

Senator WYDEN. Thank you. Yes, thank you, Mr. Chairman.

Mr. Secretary, I thought it was very unfortunate yesterday, and I listened to what amounts to a multi-Pinocchio performance with respect to the Mnuchin rule, and I want to walk this through carefully.

Ten days ago, you repeated in an interview the comment that you had made earlier on CNBC. That was your statement there would be no absolute tax cut for the wealthy. And as you know, in the Finance Committee, when I heard that, I said, "That sounds good. We are going to call it the 'Mnuchin rule.'" You picked up on that in that recent interview when you said, "I felt I was in great company with the Buffett rule and the Volcker rule. Now there is a Mnuchin rule." You had a real sense of pride that there was something called the "Mnuchin rule," which said there would be no absolute tax cut for the wealthy.

Yesterday you walked that back in the House Appropriations Committee. You said, and I quote, that now the Mnuchin rule is "an objective." Maybe it will happen, maybe it will not, but it was no longer a pledge, no longer a commitment. And then, regrettably, you went on to say that the President would not veto a massive tax break for the wealthy. So it seems to me there was a very substantial retreat yesterday from what, A, you said; B, in the Finance Committee you said you took pride in that there would be a Mnuchin rule with no absolute tax cut for the wealthy.

So my question to you is: Will you reverse course again and return to your original commitment that, as part of tax reform, there will be no absolute tax cut for the wealthy?

Secretary MNUCHIN. So, first, it is a pleasure to see you, and I look forward——

Senator WYDEN. As well.

Secretary MNUCHIN [continuing]. To working on tax reform with you. And I am honored that you named a rule for me. As I have said before in several of these testimonies, I did not make this as a rule. You made it as a rule. Yes, in my first CNBC interview—and I have been through this now several times—I did comment that that was what we were trying to do, and that was the objective of the President. We are working closely with the House and the Senate on trying to get tax reform done because it has been too long. And as I have said in the past, that our objective is to create a middle-income tax cut and——

Senator WYDEN. No. Mr. Secretary, you made a commitment that there would be no absolute tax cut for the wealthy. And yesterday you changed that. You said, "We have an objective to do that," so maybe it will happen, maybe it will not. Tell me why you changed from something, A, you said; and, B, you took great pride in when that is the way we developed it in the Finance Committee. It was based on your words. That is why I thought it was promising, and now it looks to me like it has basically been set aside.

Secretary MNUCHIN. First of all, we have had several conversations on this, so I have testified on this now at least three or four times, and I have clarified this three or four times. Yesterday was nothing new.

So let me first say, again, I am quite honored that I am in good company with other people who have rules.

So the second thing I would say is our focus is on getting tax reform done. To get tax reform done, it is my job to figure out what meets the President's objective, what meets the House and the Senate so that we can get something signed into law. And there will be compromises along the way on this.

So, yes, you made it a rule. I did not make it a rule. I was honored that you named it——

Senator WYDEN. No. No, Mr. Secretary. You took great——

Secretary MNUCHIN. I said——

Senator WYDEN. You took great pride as we repeated what you said, and you again 10 days ago referenced the original comment by saying it on CNBC. You are the one who has walked it back. Nobody else has walked it back. You are the one who walked it back.

Secretary MNUCHIN. Well, I have walked it back from my CNBC interview, which I think was in January. But we have had the opportunity to talk about this several times, and, again, I look forward to coming to your office and talking about tax reform. And, again, tax reform, at the end of the day the President will evaluate what is on his desk, and he will make a decision whether he wants to sign it or not. My objective is to deliver tax reforms that we can get the economy back going. And as I have said before, our focus is on reducing and creating taxes for the middle class.

Now, I just want to comment one thing——

Senator WYDEN. My time——

Secretary MNUCHIN. You may not think there is——

Senator WYDEN. My time is up, and I just want to close with one point. I think my colleagues especially on the Finance Committee know that I have a special commitment to bipartisan tax reform. I have written what are the only two complete bipartisan tax reforms since 1986. We will not get bipartisan tax reform when the Secretary of Treasury walks back a pledge to have no absolute tax cut for the wealthy. We need tax reform, which is what our colleagues, including Dan Coats most recently, now the Director of National Intelligence, agreed to, is we had tax reform that gave everybody in America the chance to get ahead. That is why got bipartisan proposals. We did not get them because the Secretary of Treasury walked back pledges.

Thank you, Mr. Chairman.

Secretary MNUCHIN. Well, when we have the final plan that is more than the one page, as you have outlined, which we are working on developing, we look forward to coming and talking to you about it, and we hope there is many aspects—and I will say I continue to get hammered by the New York and California contingency who assures me there will be tax increases under the proposed plan.

Chairman ENZI. I will look forward to going back through your two proposals again, too, to make sure there are not any breaks for the rich in those.

Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. And I would just like to echo Senator Crapo's opening comment about your accessibility and interaction with Members of the Senate in a variety of settings and ways. We appreciate that and recognize that, Secretary Mnuchin, so welcome back.

I would like to stress your emphasis on economic growth. I think that is exactly right and absolutely essential. Misguided policies of the last 8 years have given us the weakest recovery since the Great Depression, and the U.S. economy is capable of much, much more than this meager barely 2 percent growth, and it makes a huge difference. Every single problem in America is easier to solve if the economy is booming. Some problems cannot be solved unless the economy is booming, and when the economy is booming—and I think this is an important point, and it is unfortunate that our ranking member has left, because I think some of our friends on the other side of the aisle have a cause and effect exactly backward. They would like to suggest that your mission is to reduce spending on various welfare programs in order to give a tax cut to wealthy people—that is what they like to say—when, in fact, if we get tax reform right, we are going to have so much more growth that far fewer people will need these welfare programs because they will have jobs and they will have higher wages and they will not need these programs to the same degree. And I think that should be the goal.

And so if you would just take a moment, do you agree that the fundamental dynamic here is stronger economic growth diminishes the extent to which people have to depend on these programs?

Secretary MNUCHIN. I agree with you completely, Senator. Not only does it diminish their need, but it creates opportunities for people who have left the work force because they cannot find jobs. Although the unemployment rate is one of the lowest it has been in very long periods of time, there is a lot of people who have left the work force. And if you take into account other numbers, we are actually closer to an 8.5 or 9 percent unemployment rate.

So we are committed to creating good-paying jobs, and we are also to making sure that people who have jobs that have not had income, wage increases in the last 10 years can see that. And many, many economic studies show that more than 70 percent of the burden of corporate taxes are passed on to the workers.

Senator TOOMEY. Right.

Secretary MNUCHIN. So our objective to fix the corporate tax system is about helping American workers.

Senator TOOMEY. Absolutely. So let us talk a little bit about how we get there. Part of getting there is to have a really pro-growth Tax Code instead of this terrible Tax Code that we have now. I would also suggest that the $800 billion in tax increases that President Obama gave us that had nothing to do with Obamacare, they are still with us. That is still a drag on our economy. And as you know, Federal tax revenue as a percentage of our total economy is above its historical average. It is my view that we do not need to permanently lock in those tax increases and we should not do so.

It is also my view—and I know you share this view—that it would be just mathematically wrong not to take into account the tax revenue surge that comes from a bigger economy. That growth, that extra economic output, is all taxed. And so we need to dynamically score this.

One of my concerns is that our friends at the Congressional Budget Office (CBO) and Joint Tax, good people who do good work, may not take into account, as much as many of us do, this dynamic feedback. If they do not, then I hope we will acknowledge that the goal should be to maximize growth and get the right Tax Code, not to be held captive by this score that may not take into account that full growth.

So as you know, if our Democratic colleagues do not want to work with us on this, we need to use the reconciliation tool that a budget resolution gives us. As you know, any increase in the deficit, according to our scorekeepers, outside that budget window is not permitted. And so you are in this bind where you are stuck with a temporary Tax Code, one that has to expire at the end of the budget window.

So I would just like to suggest that you seriously consider a longer budget window than the traditional 10 years. As you know, the statute simply says the budget window must be at least 5 years. A permanent tax reform is the best, but it takes bipartisan support, and you just heard we are not going to get that.

So the next best thing is a temporary great Tax Code, but making it long enough that we can actually enjoy the benefit. So I would just ask you to comment on and think about a longer budget window so that we can have the real tremendous benefits from a pro-growth Tax Code.

Secretary MNUCHIN. Well, first, let me just say I am hopeful that we can still get some bipartisan support because the issues we are focused on are about creating opportunities for the middle class, about simplifying the Tax Code, about making business competitive so that more Americans can have good-paying jobs.

But as you said, if we cannot, reconciliation is an alternative, and I look forward to working with you and the Senate on ideas such as a 20-year window as opposed to a 10-year window to explore that. And, yes, we fundamentally agree with you on dynamic scoring.

Senator TOOMEY. Thank you very much, and thank you, Mr. Chairman.

Chairman ENZI. Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Chairman. Secretary Mnuchin, welcome.

We heard your testimony before the Finance Committee that the President's tax reform plan would be paid for, I quote you here, "with economic growth and base broadening." On the same day, Office of Management and Budget (OMB) Director Mulvaney said that the President's tax reform plan would be deficit neutral without regard to growth. Which one of you is accurate? Which will be the plan?

Secretary MNUCHIN. So, first, let me say that we are hard working on tax reform, although we did put out a very short overview. The devil is in the details, and we hope that that is something that we can release soon. When the budget——

Senator WHITEHOUSE. Yes, but that is not responsive to my question.

Secretary MNUCHIN. I understand that. When the budget was done, we did not have tax reform done, so Mulvaney did not have tax reform to put into the budget. OK? Now, there are lots of different issues——

Senator WHITEHOUSE. But you will agree with me that, whether dynamic scoring is a figment of the Republican imagination or whether it is real, you cannot count it twice.

Secretary MNUCHIN. We have no intention of counting it twice.

Senator WHITEHOUSE. OK, good.

Secretary MNUCHIN. So as I have said before, I can assure you that when we come out with tax reform——

Senator WHITEHOUSE. We agree on that. It cannot be counted twice——

Secretary MNUCHIN. Absolutely.

Senator WHITEHOUSE. Not once in tax reform and another time——

Secretary MNUCHIN. The budget will be updated with updated projections, and there is no intent—and, obviously, we understand math. There will be no double counting.

I did not think that dynamic scoring was something that was completely along a Republican and Democrat line. There is plenty of——

Senator WHITEHOUSE. Pretty close.

Secretary MNUCHIN. There is plenty of Democrat economists that support it.

Senator WHITEHOUSE. Pretty close, particularly in this unconstrained version.

With respect to concern about the deficit, most of the witnesses, if not all of the witnesses, that have come before this committee have recognized that spending through the Tax Code that reduces revenues and gives benefits to either individuals or corporations has just as direct an effect on the deficit as appropriated spending, and that tax spending and appropriated spending are from a deficit point of view the same thing. Do you agree with that?

Secretary MNUCHIN. Well, let me just first say we are very concerned about the deficit. We are concerned about the debt having gone from $10 trillion to $20 trillion. And, yes, we need to make sure that if we have tax reform, which is not just tax cuts but tax reform, that it is paid for and accounted for.

Senator WHITEHOUSE. And if we are looking at trying to bring the deficit down, it would be important to close—let us say it would be valuable with regard to deficit reduction to close loopholes and, indeed, it would be just as valuable on a dollar basis as the same dollar value of appropriated spending cuts.

Secretary MNUCHIN. Well, again, it depends on what the impact is. The Tax Code and the changes we are trying to make to the Tax Code are all about creating economic growth that will create more revenues and will cut Government spending on various entitlement programs.

Senator WHITEHOUSE. One of the issues that we are going to face, I hope sooner or later, in this committee is the issue of savings in the health care system. As you probably know, the American health care system is more expensive than virtually all of our Organisation for Economic Co-operation and Development (OECD) competitors by a lot, like twice what the average is. And we do not do particularly well on some of the basic measures of health that you would think that much spending would pay for. So I look forward to working with you on that.

One of the things we have seen is CBO reduced the out-year projections for Federal health care spending downwards by $3.3 trillion since the Affordable Care Act. So I would urge you to keep an eye on that and not let those savings go to waste in the pursuit of the Affordable Care Act.

And in the matter of that, it appears that the Affordable Care Act is being repealed through a secret process in which there will be no opportunity for Democratic amendments, Mr. Chairman. And there was so much criticism from the Republican side about the one moment when we used reconciliation for a last piece of the bill, but the bulk of the bill was done through our Health, Education, Labor and Pensions (HELP) Committee, as you will remember. And you yourself, Mr. Chairman, got more than 50—I think 50 amendments in that process, or at least had your name on 50 amendments. We put 160 through that—160 Republican amendments passed in the HELP Committee, as I recall. We had days of hearings. We had amendment after amendment after amendment after amendment. The one that created the imaginary death panel thing was actually an amendment by Johnny Isakson, which I think was number 157 of the amendments that we took up in that committee.

So I think we are turning the Senate into something very unfortunate if zero amendments are going to be allowed other than through the vote-a-rama process, and for those of you on the Republican side who actually had amendments during that process, I think it is really double dealing, and I hope we do not go that path.

Thank you, Mr. Chairman.

Chairman ENZI. Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman.

Mr. Secretary, I want to also confirm what Senator Crapo and Senator Toomey were saying in terms of your engagement and your willingness to work with us. I appreciate it. I think you are well—because of that engagement, I have got my own ideas on particularly corporate tax return that would treat C corporations like other pass-through entities and tax corporate income at the ownership level. There are many benefits to that, and I want to talk about one of them: the elimination of the harm caused by the double taxation of dividends. Senator Sanders was talking about, you know, the death tax only applies to the top. I come from what started out as a small manufacturing company that eventually became a medium-sized manufacturing company, the exact businesses I think you are talking to, that you engaged in the campaign, that are forced to sell to larger competitors. They pull them out of the free market competition of a free market economy, and that is exactly what the death tax does. It is also what double taxation of dividends does.

In my own business, we probably had maybe a few hundred potential customers over 30 years consolidated because of double taxation of dividends, the hoarding of cash by large corporations, consolidated down to a few dozen. I think that is bad for a free market economy.

I just kind of want you to speak to that aspect of tax reform because, from my standpoint, the more small and medium-sized manufacturing companies, the more innovation, the more competition, the more restraint in prices, the higher quality because of innovation. And that is pro-growth. It is depressing to hear our colleagues on the other side dismiss the benefits of dynamic scoring. What is the point in tax reform if it is not going to be pro-growth? That if on a static basis it maybe shows you lose revenue, but because of economic growth you gain it back on a dynamic basis?

So right now just talk about your own experience talking to small and medium-sized manufacturers about what they are complaining about, why they are not growing.

Secretary MNUCHIN. Well, first of all, let me say we look forward to continuing to work with you on tax reform, and we absolutely believe that small businesses that operate as pass-throughs, that they should have the benefit of the business tax, that it just should not be about lowering corporate taxes. And we want to make sure that we do that and also in a way that we protect wages are properly taxed as well.

So we look forward to working with you on that, and, again, as it relates to dynamic scoring, obviously the only reason we are trying to change the Tax Code is to create more growth, which the difference between 2 percent and 3 percent GDP is over $2 trillion of additional revenue to the Government. So we are all trying to do the same thing, which is more growth, more revenues, more good-paying jobs for American workers.

Senator JOHNSON. By the way, I am making some pretty good progress. I have been tenaciously talking to CEOs, CFOs; they are very intrigued by the idea—and I know you are, too. You think it might be a little bit, you know, too much we are biting off, but I am actually quietly gaining some pretty good support for this concept, so I definitely want to keep working with you.

Secretary MNUCHIN. Thank you.

Senator JOHNSON. The other point, I think the biggest impediment is—as uncompetitive as our tax system is, the biggest impediment to growth, particularly for small and medium-sized businesses, is overregulation. The big companies can deal with it. They can hire the compliance officers. Quite honestly, they can hire the lobbyists to come in here and make sure the rules, you know, work for them, do not work so good for their smaller competitors. The Competitive Enterprise Institute just updated their last study, $2 trillion, $15,000 per year per household, the cost of complying with regulations.

I applaud this administration for focusing on that. Speak a little bit about, you know, why that is so important.

Secretary MNUCHIN. We heard the same thing. The No. 1 thing we heard from business was regulation. The No. 2 thing we heard was tax. So we agree with you completely, and I would just also say that, as we develop this tax reform plan, we have literally met with hundreds and hundreds of businesspeople. We have had listening sessions both for business, for think tanks, a meeting with Members of the House and Senate. So we want to take a lot of input into this process.

Senator JOHNSON. I think the President—and we actually had a joint hearing on this, the one-in/two-out rule. That is a really good start. But everything in Washington is additive. Here is finally a process within the administration with something that is subtractive. We have got to do so much more.

So, again, you are certainly—with OMB and the Office of Information and Regulatory Affairs (OIRA), it is going to be incredibly important that we really focus on overriding regulation to eliminate old and outdated regulation that really is hampering our economy.

Secretary MNUCHIN. Thank you.

Senator JOHNSON. Thank you.

Thank you, Mr. Chairman.

Chairman ENZI. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Good morning, Mr. Secretary. How are you?

Secretary MNUCHIN. Good. Nice to see you.

Senator VAN HOLLEN. Good to see you. I have a question on infrastructure, and it is the Budget Committee. Normally, we would not be asking the Secretary of Treasury that many questions about infrastructure, but since at least what I understand the plan shaping up may look like, it would involve a lot of Tax Code provisions.

So a lot of us had hoped that we might get off to a start in this Congress on a bipartisan basis, focusing on modernizing our infrastructure. Senate Democrats put forward a $1 trillion plan. The President talked during the campaign about a $1 trillion plan. But here we are in the Budget Committee, and if you look at the President's budget, while it has some plus-ups in the area of infrastructure, it also has some cuts in the area of infrastructure. And the University of Pennsylvania Wharton School—of course, the President's alma mater—looked at it and concluded that, on net, this budget would cut our national investment in infrastructure by $55 billion.

Have you had a chance to look at that Wharton School study?

Secretary MNUCHIN. I have not, but I would look forward to. I will reach out to your staff, and we will get a copy of it, and I look forward to working with you. I can assure that the President is very focused on infrastructure. This is a big investment we need to make, and I hope this is an area where we can definitely have bipartisan support, because it is a huge issue in this country. We need to build out our infrastructure and rebuild our aged infrastructure.

Senator VAN HOLLEN. There is no doubt about that, and as I said, I had hoped that maybe we would begin with something like that. All the talk I hear out of the administration says maybe we will get to it in 2018. We have not seen any plan beyond the one-pager for infrastructure, just like we have a one-pager on the tax policy. And what we do have that is real, in some sense anyway, is the budget proposal, which, as I said, the Wharton School study cuts it by $55 billion, which was a surprise to many people.

Let me talk briefly about the tax issues. When you appeared before the Banking Committee, you and I had a little discussion about the tax provisions in what is called the "health care reform bill" here, which, as you know, has significant tax cuts, and those tax cuts do go disproportionately to wealthy people. But let us just set that aside for a moment. We are going to be debating that. At least I hope we have some amendment process. As Senator Whitehouse said, no amendment opportunities yet.

But let me ask you this about the proposals that you are thinking about, and I know there has been some conversation already this morning.

The first question is: Will it adhere to the statement that you made last November about no absolute net tax cuts for the "upper class"?

Secretary MNUCHIN. So I already had the pleasure of talking about this this morning, I think before you got here. And let me just say I have now testified on this at least five or six or seven times. Again, I think the best thing we should do is we hopefully will soon have a more detailed plan that we can release. And when we have the detailed plan, obviously it is going to be scored. We are going through distributions, and we are happy to go through it at the time.

So I have heard all different types of feedback. As I said, we have eliminated almost all deductions other than charitable and mortgage interest. I have heard from many States who do not like us getting rid of the tax break for high taxes in their States and worry about taxes going up. But when we have the tax plan come out, I am more than happy to get grilled on the details of it.

Senator VAN HOLLEN. OK. And just to followup on what Senator Johnson was asking you about in terms of dynamic scoring, we have had a long debate. Here the reality is the Joint Tax Committee will be doing dynamic scoring of whatever plan comes down, and my question to you is: Will you agree that it would be a bad idea to pass a tax plan that the Joint Tax Committee, using their dynamic scoring analysis, concludes will increase the deficit and the national debt?

Secretary MNUCHIN. Again, what I would say is our intent when we come out with the full tax plan is to have complete transparency——

Senator VAN HOLLEN. No, my question is not transparency. My question is on the deficit.

Secretary MNUCHIN. I am answering the question. So we believe in complete transparency, and I have been very clear in saying that there is a static score, which we do not agree with. There will be a Joint Tax, and when we see the Joint Tax scored, we have over 100 people that run models. If we agree with the Joint Tax score, I will tell you that. If we do not agree with it, I will explain why.

So, again, we have said this tax plan will be paid for, and we will go through the details when it comes out.

Senator VAN HOLLEN. All right, Mr. Secretary. I hope at that time you will also explain how your growth projections of over 3 percent, which we would all like to see, without having provided us a plan, why they are so out of whack with every other forecaster, which I assume you depended on during your time in the private sector. So I look forward to that answer as well.

Secretary MNUCHIN. Thank you.

Senator GRASSLEY [presiding]. Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman. Welcome, Mr. Secretary.

Secretary MNUCHIN. Thank you.

Senator KENNEDY. Like our chairman, I appreciate your brief answers.

The United States taxes our companies on income they earn in foreign countries, but only if they bring that money home. Is that correct?

Secretary MNUCHIN. That is correct.

Senator KENNEDY. We know that there are billions, perhaps trillions of dollars offshore, staying there because they do not want to pay those taxes. Is that correct?

Secretary MNUCHIN. That is correct. Why would they?

Senator KENNEDY. Why don't we make a deal with them, reach an agreement on how much taxes they would have to pay, get bipartisan support from both Democrats and Republicans in the U.S. Congress, bring that money home and use it for infrastructure?

Secretary MNUCHIN. Well, first, let me say my primary objective is to fix the Tax Code, and I think as you have outlined, a major fix has to be we need to move to a territorial system, because otherwise that money is not going to come back, even if we had a one-time issue. We have got to fix it permanently. Now——

Senator KENNEDY. I get that part. But why don't we fix it, work a deal? We can get bipartisan support and use it for infrastructure. You are matching non-recurring revenue with a non-recurring expense, so it is not going to add to the deficit in any way.

Secretary MNUCHIN. Again, I look forward to working with you and others on any idea that has bipartisan support. At the end of the day, the cash is fungible. We want to spend money on infrastructure. We want to bring that money back. Whether we link them or we do not link them, I look forward to working with you and the rest of the Senate on that.

Senator KENNEDY. What do you think about that idea?

Secretary MNUCHIN. I think it is an interesting idea, and we have talked about that. My job for the moment is to figure out what the right tax plan is for the American people and for the American public and something that can get passed. And as we look for ways to package that to get it through the House and the Senate, we look forward to working with you. So we appreciate your ideas.

Senator KENNEDY. That is not a yes, is it?

Secretary MNUCHIN. I think it is a yes, but what I am saying is, again, you know, there is the form and the substance. I am focusing on how we fix the Tax Code, and we will work with you and others on how we get it through the Senate.

Senator KENNEDY. I am just looking—look, we have infrastructure needs. We know our Tax Code generates money that is sitting offshore, so that is within your playing field. I think we could get bipartisan support on it. You would be matching non-recurring revenue with a non-recurring expense. It would not add to the deficit. We would not have to borrow money. Just think about it. OK? Just think about it. You talk to the President a lot. Talk to the President about it. I think we could get bipartisan support.

Let us talk about the Tax Code. If you add up all the exemptions, exclusions, deductions, and credits, refundable and otherwise, in the United States Tax Code, how much money are we talking about?

Secretary MNUCHIN. It is a staggering number. I do not have it off the top of my head, but it is a monstrously staggering number.

Senator KENNEDY. OK. The more you tax something, the less you get of it.

Secretary MNUCHIN. That is correct.

Senator KENNEDY. The less you tax something, the more you get of it. So, presumably, when we choose not to tax something, we are supposed to get it, get something in return—generally jobs. Do you have people going through all the exemptions, exclusions, deductions, and tax credits in the Tax Code and asking, OK, why did we create this? What was the cost and what is the benefit? Presumably, economic development, jobs. Is the benefit greater than the cost?

Secretary MNUCHIN. We have said everything is on the table, and we are looking at all of them, as you have suggested.

Senator KENNEDY. I think some people call those tax expenditures, right?

Secretary MNUCHIN. Yes.

Senator KENNEDY. OK. Tell me what your tax reform proposal will do for the middle class, the working class. I am not talking about the folks at the top. I am not talking about the folks at the bottom that we take care of through our social programs. I am talking about the men and women that get up every day and they go to work and they pay their taxes and they obey the law. I am talking about a mom and dad each making $45,000 a year, 90,000 bucks. They have got two kids. They are not getting any breaks, and they are getting further and further behind. What are we doing for them?

Secretary MNUCHIN. Our objective is: one, for them to have a tax cut; two, for them to have simpler taxes so that they can do it simply; and, three, by making the business Tax Code more competitive, as I have suggested, over 70 percent of corporate taxes are borne by the worker, that they will have better, higher-paying jobs by us fixing the business tax system.

Senator KENNEDY. Thank you, Mr. Secretary.

Secretary MNUCHIN. Thank you.

Senator KENNEDY. Roads, infrastructure. It is something we can get bipartisan agreement on.

Secretary MNUCHIN. We look forward to working with you. Thank you.

Senator GRASSLEY. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair. Thank you, Mr. Secretary. Nice to see you.

Secretary MNUCHIN. Thank you.

Senator KAINE. Mr. Secretary, after we, Congress, reached a budget deal at the beginning of May, working together, compromises made by both Houses, both parties, the President tweeted out a few days later that he thought it might be time for a "good shutdown" of the Government in September. That was the tweet, "a good shutdown in September." Do you think there is any such thing as a good shutdown of the United States Government?

Secretary MNUCHIN. It is an unfortunate outcome. At times there could be a good shutdown, and at times there may not be a good shutdown.

Senator KAINE. I represent a State that has got a lot of Federal employees. I have got a lot of people on Medicaid, Social Security disability, Medicare, and the thought of a shutdown just scares them to death. The 16-day shutdown in October 2013 was deeply unsettling to them. It was an injection of uncertainty into a State, a national economy that I think does better in terms of growth when there is certainty.

Tell me what a good shutdown would look like.

Secretary MNUCHIN. Well, first, let me say I was not here in 2013, so I cannot comment on it.

Second, it is not our primary objective to have a shutdown.

Senator KAINE. Good. So you do not want to hypothesize what a good shutdown would look like. I actually think that is pretty wise not to, but, I mean——

Secretary MNUCHIN. I am happy to talk about the budget or questions you have on the budget. I am not here to kind of define what good shutdowns are, or bad shutdowns.

Senator KAINE. But you are the Secretary of the Treasury, and so I think——

Secretary MNUCHIN. Yes, I am.

Senator KAINE [continuing]. You are somebody who should have an opinion about whether shutting the Government of the United States down is ever a good thing.

Secretary MNUCHIN. There could be times. I do not—you know, again, we could go through a lot of hypothetical things today. There could be reasons at various times why that is the right outcome. But, again——

Senator KAINE. But in your role as Secretary, can you see anything good about shutting the Government of the United States down?

Secretary MNUCHIN. I would never be in a position to want to shut down any of the critical infrastructure of the U.S. Government. If we were spending too much money on things and we could not come to agreements on things that were not critical, but I can assure you, just as I have said with the debt limit, our No. 1 objective is to raise the debt limit, and I can also assure you that we would never shut down critical functions of the Government.

Senator KAINE. Great. Would you agree with me—in your testimony, you talk about things that you think are important to sustainable economic growth. "The best way to achieve this is through a combination of tax reform, regulatory relief, protecting taxpayers." Would you also agree that providing some certainty is more helpful to growing the economy than continuing uncertainty about budgetary or other major policy matters?

Secretary MNUCHIN. Again, we are getting into hypothetical questions, which I cannot answer without knowing all the details. If the certainty is bad—I would rather have uncertainty that could lead to good outcomes than certain that assures bad outcomes. But these are very hypothetical situations. So if you want to describe a specific one.

Senator KAINE. Defaulting on the debt ceiling or defaulting on debt, is that—that would——

Secretary MNUCHIN. I could not be clearer in my comments that, as it relates to the debt ceiling, I would like to have certainty. I would like Congress to act before they leave.

Senator KAINE. How about having a budget versus not having a budget?

Secretary MNUCHIN. I would obviously prefer to have a budget than not have a budget.

Senator KAINE. Doing an appropriations bill rather than doing a continuing resolution (CR)?

Secretary MNUCHIN. Again, I leave that—these are issues for the Senate to figure out, but, obviously, dealing with appropriations, the sooner we can get through appropriations and spend money, that is better for the U.S. economy.

Senator KAINE. The way I described to my constituents the difference between an appropriations bill and a continuing resolution is I say one is like driving looking through the windshield looking forward, an appropriations bill, projecting forward; and a continuing resolution, where you are kind of, you know, doing what you did for the past—is like looking through the rearview mirror. As a general matter, it would be better to budget looking forward based on plans and priorities that you have committed going forward than just doing it based on looking at what you did in the last few months.

Secretary MNUCHIN. Well, I would say as a general matter, maybe at some point it makes sense to review the entire budgeting process and link the debt ceiling to budgets and look at capital budgeting and others. There is obviously a whole bunch of arcane parts of Government budgeting that I am learning.

Senator KAINE. And not so arcane. I mean, I actually think there are some really profitable areas of working together between Democrats and Republicans, between Congress and the White House on budget reform issues. And I know the chairman, Chairman Enzi, is a big fan of this, and I am, too.

Secretary MNUCHIN. We would look forward to working with you on that.

Senator KAINE. And just to use one example, back on the certainty thing—I am kind of a certainty freak because I was a mayor and Governor, and I always felt like if I could be certain everybody would at least know what to adjust to, it is hard to adjust to an asterisk or a question mark. One of the areas that we talk about a lot in this committee deals with debt, how much debt is too much. We have hearings on things like dangerous debt, but I can never get a witness to tell me what a debt policy should be. Do you have an opinion as Secretary of the Treasury about, for example, what our debt-to-GDP ratio should be or what percentage of our annual budgetary outlays should go into debt service versus current programming?

Secretary MNUCHIN. Well, I mean, first, I would say I have a general concern about the size of the national debt and how it has grown from $10 trillion to $20 trillion. And we want to make sure that it goes back in the other direction at some point. I think, as you know, that the last time we had a surplus, it was when we had economic growth. So the issue here is we need to create economic growth. That is the No. 1 way of dealing with the debt problem in my mind.

Senator GRASSLEY. Senator Gardner.

Senator KAINE. Thank you.

Senator GARDNER. Thank you, Mr. Chairman, and thank you, Secretary, for your service and your time today.

This question on debt, debt policy, and other issues, a $10 trillion debt to now a $20 trillion debt and growing, one of the things I am most concerned about is how we drive Federal spending. In my time at the State legislature, I watched as the State would look for ways to shift funding out of State spending and off of State revenues and onto Federal dollars. And I think most recent reports of various census data show that on average I think a third of States' general fund revenues come from the Federal Government today. Obviously, in education it can vary greatly. In welfare programs, it can vary greatly what the State is depending on the Federal Government for their share. Transportation, another one.

In your conversations across the country, do you speak with Governors about how States are driving Federal spending and what can be done as that becomes part of a focus of our debt policy?

Secretary MNUCHIN. I think it is a very important issue and something that I look forward to working with you on. It has not been my focus for the moment, but I think it is a very important point.

Senator GARDNER. Thank you. And, Mr. Secretary, I was at a hearing with Secretary Tillerson just before I came into this hearing, and it was brought up by Chairman Cardin that rarely are committees on budget about the budget, and they are about other things. And so I am going to vary from the script of the Budget Committee hearing, if you do not mind.

I want to draw your attention and colleagues on the committee attention to two reports that came out this past week regarding North Korea, and the first report released yesterday by an independent organization known as C4ADS. They identified over 5,000 Chinese companies that are doing business with North Korea. These Chinese businesses are responsible for about $7 billion worth of trade with North Korea. That is about 90 percent of North Korea's total global trade.

Moreover, the report from C4ADS said that only 10 of these companies, only 10 of those 5,000 companies, control 30 percent of Chinese exports to North Korea. That was just in 2016. And one company alone out of those 10 out of the 5,000 controlled nearly 10 percent of total imports from North Korea. Some of these companies even had satellite offices and businesses in the United States.

The second report that I would highlight released by the Royal United Services Institute in the United Kingdom last week concluded, "The report finds that not a single component of the United Nations sanctions regime against North Korea currently enjoys robust international implementation."

In February of this year, the United Nations (U.N.) Panel of Experts on North Korea similarly addressed that Pyongyang's illicit networks overseas were "increasing in scale, scope, and sophistication."

So with these reports in mind, and what we are seeing from reports of the U.N., what efforts can we undertake to strengthen global enforcement of North Korean sanctions, what efforts are you taking, and what efforts has the administration taken to date as it relates to these sanctions and our efforts to peacefully denuclearize the North Korean regime?

Secretary MNUCHIN. Well, first, let me just comment, I do take my responsibility overseeing our terrorist financing and intelligence function of the Treasury very seriously. I am probably spending 50 percent of my time on these issues right now. And let me first say that the President and we believe in sanctions. We think they work. We think in the case of Iran it is the only reason why they came to the table. And we think we could have had a better deal. So they work best when there is international cooperation. I think as you know, the President is concerned about the recent activity in North Korea and the missile tests.

During our meeting with the Chinese, President Trump and President Xi specifically discussed North Korea. I am having discussions with my counterparts there. Also, every single meeting I have with my foreign counterparts of the G–7 or the G–20, I talk about sanctions, whether it is North Korea, Iran on their ballistic missile program, their terrorist financing, Syria. So I assure you we are doing everything we can.

As it relates to the report you just referenced that came out yesterday, I did just get briefed on it this morning. I have not had a chance to go through the entire findings, but I can assure you I am focused on that with my staff.

Senator GARDNER. Well, yesterday, I think you are aware, Secretary Mattis declared that North Korea is the most urgent national security threat facing the United States. I know President Trump and President Xi have had conversations about North Korea. There have been some reports that China is doing more today than they had in the past when it comes to North Korea.

However, if you look at the first quarter trade between China and North Korea, that trade activity increased by roughly 40 percent between China and North Korea just in the first part of this year alone.

So do you believe that China is meeting its agreements that it has said it would carry out with the Trump administration?

Secretary MNUCHIN. Again, I want to be careful about talking about confidential or classified issues in this setting. I would be more than happy to followup with you in a different setting. But I can assure you we take these issues very seriously. I agree with General Mattis in his comments, and we are going to do everything we can with sanctions and other ways of dealing with this.

Senator GARDNER. Thank you. We will followup on some timeline matters on sanction disagreements.

Thank you, Mr. Chairman.

Senator GRASSLEY. Senator Merkley.

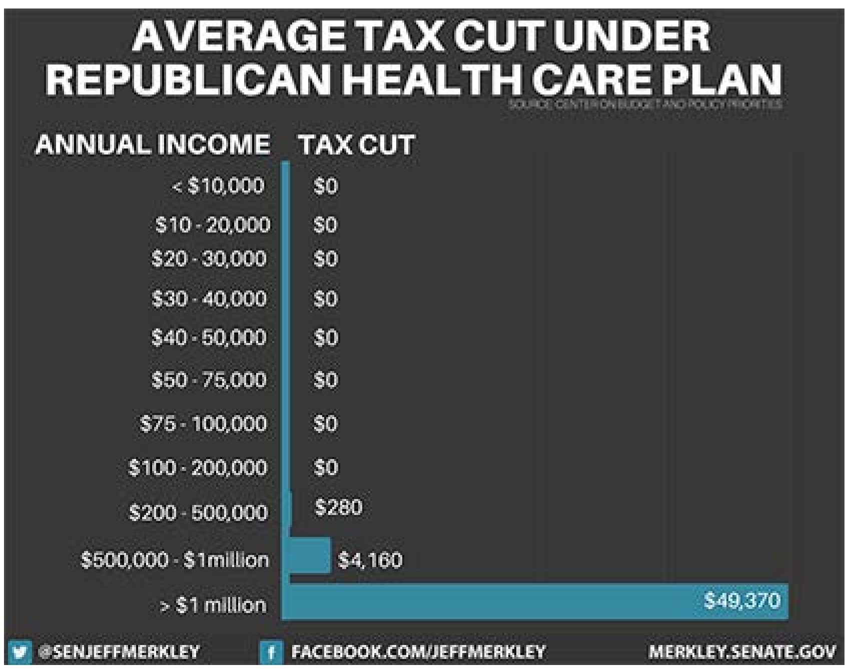
Senator MERKLEY. Thank you, Mr. Chairman. And good to have you with us, Mr. Secretary.

Secretary MNUCHIN. Thank you.

Senator MERKLEY. I wanted to share with you part of a letter I received from John Rose, of Ashland, Oregonian. He said, "The President's tax plan contains less detail than some supermarket receipts. Moreover, it would explode the deficit while stealing from everyday Americans to give even more to the rich, including the President and his family."

Now, his commentary could not be truer when it comes to the tax cuts included in the GOP health care proposal, the American Health Care Act (AHCA) plan. I have a chart which demonstrates the winners and losers of the tax cuts included in the Republican health care plan. The winners are clear. That health care plan, which is estimated to strip health care from 23 million Americans, delivers to Americans making more than $1 million an average $50,000 tax cut. Hardworking Americans making less than $200,000 are the losers, and this seems like just bizarre that slashing health care, the peace of mind that goes with knowing that your loved one will get the care they need and that you will not go bankrupt in the process, but using that bill to actually do a giveaway of the Treasury to the richest Americans.

[The referenced chart follows:]



Senator MERKLEY. And then there is the so-called Mnuchin rule, an assurance that you made that the President's tax plan would benefit middle-class taxpayers, not the highest earners.

Doesn't the health care bill itself violate this Mnuchin rule?

Secretary MNUCHIN. Well, again, I have commented a few times earlier today on what was not my naming of the rule, but Senator Wyden's naming of the rule. But let me just comment on the health care and the chart that you just put up. The health care is just reversing $1 trillion of taxes that were put on this economy, and most of those taxes are on capital. And the problem with taxing capital is that capital can move freely, can move freely between countries, it can move freely between opportunities. And capital is what creates investment, it creates productivity, and creates jobs.

Senator MERKLEY. So just to be very clear, you are very comfortable with the notion of giving $50,000 on average to the richest Americans while slashing health care from 23 million Americans.

Secretary MNUCHIN. Again, I am not going to comment on the specifics of the health care bill, which I am less involved in. What I will comment on is that it is reversing $1 trillion of taxes, which is a drag on the economy. So, yes, that part is just a pure drag on the economy.

Senator MERKLEY. Well, if we turn to the fiscal year 2018 budget proposal, it also lays out a strategy of including $3.6 trillion in tax cuts with three-quarters of that going to the top 1 percent of Americans, and wow. So here we are, already in America the top 1 percent control 40 percent of the wealth and the top 10 percent control three-quarters of the wealth. The top 10 percent receive 50 percent of the income. So we have the very few at the top doing very well indeed.

So why would there be a tax proposal completely contrary to the principle you asserted that this administration was not going to be about enriching the rich but helping the middle class? Why would there be a proposal completely dedicating even more to the richest Americans while taking away basic programs that support struggling and working families?

Secretary MNUCHIN. Well, again—and I would like to separate the discussion on what is health care and what is tax reform. When we come out with the full tax reform, we will go through an outline of what the distribution effects are and how we think it impacts the middle class and the economy.

Senator MERKLEY. Well, can you pledge today that you will make sure that that tax reform proposal, in fact, does not give away the Treasury to the richest but strengthens the foundation for struggling and working families?

Secretary MNUCHIN. What I can say is that the President's objective is to create economic growth, simplify taxes, and create a middle-income tax cut. And we are working closely with the House and Senate on this.

Senator MERKLEY. So you are completely abandoning the principle that you asserted before?

Secretary MNUCHIN. Again, I am not abandoning anything. We have said all along our objective is not about creating tax cuts for the rich. Our objective, OK, is to simplify the Tax Code. And in the case of the wealthy, we have taken away every single deduction other than charitable contributions and mortgage interest. And when we come out with the full tax plan, I am more than happy to talk about it. And, again, I would be happy to focus on budget things today.

Senator MERKLEY. Mr. Chairman, my allocated time is done, but I see I am the last person here. Do you want to continue this committee a bit longer, or are you anxious to wrap it up?

Senator PERDUE [presiding]. Well, I am anxious to wrap it up, but I have not gone yet myself.

Senator MERKLEY. OK.

Senator PERDUE. But if you have another question, I will allow that. Thank you.

Senator MERKLEY. Yes, I want to—OK. Thank you. I will just ask one of the many I have here. But we had a real crisis that was driven by predatory mortgages, both mortgages that were undocumented and mortgages that had exploding interest rates, that included kickbacks to the mortgage originators to move people into subprime mortgages who qualified for prime mortgages. We also had big bets being made by Wall Street in situations where they were banks that are insured by the Federal Government. And so those two things, the Volcker rule and the controls to make sure a mortgage is a fair, square, wealth-building American dream rather than an American nightmare, those two things we have improved on greatly. Do you support dismantling either or both of those foundations for success?

Secretary MNUCHIN. Well, again, I think—let me first comment on the mortgages, which I have firsthand experience, and let me clarify. I have not been in investment banking for over 15 years. I have been focused on regional banking. I know the mortgage business very well. I took over some of the worst mortgages that were ever made when we bought IndyMac. So we are 100 percent committed—and I can assure you in my job, having the Office of the Comptroller of the Currency (OCC) as part of Treasury, we are 100 percent committed to make sure that Americans have access to mortgage capital, but that they can afford those mortgages.

And as it relates to the Volcker rule, people do not do proprietary trading within the bank. They do it outside the bank, but within holding companies. Our objective is to fix the Volcker rule, and that is what we are working on.

Senator MERKLEY. Well, I hope you will also be 100 percent committed to the principle of not allowing predatory mortgages back into the marketplace.

Secretary MNUCHIN. Thank you.

Senator MERKLEY. Thank you.

Senator PERDUE. Mr. Chairman, thank you for being here.

Secretary MNUCHIN. Thank you.

Senator PERDUE. I think I may be the only thing between you and lunch, so I will be direct.

I want to go back to your earlier comments today talking about growth, because I know the administration has talked about that. And the purpose of the growth—and let us just put this in supervision—in my mind is we have a $20 trillion debt. You referred to that earlier.

Secretary MNUCHIN. Yes.

Senator PERDUE. What we are not talking about is that unless we do something now to this baseline budget that we have today, that exists today, we will add another $10 trillion to that debt over the next 10 years. I have got several questions.

To get the growth to deal with this insurmountable debt, in my mind, there are some $200 trillion of debt in the world totally; 60 of that is basically sovereign debt. We have a third of that sovereign debt today. I just do not know how much longer the bond markets are going to allow us to continue to eat up more and more debt capital that way, and my question to you today specifically on the debt—you mentioned that the size of the debt bothers you, but I think you might have said peripherally. So the question then is: If interest rates were to move to their more historic norm of somewhere around 5 percent, we would be paying about $1 trillion of interest on this debt as it exists today. And, also, the duration of our debt is very, very short. Some 60 percent or over half of our debt is 3 years or less; whereas, Britain has moved their position to about 48 percent of theirs is 20 years or longer.

So the question I have, first of all, is: On the position of the debt, what is the Treasury's position relative to the budget, how it is dysfunctional, how it impacts the debt, and then how it is draining the ability to grow because of sucking more capital, more debt capital to the needs of the Federal Government?

Secretary MNUCHIN. Well, let me first comment on the duration, which you commented on, and I have talked about this publicly, that we are exploring what we call "ultra-long bonds," 50-year bonds or 100-year bonds, to explore lengthening the duration. And we have reached out to the Treasury Borrowing Committee as well as institutional investors to explore whether it makes sense to do that.

Senator PERDUE. But even the—I am sorry to interrupt, but even moving more to 30-year Treasurys would help.

Secretary MNUCHIN. It would.

Senator PERDUE. It would just take longer to get——

Secretary MNUCHIN. It would, and we explore what the capacity is at different parts of the market and what the most efficient way is to extend the maturity. So that is something we are looking at.

Senator PERDUE. So let us continue on with this debt. There is about $6 trillion—some estimates are greater than that—that are not at work in the economy today—roughly about $2 trillion on the Russell 1000 balance sheets, about $2 trillion on small community banks and regional banks, and then somewhere around $2 to $3 trillion overseas in unrepatriated profits. I know in your one-page tax proposal you eliminate the repatriation tax. What else can you summarize for the committee that this tax bill will do relative to growth and dealing with unleashing that capital? Because it seems to me that the economic miracle over the last 70 years, Secretary, happened because of innovation, capital formation, and the rule of law. And we have messed around with capital formation here in the last 8 years, and I would like to know what the administration's position is relative to growth, what we are doing regarding capital formation.

Secretary MNUCHIN. Well, I agree with you completely, and on the business side, we need to simplify and make the business tax system more competitive, and that starts with we have a business rate that is way too high. It is one of the highest rates in the world. As you have suggested, we tax on worldwide income. That encourages with deferral. That encourages our companies to leave trillions of dollars offshore. We want to bring that money back to put it to work for the American workers. And we want to make the system work so that, going forward, companies bring back their foreign earnings and reinvest it here.

And we are also committed, not just on multinationals, but we are also committed that small and medium-sized businesses should have tax relief as well. That is the engine of growth in our economy.

Senator PERDUE. Would you repeal Dodd-Frank if you were king for a day?

Secretary MNUCHIN. If I were king for the day, I would. I would start all over, and I think most of it is unnecessary. But since I am not king for the day, we went through what we thought the critical portions were, and we delivered to the President yesterday on our Executive order, and we think about 70 or 80 percent of what is critical to get done we can get done through Executive orders and working with the regulators, and we look forward to working with the House and the Senate on other things.

Senator PERDUE. When will we see that?

Secretary MNUCHIN. It came out last night.

Senator PERDUE. OK.

Secretary MNUCHIN. So we will make sure it is delivered to your office.

Senator PERDUE. All right. Thank you.

One last question. The budget process is broken. It has only worked four times in the last 43 years. This year—well, like over the last 43 years, we have used 178 continuing resolutions. I just walked out of an Armed Services Committee hearing where we heard the dire straits of if we have another CR this year. It is almost guaranteed that we will not have a budget process that will be effected normally this year, and that we are headed for either a CR in the end of September—I think we have 43 days left, Senate working days left before the end of this fiscal year. So the best we could hope for would be an omnibus before that time.

When the Director of OMB was before the committee a couple weeks ago, we talked about this. You are involved in this from the Treasury. What is your perspective on the budget process that has not worked since 1974? And what do you think we need to do to make this relevant so we can fund the Government, which is the No. 1 priority of the Congress, according to Article I, which we are not doing, and since 1921, when the OMB—or when the budget capability of the administration was created, it seems like the legislative responsibility has become less and less and less every year.

So how would you as part of the administration advise us to move on this budget process that is not working?

Secretary MNUCHIN. Well, if I got to be king for a day, I would probably choose to fix the budget process even over Dodd-Frank.

Senator PERDUE. Would you really?

Secretary MNUCHIN. I would. I mean, it is completely broken. And I think there is the process of the budget, there is the process of spending, and there is the process of appropriation. And, you know, it is not going to be resolved this year, but this is something that, you know, I would look forward to working with you on.

Senator PERDUE. Well, it is dire. We are supposed to appropriate 12 bills a year to fund the Federal Government. Over the last 43 years, we have averaged two and a half. It is just——

Secretary MNUCHIN. That is not a good record.

Senator PERDUE. There is no way in any other environment that——

Secretary MNUCHIN. No sports team would be doing very well with that.

Senator PERDUE. No. The coach would be gone. The quarterback would be gone. The wide—everybody would be gone.

Secretary MNUCHIN. That is the reason to drain the swamp.

Senator PERDUE. Exactly.

Mr. Chairman, I think we are out of questions. I want to thank you for appearing before the committee today. Your full statement will be included in the record.

As information to all Senators, questions for the record are due by 6 p.m. today with a signed hard copy delivered to the committee clerk in Dirksen 624. Under our rules, Secretary Mnuchin will have 7 days from receipt of our questions to respond with his answers.

With no further business, this hearing is adjourned. Thank you, Mr. Secretary.

Secretary MNUCHIN. Thank you.

[Whereupon, at 11:36 a.m., the committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

Questions for the Record from Chairman Mike Enzi

Question 1

The improper payment rate for the Earned Income Tax Credit (EITC) in fiscal year 2016 was estimated to be 24% of all payments- or roughly $16.8 billion. Improper payments are primarily due (70%) to complex eligibility rules related to residency, relationship and support. But in other cases, improper payments are due (30%) to the inability to verify income before processing returns and making EITC payments.

The Consolidated Appropriations Act of 2016 requires employers to file Wage and Tax Statements (W-2s) and report nonemployee income (1099s) by January 31; and it prohibits the Internal Revenue Service (IRS) from issuing refunds prior to February 15 when the tax return includes the EITC. However, without expanded error correction authority, which was not provided in the legislation, the IRS will be unable to prevent the issuance of improper EITC payments despite being able to identify them.

Due to these issues, the Government Accountability Office (GAO), the Office of Management and Budget (OMB), and the Treasury Inspector General for Tax Administration (TIGTA) have identified the EITC as a high-risk program subject to significant improper payments. What additional steps can the Administration take to address this problem?

Answer

The IRS has made significant improvements in its fraud detection filters and continues to use real-time information to improve these systems so they are better able to identify and stop fraudulent refund claims before they are paid. In addition, the IRS has implemented several legislative changes this year that are intended to reduce EITC improper payments. As you note, recently enacted legislation requires the IRS to hold refunds on returns claiming the EITC until February 15 and the acceleration of the filing date of Forms W-2 have together helped the IRS improve its ability to identify incorrect or fraudulent returns and prevent erroneous refund claims related to these returns from being paid. In addition, IRS has implemented the recent legislative change disallowing the EITC if the taxpayer, the taxpayer's spouse, or any qualifying child's social security number was issued after the due date of the return claiming the EITC.

Enactment of the Administration's Budget proposals to provide the Secretary with authority to regulate paid tax return preparers and to provide the IRS with greater flexibility to address correctable errors would also assist in reducing fraud and noncompliance.

Question 2

The Improper Payments Elimination and Recovery Act defines a program as having significant improper payments when improper payments exceed 2.5 percent of program outlays and $10 million; or any percent and $100 million.

The Child Tax Credit (CTC) and the Additional Child Tax Credit (ACTC) -which is the refundable portion- were enacted in 1997. These tax credits can reduce taxes as much as $1,000 per child.

The Internal Revenue Service (IRS) has rated the risk of improper payments related to the ACTC as low. But the Treasury Inspector General for Tax Administration (TIGTA) estimated the improper payment rate for the ACTC was 13 percent, or $3 billion, in fiscal year 2013.

The Treasury Inspector General for Tax Administration reported that the IRS has refused to acknowledge that the refundable portion of child tax credit is a high-risk program. Will the Administration take steps to resolve this dispute and address the need to reduce improper payments related to the child tax credit?

Answer

The IRS and Treasury continue to work with OMB on a process for reporting on tax compliance and reducing improper payments overall. The IRS already evaluates taxpayer compliance behavior and the overall effectiveness of the IRS's administration of the tax system in part through regular estimates of the "tax gap," and reports the results in Treasury's Agency Financial Report as well as in more detailed IRS reports.

Question 3

The United States is one of the last industrialized nations to overhaul and modernize its currency. A recent independent study estimated that the US government could save over $16 billion over the next 30 years by modernizing our currency.

The Currency Optimization, Innovation, and National Savings (COINS) Act of 2017, which I reintroduced with Senator John McCain this Congress, proposes money-saving reforms supported by the non-partisan Government Accountability Office (GAO).

Many nations have enjoyed significant budget savings by moving away from a single denomination paper currency to a coin, and often a multi-denomination coin. Will the Administration support currency reform in the U.S.?

Answer

Treasury will carefully review all aspects of coin and currency production and use our review to determine the most efficient and effective way to ensure the continued success of our currency program.

Questions for the Record from Ranking Member Bernard Sanders

Question 1

More than 40 years ago, the federal government made a solemn commitment to the workers of this country: If a retiree is promised a certain pension benefit after a lifetime of hard work, a company could not renege on that promise.

However, in December 2014, behind closed doors, a provision- the Multiemployer Pension Act of 2014- was slipped into a must-pass spending bill that now makes it legal to cut the earned pension benefits of millions of workers and retirees in multiemployer pension plans.

As a result, retirees all over this country are waking up to the unacceptable reality that the pension benefits that they are receiving today may soon be soon be cut by 30, 40, or even 65 percent.

While millions of truck drivers, iron workers, bricklayers, plumbers, pipefitters, and carpenters are in danger of seeing their pension benefits slashed in half, the retirement benefits of CEOs are skyrocketing.

Just yesterday, for example, it was announced that Jeffrey Immelt, the CEO of General Electric is retiring. He has a pension plan that is worth $92 million- that's $500,000 a month.

Brian Roberts, the CEO of Comcast has a pension plan worth $120 million.

Larry Merlo, the CEO of CVS Health, has a pension plan worth $138 million.

Secretary Mnuchin, do you think it's fair to ask a retired truck driver to take a 60 percent cut in his pension, while the CEO of General Electric who has outsourced tens of thousands of jobs to China and Mexico gets to retire with $92 million?

As Treasury Secretary, you have the power to prevent these pension cuts from happening. Will you announce today that you will enact a one-year moratorium on these pension cuts, while you work with Congress on a long-term solution that is fair to these workers and retirees?

Answer

Treasury is committed to working with Congress to find a comprehensive and fiscally responsible solution to this pressing problem that could affect millions of American workers. However, under the Multiemployer Pension Reform Act of 2014 (MPRA), Treasury does not have discretion to decide whether to approve an application for benefit reductions. If an application for benefit reductions meets the statutory requirements under MPRA, Treasury, in consultation with the Pension Benefit Guaranty Corporation (PBGC) and the Department of Labor, is required to approve the application. Likewise, if an application does not meet the statutory requirements, Treasury is required to deny the application.

Question 2

Secretary Mnuchin, at today's hearing, you testified that the Trump Administration- and, before it, the Trump campaign – never supported reinstating the Glass-Steagall Act, which prohibited commercial banks from participating in investment banking.

As I mentioned at today's hearing, reinstating Glass-Steagall was in the Republican Party's platform in 2016. In responding to my question, you said: "[L]et me be clear, the president did not put everything in to the Republican platform. There was the Republican platform, and there was the Trump position, which I was very involved in."

However, on July 18, 2016, Paul Manafort- Mr. Trump's campaign manager at the time- said at a news conference at the Republican National Convention that the reinstatement of Glass- Steagall was placed in the party platform at the direction of the candidate himself. Mr. Manafort told reporters:

> We expect the platform to be adopted without any changes. The platform reflects Donald Trump's impact on the traditional platform of the Republican Party. The main document itself is pretty much the same as most Republican platforms have been, but there's been some added issues, some added components to it that reflect the issues Mr. Trump has raised during the course of the campaign. Specifically ... we also call for a reintroduction of Glass-Steagall so that we can create a barriers between what the big banks can do and try to avoid the crises that led to 2008 ... We talk about some of the mistakes made in the repeal of Glass-Steagall... the platform reflects those things.

In April, Gary Cohn, the Director of the National Economic Council, told a group of lawmakers that the administration supports separating trading and investment banking from traditional banking activities.

And in May, when asked about Glass-Steagall, President Trump said "I'm looking at that right now. There's some people that want to go back to the old system, right? So we're going to look at that."

In today's hearing, however, you stated that you "made it very clear in my last testimony in front of the Senate that the president did not support breaking up big banks. We think that would hurt the economy."

- **a)** What happened between the statement Mr. Manafort made on July 18, 2016; the more recent statements by President Trump and Mr. Cohn; and today that rules out reinstating Glass-Steagall?
- **b)** What exactly do you mean by a 21st Century Glass-Steagall Act?
- **c)** Why did you not include a 21st Century Glass-Steagall Act in the 147-page report that the Treasury Department released yesterday entitled "A Financial System That Creates Economic Opportunities"?
- **d)** How many former employees of Goldman Sachs were responsible for preparing and writing this report? Please list their names.

Answer

Treasury does not support a return to the Glass-Steagall Act. However, sensible financial regulation for our modern financial system is critical to both prevent taxpayer-funded bailouts and promote a safe and sound financial system. A well-regulated financial sector should allow us to protect FDIC-insured deposits while also enabling banks to lend to growing businesses and provide much-needed liquidity to markets. Treasury supports efforts to right-size regulations to address actual risks posed to the financial system rather than the current one-size-fits-all regulatory model.

The President signed Executive Order 13772 that tasks Treasury with reporting on the extent to which existing laws, regulations, and other government policies promote or inhibit the core principles for financial regulation set forth in the Executive Order. As part of this process, we reviewed a broad set of financial regulations that affect banks' Operations as well as consumers' access to credit and other financial products. Our June 2017 report under the Executive Order addressed the regulation of banks and credit unions in today's modern financial system.

Under the Executive Order, the Secretary of the Treasury was responsible for delivering this report to the President. The Secretary was assisted by the political and career staff at Treasury.

Question 3

You are currently reviewing the authority of the Financial Stability Oversight Council to nonbanking institutions as systemically important financial institutions (SIFis).

Right now, among the nonbank SIFis is AIG, which received a $182 billion bailout after collapsing in 2008. This was the largest bailout in U.S. history.

Secretary Mnuchin, please explain how another AIG-like collapse would not have a significant impact of the economy.

Answer

The Administration's core principles for regulating the U.S. financial system include preventing taxpayer-funded bailouts like the assistance the government provided to AIG in 2008. The report recently published by the Treasury Department under Executive Order 13772 (Core Principles for Regulating the United States Financial System) provides recommendations for achieving this objective. In April, the President issued a memorandum calling for a pause in further designations of nonbank financial companies by the Financial Stability Oversight Council, except in case of an emergency, while the Treasury Department reviewed that process. While that review took place, the FSOC periodically reevaluated its previous determinations, as required by the Dodd-Frank Act. In November 2017, Treasury issued its report on FSOC's designation process for non-bank financial companies and financial market utilities.

Question 4

Secretary Mnuchin, at today's hearing, you testified that "we need to move to a territorial system," referring to taxation of business income earned overseas by American corporations. You stated that such a change was necessary because, "Our taxes are some of the highest in the world. We tax our companies on worldwide income."

In fact, the United States is not a high-tax country. In 2014, relative to GDP, the United States corporate income taxes were only the 20th highest among 32 OECD nations.

According to a 2016 GAO study, the share of large, profitable corporations in the U.S. paying no federal income taxes was 19.5 percent in 2012 and 24.1 percent in 2011. GAO also found that the effective rate paid by large, profitable U.S. corporations from 2008 through 2012 was just 14 percent.

Finally, the Congressional Research Service estimates that the Treasury loses out on $100 billion annually due to corporations' abuse of offshore tax havens, such as the Cayman Islands.

Given all of these facts, why do you believe that large corporations need another big tax cut?

Answer

I believe that it is necessary to cut the statutory corporate tax rate and move to a territorial tax system. The U.S. corporate tax system is outdated and disadvantages American companies and, indirectly, American workers. The U.S. statutory corporate tax rate is the highest among the world's major developed economies. This acts as a drag on productive investment in the United States, which in turn reduces wages for American workers. A lower corporate tax rate also will reduce the tax advantage for debt finance, reducing another costly tax distortion. With a lower corporate tax, there also is a reduced incentive to invert and move businesses out of the United States. In addition, unlike the vast majority of the other OECD nations, which employ some form of territorial tax system that limits taxation to income earned from activity within their borders, the United States generally taxes U.S. corporations on income earned anywhere in the world when it is repatriated to the U.S. parent, providing a credit for foreign taxes paid. This system raises the cost of business for U.S. companies, whether directly through taxes paid or indirectly from costs paid by companies as they manage their affairs in order to avoid paying higher taxes. A territorial tax system will help U.S. companies compete on equal terms with their foreign competitors, because both will then face the same tax burden in each market.

I also would note that the tax to GDP ratio you cite is a misleading measure of the corporate tax burden across countries because of the very different sizes of the corporate business sector in each country. In particular, the United States has a relatively small corporate business sector (compared to other countries) because approximately half of business income in the United States is earned by pass through businesses.

Question 6

In your confirmation hearing on January 19, 2017, you testified that you were "particularly surprised ... that the IRS headcount has gone down quite dramatically, almost 30 percent over the last number of years," and that you were "concerned" about this due to IRS's role in "fixing the tax gap" and in providing "customer service for the many hard-working Americans that are paying taxes."

However, in the President's Budget for FY18, the administration proposed cutting IRS Taxpayer Services by more than 5 percent and Enforcement by more than 3 percent. Combined, this is a cut of over $265 million.

Secretary Mnuchin, given your concerns about IRS staffing, how can you support further cuts to IRS Taxpayer Services and IRS Enforcement?

Answer

The President's FY 2018 Budget requests nearly $11 billion for the IRS. The Budget invests in core tax administration; expanding online platforms to improve service to taxpayers; modernizing systems to combat identify theft and streamline operations; and technology upgrades to increase safeguards for taxpayer data. The Budget also asks the IRS to continue to seek less costly ways of delivering taxpayer service and maintaining enforcement using technology, training, and internal efficiencies. IRS will utilize technology, employee training, and personnel savings to achieve a two percent or $260 million reduction from the 2017 level.

Question 7

The Community Development Financial Institutions (CDFI) Fund is an innovative and successful model to promote economic revitalization and community development. The Treasury Department's FY 2018 Budget in Brief states:

> In September 2016, the CDFI Fund awarded $15.5 million in grants to 38 CDFIs. This activity shows the continued strong growth in demand for CDFI Fund Programs... In FY 2016, CDFI Program awardees reported that over 81.5 percent of loans were originated in distressed communities and to underserved populations. By regulation, CDFIs must originate 60 percent or more of their loans and investments in eligible distressed census tracts or to underserved populations ... The trend for FY 2012-2015 indicates that CDFI awardees have been successful in meeting their mission of serving distressed communities and underserved populations while maintaining sound investment portfolio performance.

However, the FY18 President's Budget proposes to eliminate funding for CDFI Fund, a cut of $220 million.

Secretary Mnuchin, given that the agency you lead believes this program continues to be successful, why was funding for the CDFI Fund eliminated?

Answer

The Budget eliminates discretionary grant funding for the CDFI Fund to reflect the Administration's priority to support fiscal responsibility and to focus resources on activities that promote national security and public safety.

The Budget provides funding for the CDFI Fund to continue to operate the non-grant programs, like the New Markets Tax Credit Program, which provide support for CDFIs and other community organizations lending and investing in economically distressed communities across the country. Since 2001, the New Markets Tax Credit Program has allocated $50.5 billion in tax credits in urban and rural areas. The Budget also proposes to reauthorize the Bond Guarantee Program to allow $500 million in new guarantees in FY 2018. This program provides capital to CDFIs at no cost to the taxpayer. Effectively managing those resources will ensure that CDFIs have access to capital to continue to support urban and rural distressed communities.

Question 8

During today's hearing, you stated: "Our objective is one, for them [working class Americans] to have a tax cut. Two, for them to have simpler taxes so that they can do it simply."

For many Americans, filing individual income taxes is a process that can take up to 13 hours and cost several hundred dollars in fees to tax preparation services, despite having relatively simple tax situations. Legislation, such as the Tax Filing Simplification Act of 2016, would require the IRS to provide those with simple tax situations a return-free filing option, as well as developing a free, online tax preparation and filing service.

a) Do you support efforts to require the IRS to make tax preparation and filing easier for taxpayers?

b) Do you support return-free tax filing for individual taxpayers?

c) What is the Treasury estimate for the fiscal effect of a return-free tax filing program by the IRS?

Answer

A simpler, fairer, and more efficient tax system is critical to growing the economy and creating jobs. A tax code that has clear language not only is simpler for taxpayers to comply with, but also less costly to administer. Our outdated, overly complex, and burdensome tax system must be reformed to unleash America's economy, and create millions of new, better-paying jobs that enable American workers to meet their families' needs. Going forward, we are committed to continue working with Congress and other stakeholders to carefully and deliberatively build on these principles to create a tax system that is fair, simple, and efficient—one that puts Americans back to work and puts America first.

Question 9

Child care is simply unaffordable for many Americans. In Vermont, the average cost of center-based infant care is over $11,000 a year, almost three-fourths of the full-time annual earnings of a minimum-wage worker.

During his presidential campaign, Trump proposed a child care tax plan that included child care deductions, a refundable tax credit, and a dependent care savings account. A Tax Policy Center analysis however found that 70 percent of the benefits of this proposal would go to families making $100,000 or more a year. Very few benefits would help low-income or middle income families, or those who struggle with affording child care the most.

a) Will the administration's forthcoming child care tax reform proposal mirror the campaign plan?

b) Can you guarantee that the Trump administration's child care tax plan will benefit low-income and middle-class families?

Answer

The Administration worked with the Congress and stakeholders to develop child care policies appropriate for inclusion in tax reform that benefits low-income and middle-class families.

Questions for the Record from Senator Patty Murray

Question 1

Secretary Mnuchin, I share the concerns of many in the retirement community, as well as in the financial services sector, that retirement savings are at risk at being used to pay for tax reform. At the rollout of the President's tax reform plan in April, Gary Cohn, President Trump's Director of the National Economic Council, said that "retirement savings will be protected. But other tax benefits will be eliminated." It was later reported, however, that Mr. Cohn met with members of the Senate Banking Committee to discuss ideas that would remove pre-tax benefits from retirement accounts like 401(k)s and shift them to after-tax benefits, like Roth accounts. Given this discrepancy from Mr. Cohn, can you confirm the White House will not use revenue from retirement savings and benefits to offset the cost of tax reform?

Defined contribution plans like 401(k) accounts are estimated to cost nearly $584 billion in "lost" tax revenue for the period 2016-2020. This is misleading, however, given individuals will pay tax on their distributions from these accounts, primarily beyond the 10-year budget window for scoring. By shifting retirement contributions to an after-tax basis, more revenue would be collected within the 10-year budget window in the short term. However, this would be very short-sided because that money will be allowed to grow tax-free and will not be taxed in the future. Furthermore, taxing retirement benefits up front could result in lower or less frequent additions to retirement accounts, as incentives are changed due to the elimination of an immediate, up-front tax benefit.

Answer

I cannot speak to the report of the meeting to which you refer. However, I can say that Treasury and the Administration are committed to working with Congress to ensure that Americans continue to enjoy access to tax-preferred retirement savings accounts.

Question 2

Secretary Mnuchin, the President's FY 18 Budget suggests dramatic changes to the Consumer Financial Protection Bureau (CFPB), including a proposal to bring the agency under the annual Congressional appropriations process (it is currently funded through transfers from the Federal Reserve, as you might know). While this is alarming enough, as it would subject the CFPB to the political and sometimes draconian whims of Congress, the budget math the President presents is confusing. The document projects that there will be savings from the CFPB funding change of $145 million in 2018, $650 million in 2019, and a savings increase every year thereafter, for a total savings of $6.8 billion over a 10-year period. These savings are misleading, however, as the CFPB would still require funding. Or is the budget in fact proposing the complete elimination of the CFPB?

The CFPB has delivered nearly $12 billion in financial relief to more than 29 million American consumers, including service members, students, and seniors who have been cheated and harmed by undisclosed fees, overcharges, unfair interest charges and other illegal, predatory and deceptive practices committed by the financial industry. Eliminating this agency would be misguided, dangerous, and unfair to the millions of Americans the CFPB helps every year.

Answer

I strongly support robust consumer financial protection. I also believe that the CFPB should be funded through the annual Congressional appropriations process like most federal regulatory agencies. Congress's power of the purse serves as an important check to ensure that regulators exercise their power responsibly. The Congressional appropriations process prioritizes investment where it is needed most and ensures that tax dollars are spent wisely.

Question 3

Secretary Mnuchin, during a May 25 Finance Committee hearing, you told Senator Brown that many tax expenditures, including the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC), would not be used as pay-fors in the President's tax plan. The President's proposed FY18 budget, however, assumes a combined $40 billion in savings from changes in eligibility to the EITC and CTC. Given this proposal will the administration commit that it will not support any tax reform plan that contains cuts to the two tax credits designed to support low and moderate income families?

Furthermore, the President's budget assumes the aforementioned $40 billion in savings by requiring those claiming the CTC or the EITC to have a social security number. However, workers must already provide the IRS with a social security number to be eligible for the EITC. How, then, would tighter eligibility rules be enforced to generate these savings?

Answer

The tax reform legislation expands the child tax credit (CTC) and makes no changes to the Earned Income Tax Credit (EITC).

Question 4

Secretary Mnuchin: during the President's campaign, he made repeated and explicit commitments to protect Social Security, Medicaid, and Medicare. Part of his commitment was a specific promise not to cut any of these programs. Unfortunately, as we have seen with both the FY18 budget and the health care repeal effort, the President has broken these promises.

Democratic Leaders sent a letter to the White House at the end of April expressing concern that deficit-financed tax cuts could be later used by Republicans to justify deep cuts to Social Security, Medicare, and Medicaid on the basis of the country's debt problem. Will you commit that any tax reform plan supported by the White House will not include any cuts to these programs- Social Security, Medicare, and Medicaid?

Answer

I am not aware of any tax reform proposal under consideration by the Administration that would cut Social Security, Medicare, or Medicaid.

Question 5

Secretary Mnuchin, you said in a hearing on June 12th before the House Appropriations Committee that specific distribution tables will be included in the President's tax plan when it comes out. Does this mean that the White House is drafting its own tax reform proposal separate from the efforts being made in both Houses of Congress? Or did you mean that there will eventually be one plan proposed by all Republicans that will contain the distributional effects on the population across income ranges? Either way, I would encourage the White House to act as swiftly as possible. Like many of my colleagues, I am deeply concerned about the distribution of tax benefits under the President's tax proposal. The non-partisan Tax Policy Center estimated that 50.8 percent of the tax breaks contained in the President's proposal would go to the highest earning 1 percent, and 24.5 percent would go to the top 0.1 percent. This amounts to about $317,000 per year in tax breaks for the top 1 percent through 2025 and $1.46 million for the top 1.1 percent. Meanwhile, the lowest quintile would get just 0.8 percent of tax cuts, or $120 per year.

Answer

Thank you for your question. The Administration worked closely with the Congress in developing the initial tax reform framework as well as the eventual legislation.

Question 6/7

1. As Secretary of the Treasury, you will serve on the Board of the Pension Benefit Guaranty Corporation (PBGC). The PBGC's multiemployer program reported in its FY2015 Annual Report that its deficit widened to $52.3 billion and it is likely to become insolvent in 2025.
    a. What do you think should be done to address the continuing solvency of the PBGC's multiemployer program?
    b. What do you think should be done to address the solvency issues for plans like

Central States among other plans that applied to Treasury to cut benefits under the Multiemployer Pension Reform Act of 2014 (MPRA) and were rejected?

2. Do you believe that the PBGC should be given greater authority to work with distressed multiemployer and single-employer plans? If so, what authority do you think is needed?

Answers

1. The FY2018 President's Budget proposed to increase premiums in PBGC's multiemployer program to a level that would be more likely than not to keep the program solvent for the next 20 years. Treasury has been meeting with stakeholders on this issue and it was discussed at the June 21 meeting of the PBGC Board. Treasury is committed to working with Congress and other stakeholders to develop a fiscally responsible solution that will address the issues that multiemployer pension plans, including Central States, continue to face.

2. In my capacity as a Board member of the PBGC, I will continue to work with the other Board members to continue to evaluate various options for working with distressed multiemployer and single-employer plans.

Questions for the Record from Senator Ron Wyden

Question 1

Secretary Mnuchin, in your confirmation hearing before the Finance Committee, you agreed by answering "absolutely" when Senator Warner stated to you that: "It is your policy that the United States, in terms of its debt obligations, needs to honor all its debt obligations and should not have any ability to prioritize those obligations."

Debt prioritization by the Treasury Department involves paying holders of U.S. government bonds, such as foreign investors, before servicing other government debt, such as our obligations to Social Security beneficiaries, Medicare beneficiaries, and veterans.

A. Will you acknowledge that debt prioritization would require the federal government to pay foreign bondholders before paying the earned benefits of American citizens?

Answer

Congress should raise the debt ceiling so that we do not have to consider prioritization. We should continue to be a nation that pays all of our commitments when they are due.

OMB Director Mulvaney, in an April 11, 2017 interview with John Harwood of CNBC, said nothing had changed his opinion about the feasibility of debt prioritization.

B. Is it safe to say that your opinion on debt prioritization is at odds with Director Mulvaney's- that you do not as Treasury Secretary believe that debt prioritization is feasible?

Answer

The United States government's debt is the most important debt in the world. We should not jeopardize the risk-free status of that debt by failing to honor all of our commitments on time.

In addition to going back on the promises Congress has made to the American public, debt prioritization would severely damage the federal government's creditworthiness. Following the 2011 debt ceiling standoff - which only came close to default, but did not ultimately breach the debt ceiling - Standard and Poor's downgraded the long-term credit rating of the U.S. Government for the first time. Merely by increasing the perceived risk of default, which leads to higher interest rates on Treasury bonds, the standoff cost the federal government billions of dollars. Debt prioritization would go even further than the 2011 brinksmanship, by breaching the debt ceiling and picking and choosing which payments the U.S. Government will and will not make.

C. Will you acknowledge that the 2011 debt ceiling standoff damaged the creditworthiness of the U.S. government and cost the federal government billions of dollars in interest payments?

Answer

Not raising the debt ceiling in a timely manner could be very disruptive to financial markets as well as the credit rating of the United States. Studies have found that prior debt limit impasses have cost the government money in terms of higher borrowing costs, with estimates up to $19 billion. Protecting the creditworthiness of the United States is a top priority. I urge Congress to address this issue as soon as possible.

D. Will you acknowledge that debt prioritization would damage the creditworthiness of the U.S. government and cost the federal government billions of dollars in interest payments? Will you also acknowledge that this would be a terribly ironic result -that efforts to curb spending by failing to raise the debt limit would actually lead to increased government spending in the form of higher interest payments?

Answer

The debt limit is not a budget tool. We need to issue debt to pay for the expenditures that Congress has already authorized. As such, Congress needs to increase the debt limit in a timely manner. Prioritizing payments means not paying all of our bills when they are due, which would put the government's credit at risk and increase interest costs. The sooner we raise the ceiling, the better. The United States' credit is the most important and the strongest in the world and we should do everything we can to ensure that continues to be the case.

E. In that same CNBC interview with John Harwood, Director Mulvaney also indicated that debt ceiling increases would have to be done "as part and parcel" with entitlement reform.

Do you agree with this approach? Is it the President's intent to condition a debt limit increase on reductions in spending such as entitlement cuts?

Answer

Congress should raise the debt ceiling in a timely manner to protect the Nation's creditworthiness.

Question 2

The President's budget would eliminate new grants to Community Development Financial Institutions (CDFIs), cutting $210 million from this important fund in the Treasury Department. The budget justifies eliminating new CDFI grants by claiming that the program's "goal has been achieved" and that CDFIs are a "mature industry." To support these claims, the Administration only points to the current number of certified institutions, but does not explain how the size of the CDFI sector justifies deeply cutting the program.

CDFIs promote economic development by providing financial products to businesses and individuals in economically distressed communities, who are frequently underserved by traditional financial institutions. As of last year, there were 20 CDFIs in Oregon playing a vital role in providing access to capital for home buyers and small businesses throughout my state, including small businesses owned by women and minority entrepreneurs.

The proliferation of CDFIs across the country is the result of successful public-private partnerships that leverage as much as 10 private dollars for every public dollar invested. CDFIs are truly local partners with deep knowledge of their communities. They help provide flexible financing to develop affordable housing, wipe out food deserts, fund innovative businesses, and create jobs in economically distressed areas. The growth of CDFIs proves there continues to be an unmet need for financial opportunities in underserved neighborhoods.

Eliminating new CDFI grants would inhibit the work of currently certified institutions, which rely on new rounds of federal matching grants to leverage private capital. Further, the Administration's cuts would entirely stop the certification of new CDFIs. Citing the growth of the CDFI sector as a reason to eliminate new CDFI grants gets it exactly backwards. The successes of CDFIs show why we should strongly support this program.

A. Given the impact that eliminating new CDFI grants would have on currently existing CDFIs, why does the Administration's budget cite the current number of certified institutions as a reason to stop new grants? How does citing the current number of CDFIs justify stopping new grants to current CDFIs?

Answer

The CDFI Fund will continue to certify financial institutions. Not only does certification make an entity eligible for multiple programs at the CDFI Fund, it also serves as a qualifier for other Federal government programs such as the Small Business Administration's Community Advantage Program and Federal Home Loan Bank membership.

B. Is it the Administration's view that growing the number of CDFIs beyond the 1,100 currently certified institutions would not provide greater financial opportunities in economically distressed communities? If so, what economic evidence did the Administration use in reaching this conclusion?

Answer

The 2018 Budget provides administrative funding to allow the CDFI Fund to continue to certify financial institutions. In the current fiscal environment, difficult budget decisions have to be made. The Budget eliminates discretionary grant funding for the CDFI Fund to reflect the Administration's priority to support fiscal responsibility and to focus resources on activities that promote national security and public safety.

The Budget provides funding for the CDFI Fund to continue to operate the non-grant programs, like the New Markets Tax Credit Program, which provide support for CDFIs and other community organizations lending and investing in economically-distressed communities across the country. Since 2001, the New Markets Tax Credit Program has allocated $50.5 billion in tax credits in urban and rural areas. The Budget also proposes to reauthorize the Bond Guarantee Program to allow $500 million in new guarantees in FY 2018. This program provides capital to CDFIs at no cost to the taxpayer. Effectively managing those resources will ensure that CDFIs have access to capital to continue to support urban and rural distressed communities.

C. Please explain in greater detail what the Administration means when it calls the CDFI sector a "mature industry." Which economic benchmarks did the Administration use in determining whether the CDFI sector is a "mature industry"?

Answer

See answer B above.

D. What economic benchmarks did the Administration use in determining that the CDFI program's "goal has been achieved"? Please share the economic evidence the Administration used related to the CDFI program's goals, i.e. increasing the availability of credit and financial services in underserved communities.

Answer

See answer B above.

E. How would the Administration continue meeting the goals of CDFIs if it eliminated new grants to certified institutions? Specifically, what other programs within the President's budget address gaps in credit availability in economically distressed communities, and how would these programs be strengthened to compensate for the elimination of new CDFI grants? If the budget does not propose providing the funding necessary to continue meeting CDFI goals, please provide the Administration's justification for cutting back efforts to provide credit in economically distressed communities.

Answer

The CDFI Fund will continue to administer non-discretionary programs that provide capital and investment incentives to the communities with the greatest need. CDFI grants are just one source of funding for CDFIs.

As Treasury reviews the current regulatory environment for financial institutions, we will address this concern and determine solutions that permit financial institutions to invest resources in CDFIs and the communities that they serve.

In addition, the Budget provides funding for several programs that support the provision of credit in economically-distressed communities. For example, the 2018 Budget contains funding for the Small Business Administration and the U.S. Department of Agriculture to operate a number of direct loan and loan guarantee programs to address the difficulty in accessing credit and financing community facilities and infrastructure in urban and rural areas.

Questions for the Record from Senator Mark Warner

Question 1

In your hearing before the Senate Budget Committee on June 13th, you stated that extraordinary measures could keep the government open through September, while you expressed your preference that Congress raise the debt limit before the August recess. Second quarter tax payments for certain taxpayers are due to the Treasury on June 15th.

A. When the second quarter tax payments arrive, will the Treasury Department have a more precise estimate of the date the federal government will no longer be able to pay all of its bills in full and on time?

Answer

As you're aware, on September 8, 2017, the President signed into law P.L. 115-56, which suspended the statutory debt limit through December 8, 2017. Ensuring the full faith and credit of the U.S. government is a top priority, and I will continue to work with members of Congress as needed to address the debt limit in the future.

B. Will you commit to sharing that date with all member of Congress?

Answer

Treasury will provide the Congress with information about the use of measures to remain under the debt limit and estimates of dates of exhaustion of those measures at the appropriate time if the debt limit is not increased prior to December 8, 2017.

Question 2

State legislators in Kansas enacted tax cuts in 2012, arguing that doing so would foster economic growth. What we saw was far from it. In fact, while the rest of the country grew at a rate around 2%, Kansas averaged just 0.2%. In both overall growth and job creation, the state underperformed neighboring states and the nation.

And despite major spending reductions, the state's budget deficit was expected to hit $280 million this year. It took Kansas five years to learn that these policies weren't working and to enact tax increases over the governor's veto.

We have heard time and time again from this Administration that tax cuts will pay for themselves through economic growth. But the evidence continues to show that that's just not the case.

A. In 2012, the governor of Kansas called these tax cuts a real live experiment." And now we've seen the results. Do you believe that there's a lesson that the federal government can learn from Kansas' experience?

Answer

The Kansas tax laws that you describe generally exempted pass-through entities from state income taxes. I believe that any tax reform proposal offering a pass-through-business rate structure that is different from the individual income tax rate structure will need strong anti-avoidance rules to prevent aggressive tax planning.

Further, I believe that skillfully designed tax cuts can stimulate economic growth that can significantly contribute to federal tax revenue. That view also is widely held by tax policy experts.

Question 3

At last month's Finance Committee hearing on Treasury's Budget, I expressed my concern about IT modernization at the IRS. In response, you noted that, "We are very, very focused that we have underinvested in technology, and I am pleased to report that within the budget, we will protect what are big increases in technology in the IRS and we will offset them in what we hope are savings in other areas, and obviously, we were looking to cut government spending, and I am pleased that we protected the IRS. There were other people who wanted to cut it more, and we are very comfortable with the spending level and some savings and big technology investments there."

However, the FY18 Budget Justification for the IRS shows that both funds and employees previously dedicated to business systems *modernization* have been reallocated to operations support to "fund operations and maintenance for the existing infrastructure, including addressing a backlog of infrastructure past its useful life."

A. Understanding that we need to be addressing critical issues with our aging IT infrastructure, is there a reason that we can't dedicate funds to both maintenance and modernization to ensure that the IRS is moving forward?

Answer

The President's FY 2018 Budget requests nearly $11 billion for the IRS. The Budget invests in core tax administration; expanding online platforms to improve service to taxpayers; modernizing systems to combat identify theft and streamline operations; and technology upgrades to increase safeguards for taxpayer data. The Budget also asks the IRS to continue to seek less costly ways of delivering taxpayer service and maintaining enforcement using technology, training, and internal efficiencies. IRS will utilize technology, employee training, and personnel savings to achieve a two percent or $260 million reduction from the 2017 level.

Question 4

During your hearing before the Budget Committee on June 13, Senator Kaine asked you a number of questions about President Trump's statement that "Our country needs a good 'shutdown' in September." In response to Senator Kaine's questions, you said, "At times there could be a good shutdown, at times there may not be a good shutdown...There could be reasons at various times why that is the right outcome."

A. What would be the cost of a government shutdown to the Treasury Department?

Answer

Treasury has the procedures and plans in place to allow for the Department to operate in compliance with the law in the event of a shutdown.

B. What would be the impact of a government shutdown on economic growth?

Answer

It is difficult to predict the macroeconomic effects.

C. Specifically, what was the cost of the 2013 government shutdown to the Treasury Department?

Answer

This question has not been fully analyzed by the Treasury Department to provide an exact answer.

D. What was the impact of the 2013 government shutdown on economic growth?

Answer

This question has not been fully analyzed by the Treasury Department to provide an exact answer.

Question 5

A. Yes or no, do you agree that higher debt from reducing revenues would have a negative impact on our economy that could offset or even wipe out any economic boost from tax reform?

Answer

Many economists argue that a permanent tax cut financed by debt would slow economic growth after the stimulative effect of the lower taxes is gone. Our position is that tax cuts that are calibrated to increase growth need not increase the debt.