S. HRG. 115–589

CONCURRENT RESOLUTION ON THE BUDGET FISCAL YEAR 2019

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

SECOND SESSION

JANUARY 24, 2018—OVERSIGHT OF THE CONGRESSIONAL BUDGET OFFICE

FEBRUARY 13, 2018—THE PRESIDENT'S FISCAL YEAR 2019 BUDGET PROPOSAL

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OVERSIGHT OF THE CONGRESSIONAL BUDGET OFFICE

WEDNESDAY, JANUARY 24, 2018

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, Johnson, Perdue, Gardner, Kennedy, Boozman, Cotton, Sanders, Whitehouse, Kaine, Van Hollen, and Harris.

Staff Present: Elizabeth McDonnell, Republican Staff Director; and Warren Gunnels, Minority Staff Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. I am going to gavel us in so that the Chairman of the Homeland Security Committee can be assured that he will be the second Republican to get to ask questions.

Senator JOHNSON. I appreciate that.

Chairman ENZI. We will be waiting just a few moments, though, for Senator Sanders' arrival.

[Pause.]

Good morning. Welcome to the Senate Budget Committee's oversight hearing of the Congressional Budget Office. I am proud to say that, after a 30-year drought, this is the third such installment of this Committee's continued oversight of CBO under my chairmanship. I am glad to see that the House Budget Committee will follow our lead with additional oversight hearings later this month.

Section 102(a) of the Congressional Budget Act of 1974 provides the Budget Committee with the authority to review on a continuing basis the conduct by the Congressional Budget Office of its functions and duties. These oversight hearings present the Committee with an opportunity to review CBO's performance and serve as a forum of discussing ways in which CBO can be more effective and attentive to the needs of Congress. Congressional oversight of an office like CBO should also work at clarifying the Office's mission while improving its operations.

Alice Rivlin, the first Director of CBO, instructed staff in a 1976 memo when she said, "Our work and our publications must always be balanced, thorough, and free of any partisan tinge."

More than 40 years later, Congress, other policymakers, and the public still depend on CBO to provide objective, accurate, transparent, and timely budgetary and economic analysis.

Now, one of the difficulties with the Office, of course, is that they have to forecast, and that is especially difficult. We do want to have the best possible answers. Of course, we always want them phrased in our own way. I have been exploring the request for more transparency, for getting to see the models. I think that we are mostly asking for the main assumptions used to reach your conclusions. If the assumptions are good and pretty comprehensive, I think we will have more confidence in the results.

This will be the first of many hearings this year. In 2016, we held many hearings to find a better way to budget.

The ones I could do without legislation are done. The main one was to give the budget to the minority 5 days before the budget markup with amendments then to be submitted early so that side-by-sides could be developed, and better yet, ones that came from both sides of the aisle with similar amendments could get together for even better solutions. I still have a lot of hope for that, and I anticipate doing that again.

Now, last year was a busy time for the Senate Budget Committee. We approved two budget resolutions and facilitated consideration of two budget reconciliation bills—one related to health care and one that resulted in the tax reform legislation. This legislative activity, in addition to all the other proposals considered by our authorizing and appropriations committees, put intense demands on CBO. In 2017, CBO produced more than 700 formal cost estimates, several thousands informal cost estimates, nearly 130 appropriations scorekeeping tabulations, and 86 analytical reports and working papers. That is a lot of work for an agency that is about one-tenth the size of the Government Accountability Office. While I am appreciative of all of CBO's hard work, I also believe we must take the time to review these efforts. We need to look back at what went right, but also what may have gone wrong.

It is crucial that CBO keep its mission firmly in mind.

The Budget Act clearly lays out that mission in Section 202 where we can read, "It shall be the primary duty and function of the Office to provide to the Committees on the Budget of both Houses information which will assist such Committees in the discharge of all matters within their jurisdiction."

This important section refers to CBO's role in assisting and supporting the committees and members in the execution of their duties, and it is always helpful to remember that CBO exists for this purpose.

Testifying before us today is CBO Director Keith Hall.

Dr. Hall oversees all eight CBO divisions which are tasked with producing statutorily required budget and economic forecasts, thousands of cost estimates of proposed legislation, and special reports as requested by Congress.

CBO's budget analysis is an integral part of the legislative process. Dr. Hall, when you last appeared before this Committee in September 2016 to discuss CBO's operations, you gave us an update on the agency's progress toward several important goals. In addition to reviewing CBO's work in support of recent legislative initiatives, we also remain interested in those goals to increase the transparency of agency analysis and operations and your agency's responsiveness to congressional needs.

I am specifically interested in learning how CBO's views regarding modeling transparency and ways the agency can more clearly communicate the methods, assumptions, and data that underlie budget analysis. Dr. Hall, I also welcome your thoughts on how CBO can more efficiently allocate existing resources, including staff responsibilities, to satisfy these congressional requests and expectations.

In 2018 and beyond, CBO will continue to play a key role in supporting Congress as we consider the budget and economic effects of proposed legislation. Its objectivity, accuracy, transparency, and timeliness is essential to help Congress make informed decisions. Just as CBO's role in the Federal budget process is crucial, so, too, is this Committee's statutory responsibility to oversee CBO.

I would like to thank Dr. Hall for joining us today, and I look forward to our discussion.

Senator Sanders.

OPENING STATEMENT OF SENATOR SANDERS

Senator SANDERS. Thank you, Mr. Chairman. And, Dr. Hall, thanks for being here.

I think before we do oversight over the CBO, it might be a good idea to do oversight over this Committee. It might be a good idea for the Budget Committee to actually produce a budget. I know that is kind of a radical idea, but maybe that is what we want to do. And maybe it might be a good idea for the Republican leadership, 116 days into the fiscal year, to actually do something more than giving us short-term continuing resolutions.

The truth is, as any businessperson in America will tell you, you cannot run any kind of entity on a month-to-month basis. We are a $4 trillion entity. That is what the U.S. Government is. There are some agencies clearly that need more funding. There are some agencies that need less funding. And the idea that we are saying that every agency of Government every month is going to get exactly the same amount of money as they previously got because of a continuing resolution is insane. And I suspect if anyone looked at it, you would find that we are wasting tens and tens and tens of billions of dollars funding agencies that perhaps do not need that money or funding agencies that are clearly inefficient.

So we are not addressing that, and we keep kicking the can down the road. That is the most important thing that we have got to do, and that is not Dr. Hall's responsibility. He is doing his job. His people are doing their job. It is our responsibility.

So, Mr. Chairman, it seems to me that we have got to address—maybe this Committee can play a more active role in pushing our colleagues forward on this thing. We have got to address the budget crisis that we have. Let me just address some of the issues which I think we are all familiar with that have got to be addressed as we desperately try to come up with a 2018 annual budget.

First of all, we have the moral issue of 800,000 young people in this country who were raised in this country, who only know the United States as their home, who are on the verge of facing deportation. And let me be very clear about this. If we do not address this issue, I think history will look back at this particular moment and see an incredible moral stain about doing this to these young people.

What we have also got to do is create a budget which provides parity. Now, I know there is a great desire to see more money for defense, and we could argue about that. But the bottom line is for every dollar that we spend on defense, we have got to spend on the needs of working families. Five minutes ago, I just came from my office where I talked to parents and administrators in the Head Start program in Vermont, and they are telling me, as I am sure that they are telling you in your offices, that children all over this country, little kids, 3, 4 years of age, are being impacted by the opioid crisis. Kids are being taken out of their homes because their parents are addicted to opioids going into foster homes. We have got a crisis. We are not dealing with that crisis.

Unbelievably—unbelievably, Mr. Chairman—we have 27 million people in this country who utilize community health centers to get their health care, the dental care, the low-cost prescription drugs, the mental health counseling that they need, 27 million people, one out of four people in my own State. We have not reauthorized the Community Health Center Program. We have got 30,000 vacancies at the Veterans Administration. So instead of us giving speeches about how much we love veterans, why don't we make sure that the VA is adequately funded and adequately staffed?

Some of you may have seen the piece in the Washington Post last month. Unbelievable. Ten thousand people with disabilities died last year while they were submitting claims to a Social Security Administration that does not have the staff or the funding to process those claims. Ten thousand Americans with disabilities died. Are we going to adequately fund the Social Security Administration? Or are we going to pass another continuing resolution leaving them grossly underfunded?

In parts of my State and in parts of your State, Mr. Chairman, I am sure, there are communities that do not have adequate broadband. How do you bring businesses into those communities? How do kids do their homework if there is not adequate broadband? In other words, there are enormous needs facing the American people, and those needs are not just giving huge tax breaks to billionaires or trying to throw 30 million people off of health care. There are needs that we have got to address.

So, Mr. Chairman, I would hope that we have a serious debate about the budget of the United States of America and we do it as soon as we can.

Dr. Hall, thanks again for being with us.

Chairman ENZI. Thank you, Senator Sanders. I appreciate your remarks and have made a number of notations here. We will have more hearings during this year, and I think that I would be interested in what different members of the Committee would be interested in particularly pursuing in some depth as kind of a task force for oversight for us so that we can do a better job of budgeting.

Our witness this morning is Dr. Keith Hall, the ninth Director of the Congressional Budget Office. Director Hall is no stranger to this Committee, having served as CBO Director since April 2015. Since that time he has appeared before this Committee to discuss the CBO's work and its projections for the Nation's fiscal situation.

He has more than 25 years of public service with the International Trade Commission, with George Mason University, with the Bureau of Labor Statistics, with the White House Council of Economic Advisers, with the Department of Commerce, and an international economist for the ITC. He was also an assistant professor at the University of Arkansas and an international economist at the Department of Treasury. In those positions he worked with a wide variety of topics, including labor market analysis and policy, economic conditions and measurement, macroeconomic analysis, and forecasting international economics and policy, and computational partial equilibrium modeling—which I hope he will not explain this morning.

[Laughter.]

Chairman ENZI. He has a Ph.D. and a master's in economics from Purdue University. This morning Dr. Hall will be talking with us about CBO's work over the last year and the goals he set out for this critically important agency. We look forward to receiving your testimony.

For the information of colleagues, Director Hall will take up 7 minutes for his opening statement, followed by questions.

Welcome, Dr. Hall. Please begin.

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

Dr. HALL. Chairman Enzi, Ranking Member Sanders, and members of the Committee, thank you for inviting me here to discuss the work of the Congressional Budget Office. As you know, CBO's mission is providing nonpartisan budgetary and economic analysis to support the work of this Committee and the Congress as a whole. My colleagues and I are devoted to that mission, and I appreciate the opportunity to discuss how CBO has executed it this year and how we plan to expand our work in the future.

I also want to take this opportunity to thank you for your support and guidance. We at CBO have long relied on the Budget Committees to explain to others in the Congress what our role is, to provide constructive feedback on how we can best serve Congress, and to provide guidance on what legislative developments are occurring and what the Congress' priorities are. That work on your part has been key to our success over the years.

In the past year, we have provided Congress with 740 formal cost estimates and mandate statements. We have also provided thousands of hours of technical assistance to committees, which have included thousands of informal cost estimates, probably more work than our formal cost estimates. We have provided 128 scorekeeping tabulations, 86 analytical reports and working papers, dozens of files of data underlying budget and economic projections, and numerous other publications. Many of the cost estimates were produced under very tight time constraints and required extraordinary efforts by our staff to meet legislative deadlines.

We also undertook new initiatives to enhance our responsiveness and transparency. We reorganized work processes and shifted resources to areas of high demand. We published more evaluations of our projections about the economy, spending, and health insurance subsidies. We documented more of our analytic methods—

about flood insurance, pension benefit guarantees, and health care for the military, for example. And we gave more examples of changes in our estimates, addressing issues ranging from Social Security to options for changing Medicare.

In the next 2 years, CBO plans to continue to support the Budget Committees and the Congress by producing budget and economic baseline projections, reports about those projections, and cost estimates for many proposals, including all legislation reported by committees. Other major products will include a volume of policy options that would reduce budget deficits, reports on the long-term budget outlook, analyses of the President's budget proposals, monthly budget reviews, and policy analyses on a broad array of topics of interest to congressional committees. CBO is reviewing and updating every aspect of its simulation model of health insurance coverage, which forms the backbone of its budget projections related to Federal health care spending for people younger than 65. In addition, CBO will further develop its capabilities to assess the macroeconomic effects of fiscal policies and the ways that changes in Federal regulations affect the agency's baseline budget projections.

Responsiveness and transparency are top priorities of mine, and we have plans to bolster them further. We will make greater use of team approaches to handle surges in demand for analysis of particular issues. We will increase public documentation of our computer models. We will also do more to explain how analysts employ those tools as part of the process for producing estimates. I like to think of this as documenting our processes as well as our models.

For a cost estimate, for example, an analyst identifies the ways in which a proposal might affect the budget and assesses which of them would probably have substantial effects. The analyst also consults experts and examines the most relevant data and research to form a basis for the estimate, which includes determining which models to use, if any, what information to put into those models, and how to use their output in combination with other available information. In short, CBO models do not produce estimates; CBO does. The models are just a few of the tools that we use in producing our estimates.

We will be able to make significant progress on our plans to boost responsiveness and transparency if we receive funding for fiscal year 2018 within the range that the Senate and House Appropriations Committees have recommended. If we receive the funding available under the continuing resolution currently in effect for this year, we will make less progress. Moreover, CBO's ability to buy data and research and to pay for other standard activities would be severely limited under the funding specified in the continuing resolution, and the agency's performance of its mission would be degraded.

Many initiatives of great interest to Congress could be undertaken only if CBO had more employees, so we have submitted a budget request to hire 8 new staff members in 2019 to bolster our responsiveness and transparency, as part of a plan to hire a total of 20 additional people by 2021. The new staff would help CBO respond to requests for information more quickly when there is a surge in demand. They would also allow CBO to supply more information about its analysis and models without reducing the valuable services it provides to Congress at its current staffing level. In the next 2 years, CBO also proposes to expand analytical capacity by adding new health care analysts and creating additional onsite capacity to use sensitive data securely.

I am delighted to talk with you about our work today and would be at any time in the future as well. I am happy to meet with Members of Congress or to chat on the phone. In addition, our employees meet frequently with congressional staff to explain our analyses and to answer questions individually and in groups, and we have plans to be in still better contact.

For instance, earlier this month, in collaboration with the Congressional Research Service, my colleagues gave presentations to 150 congressional staff members about how CBO develops estimates of health insurance costs and coverage. We are constantly looking for ways to serve your needs better, and I welcome your suggestions.

[The prepared statement of Dr. Hall follows:]

Congressional Budget Office

Testimony

The Congressional Budget Office's Work in 2017 and Plans for the Future

Keith Hall
Director

Before the
Committee on the Budget
United States Senate

January 24, 2018

This document is embargoed until it is delivered at 10:30 a.m. (EST) on Wednesday, January 24, 2018. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

CONGRESS OF THE UNITED STATES

Overview

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CBO's Work in 2017

In the past year, we have provided the Congress with 740 formal cost estimates and mandate statements, thousands of informal cost estimates, 128 scorekeeping tabulations, 86 analytic reports and working papers, dozens of files of data underlying budget and economic projections, and numerous other publications.[1] Many of the cost estimates were produced under very tight time constraints and required extraordinary efforts by our staff to meet legislative deadlines.

We also undertook new initiatives to enhance our responsiveness and transparency. We reorganized work processes and shifted resources to areas of high demand. We published more evaluations of our projections about the economy, spending, and health insurance subsidies. We documented more of our analytic methods—about flood insurance, pension benefit guarantees, and health care for the military, for example. And we gave more explanations of changes in our estimates, addressing issues ranging from Social Security to options for changing Medicare.

CBO's Future Plans

In the next two years, CBO plans to continue to support the budget committees and the Congress by producing budget and economic baseline projections, reports about those projections, and cost estimates for many proposals, including all legislation reported by committees. Other major products will include a volume of policy options that would reduce budget deficits, reports on the long-term budget outlook, analyses of the President's budget proposals, monthly budget reviews, and policy analyses on a broad array of topics of interest to Congressional committees. CBO is reviewing and updating every aspect of its simulation model of health insurance coverage, which forms the backbone of its budget projections related to federal health care spending for people younger than 65. In addition, CBO will further develop its capabilities to assess the macroeconomic effects of fiscal policies and the ways that changes in federal regulations affect the agency's baseline budget projections.

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We will be able to make significant progress on our plans to boost responsiveness and transparency if we receive funding for fiscal year 2018 within the range that the Senate and House Appropriations Committees have recommended ($48.1 million and $48.5 million, respectively). If we receive the funding available under the continuing resolution currently in effect for this year ($46.2 million), we will make less progress. Moreover, CBO's ability to buy data and research and to pay for other standard activities would be severely limited under the funding specified in the continuing resolution, and the agency's performance of its mission would be degraded.

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1. For more detail, see Congressional Budget Office, *The Congressional Budget Office's Work in 2017: A Report to the Congress* (January 2018), www.cbo.gov/publication/53460.

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CBO's Role in Support of the Congress

CBO was established under the Congressional Budget Act of 1974 to provide information that would support the Congressional budget process and help the Congress make effective budget and economic policy. CBO's work follows processes specified in that law and subsequent laws or developed by the agency in concert with the budget committees and the Congressional leadership. The agency's chief responsibility under the Budget Act is to help the budget committees with the matters under their jurisdiction. CBO also supports other Congressional committees—particularly the Appropriations, Ways and Means, and Finance Committees, as the Budget Act requires—and the leadership of the House and Senate.

The agency is committed to providing information that is:

- Objective—representing not the personal opinions of CBO staff but the consensus and diversity of views of experts from around the country;
- Insightful—applying the best new evidence and innovative ideas as well as the lessons of experience;
- Timely—responding as quickly as possible to the needs of the Congress; and
- Clearly presented and explained—so that policymakers and analysts understand the basis for the agency's findings and have the opportunity to question the analysis and methods used.

In keeping with CBO's mandate to provide analysis that is objective as well as impartial, the agency makes no policy recommendations. Instead, it strives to present fully and fairly the likely consequences of alternative proposals being considered by the Congress so that lawmakers can make informed policy choices.

All of CBO's estimates and reports are reviewed internally for objectivity, analytical soundness, and clarity. That rigorous process involves multiple people at different levels in the organization. In addition, CBO consults with numerous outside experts who represent a variety of perspectives. The experts include professots, analysts at think tanks, representatives of industry groups, other experts in the private sector, and people working for federal agencies and for state and local governments.

Maintaining high-quality work in the face of its many demands is a task that CBO takes very seriously. The agency must constantly balance its commitment to respond quickly to the Congress's needs with its professional responsibility to release reports and estimates only when they reach sufficient quality. Part of CBO's success is built on its ability to strike that balance. Unfortunately, the conflicting demands of speed and quality mean that CBO's analyses may sometimes take longer than the Congress hopes.

CBO is also committed to maintaining a level playing field with regard to the information and analysis that it provides—ensuring that its work is made widely available to the Congress and the public. The agency releases publicly all of its formal cost estimates and analytic reports. It delivers its work to interested Members of Congress and their staff, including in particular the sponsor of legislation or requester of a report, the Chairman and Ranking Member of the committees with jurisdiction over the subject at hand, and the budget committees. At about the same time, the agency posts the work on its website. In addition, an email service, Twitter announcements, and RSS (really simple syndication) feeds notify subscribers when the agency publishes work. And CBO continually strives to make its work more accessible on its website and on its social media platforms. For example, the agency has had a constructive dialogue in the past year with a group of nonprofit organizations about how to present online information about cost estimates more clearly.

In some circumstances, though, the needs of the Congress lead CBO to keep the results of an analysis confidential. Such analyses include informal cost estimates and other types of information that are often prepared when committees and leadership are evaluating alternative proposals to accomplish their goals, have not made any specific proposals public, and need the flexibility to modify their proposals—sometimes in response to CBO's preliminary estimates—before they become public. In fact, CBO's analysts often provide informal, preliminary estimates to committee staff for a broad range of legislative options, making possible the consideration of different approaches before a specific legislative path is decided upon. In such situations, CBO recognizes that the confidentiality of its work is critical to committees' deliberations, so it keeps its informal estimates confidential as long as the proposals are not made public. (Such confidentiality generally does not apply to proposals that differ only in minor details from ones that are in the public domain.) However, once such a proposal becomes public—as introduced legislation or through public discussion of its major elements—CBO makes its estimate for that proposal available to any interested party in the Congress.

Despite high productivity by a dedicated staff, CBO expects that the number of estimates and other analyses it can produce will fall considerably short of the number of Congressional requests. The demands on the agency remain intense. For example, the workload associated with the analysis of appropriations continues to be heavy, and the Congress remains acutely interested in analyses of the Affordable Care Act and numerous proposals for changes to that law, to Medicaid, and to the Children's Health Insurance Program. Other issues arise frequently and create a heavy demand for analysis; for example, over the past year, CBO analyzed legislation related to immigration, veterans' health, water rights, opioid abuse, education, and nutrition. Analyzing the possibilities and proposals has strained the agency's resources in many areas. CBO regularly consults with committees and Congressional leadership to ensure that its resources are focused on the work that is of highest priority to the Congress.

CBO's Goals for 2018 and 2019

In 2018 and 2019, to carry out its mission of serving the Congress, CBO will focus on meeting three goals:

- Continuing to provide the Congress with budget and economic information that is objective, insightful, and timely;
- Continuing to present and explain the methodology and results of CBO's analyses clearly and pursuing opportunities to enhance the transparency of the agency's work; and
- Continuing to improve CBO's internal operations.

This section describes CBO's plans if standard activities are funded and the agency's current staffing level is paid for. The ways in which additional funding would bolster CBO's responsiveness and transparency and expand its analytical capacity are discussed in the following section.

Continuing to Provide the Congress With Budget and Economic Information That Is Objective, Insightful, and Timely

In 2018 and 2019, CBO will continue to provide estimates and other analyses to assist the Congress in making budget and economic policy. To make its work more responsive, and in particular to increase its capacity to accommodate surges in demand, CBO has recently shifted some of its existing resources. For example, the agency has reorganized the way it approaches various topics: Teams now have more people prepared to share work in certain areas, such as immigration, health insurance coverage, nutrition programs, and veterans' programs. CBO has become more efficienr in reporting the effects of intergovernmental and private-sector mandates and in providing administrative assistance, which has allowed it to increase the number of employees in areas with persistently high demand—the analysis of appropriation bills and of legislation affecting health insurance coverage, nutririon programs, and natural resources. And an editor is now dedicated to assisting with cost estimates, giving analysts and managers more time for other aspects of the work.

As it has throughout its history, the agency will ensure that its work is objective, insightful, and timely. For example, the agency's cost estimates will nearly always be available to the Congress before a floor vote on legislation. Moreover, the agency will make no policy recommendations but will strive to present fully and fairly the likely consequences of alternative policy proposals.

Many of the products that CBO will produce in the next two years are specified by statute—for instance, the annual report on the outlook for the budget and the economy and cost estimates for bills reported by committees. The rest of CBO's analyses address issues being considered by the Congress, provide background information on budgetary and economic conditions that are relevant for the consideration of legislation, or explain the tools that the agency uses in making projections and estimates. Accordingly, the specific projects that CBO undertakes this year and next will depend on budgetary and economic developments and on requests from Congressional committees and leadership. CBO regularly consults with Members and staff about what topics and types of analyses would be most valuable to the Congress, and the agency responds as rapidly as possible to shifts in Congressional interest.

In each of the next two years, CBO plans to produce the following types of output:

- More than 600 formal cost estimates, most of which will include not only estimates of federal costs but also assessments of the cost of mandates imposed on state, local, and tribal governments or the private sector;
- Thousands of preliminary, informal cost estimates, the demand for which is very high as committees seek a clear picture of the budgetary impact of proposals and variants of proposals before they formally consider legislation;
- More than 100 scorekeeping tabulations, including account-level detail for individual appropriation acts at all stages of the legislative process, as well as summary tables showing the status of discretionary appropriations (by appropriations subcommittee) and running totals on a year-to-date basis;
- Dozens of analytic reports and papers—generally required by law or prepared in response to requests from the Chairmen and Ranking Members of key committees—about the outlook for the budget and the economy, major issues affecting that outlook under current law, the budgetary effects of policy proposals that could change the outlook, and a broad range of related budget and economic topics in such areas as defense policy, infrastructure, Social Security, and housing;
- Numerous files of data documenting detailed 10-year baseline budget projections, 10-year economic projections, long-term budget projections (spanning 30 years), and other information underlying analytic reports—all of them posted on CBO's website; and
- Descriptions of policy options that would reduce budget deficits, as well as publications that increase the transparency of CBO's work and communicate about that work graphically.

The analyses requested by the Congress often involve new and complex issues, and the context for recurring issues is constantly changing. CBO expends substantial resources to understand those issues and estimate the impact of policy proposals. Many of CBO's analyses involve assembling evidence from numerous sources, synthesizing the implications of that evidence, and building models to quantify effects of specific proposals and variations of them. To be ready to provide timely responses to requests, the agency makes ongoing investments in that process. For example, the agency is now in the process of updating and refining its models for analyzing potential changes to Medicare.

Continuing to Present and Explain the Methodology and Results of CBO's Analyses Clearly and Pursuing Opportunities to Enhance the Transparency of the Agency's Work

CBO routinely works hard to make its analysis transparent, but of late, the agency has shifted existing resources toward making it still more so. CBO will publish new reports in 2018 describing its processes for producing economic forecasts, budget baselines, and cost estimates for major legislation affecting health insurance. Key staff will also make presentations on Capitol Hill about those processes.

And CBO will increase public documentation of its modeling efforts by publishing more slide decks, working papers, appendixes, supplemental data, related spreadsheets, and other technical material. The efforts to explain models better will include the following:

- The agency will explore ways to make more of the supporting documentation for the methods used in baseline projections and cost estimates publicly available. Such documentation could provide information about key variables underlying particular cost estimates—inflation rates, for instance. It also could show detailed results and associated formulas underlying estimates and link published estimates more copiously to supplemental information.

- In updating its simulation model of health insurance coverage, CBO will get systematic feedback from the research community by making presentations about different aspects of the model as they are developed. The agency will publish conceptual overviews and documentation of all parts of the completed model as well as more detailed information—including computer code—of key aspects of the modeling. (Some aspects of the modeling must not be released publicly so that CBO can maintain the confidentiality of the data.)

- CBO will develop an interactive version of its model for projecting spending on discretionary programs. That interactive model will help researchers understand and replicate the methods that underlie roughly 40 percent of CBO's formal cost estimates.

- The agency will update elements of its long-term budget model and provide technical documentation and computer code explaining the updates.

- CBO will create a publicly available tool to allow users to examine how certain changes in economic projections can affect projections of the federal budget.

- The agency will revise its model for projecting the budgetary effects of changes to laws governing medical malpractice—after carefully reviewing the literature, consulting experts, and analyzing changes in laws in various states and the results of those changes. The agency will publish revised estimates of the budgetary effects, explain the reasons for making revisions to the methodology, document how the revised model works, and make computer code for it available.

- CBO will post on its website a tool for examining the costs of different military force structures (with different numbers of fighter squadrons and ships, for instance).

- The agency will release a working paper about CBO's model of the maximum sustainable output of the economy and the computer code that generates results discussed in that paper, helping interested researchers replicate the agency's analytical results.

The shifts in resources that will allow CBO to perform those activities involve trade-offs. For example, between surges in demand for analyses of particular topics, CBO will use time to document existing models—time that might otherwise have been spent developing new modeling capacity.

Although CBO is undertaking many new initiatives, transparency has long been a standard part of its work. To begin with, its publications go well beyond simply presenting results; instead, CBO explains the basis of its findings so that Members of Congress, their staff, and outside analysts can understand the results and the methodologies used. In particular, although much of the work that CBO does is extremely technical in nature, the agency devotes substantial time and energy to presenting the work as clearly and nontechnically as possible. It continually seeks feedback about those efforts in order to ensure their effectiveness.

CBO also seeks extensive external review of its analytic reports before they are released and of the methodologies on which its products are based. In the coming two years, input from outside experts and extensive external review will remain an important component of transparency:

- CBO will continue to solicit external professional review of its work so that the agency's analyses reflect both the consensus and diversity of views of experts from around the country.

- The agency's cost estimates will often draw on consultation with outside experts.

- CBO's Panel of Economic Advisers will meet twice a year to provide input on the agency's latest economic forecast and other issues, and CBO's Panel of Health Advisers will meet to discuss key issues affecting the agency's baseline projections and analyses of proposals and examine new research in health care and health care financing. CBO will also regularly consult with those distinguished experts and other experts for guidance on the agency's work on a broad range of topics.

CBO always tries to clearly present the evidence underlying its analyses and the way that the agency assesses that evidence. To that end, CBO's documents and related information will aim to go well beyond presentations of results:

- Formal cost estimates will describe their basis—that is, the information that CBO collected and how that information was used in constructing the estimates.
- The agency will document and explain the revisions to its budget projections in each successive baseline, and it will report on the accuracy of its projections.
- Many of CBO's reports will provide substantial discussions of the relevant research literature and CBO's modeling approaches.

And the agency will continue to promote transparency by providing broad access:

- When CBO completes a budget or economic projection, a cost estimate for a public piece of legislation, or another type of analysis, it will make the results of that analysis available immediately to all Members of Congress, their staff, and the public.
- CBO's analysts will regularly explain details underlying the agency's estimates and other analyses to interested Congressional staff. Immediately after a major cost estimate is released, CBO often reaches out to staff of key committees. Beginning this year, CBO will invite a wider range of Congressional staff to participate in telephone calls, allowing them to ask questions soon after an estimate is released.
- CBO will regularly update pages on its website about the status of appropriations, methods for analyzing health insurance coverage, and dynamic analysis to make its work in those areas easier to find.
- To promote discussion among experts in the field, CBO's analysts will present their work—including descriptions of their modeling approaches—in working papers and at professional conferences.

CBO undertakes and publishes analyses of the sensitivity of its estimates to key parameters. For example, an analysis of options to improve the financial condition of the Pension Benefit Guaranty Corporation's multiemployer program showed how the results would vary if key inputs to the analysis differed from CBO's expectations. Similarly, the agency's analyses of the economic effects of fiscal policies include alternative estimates that would apply if various effects were stronger or weaker than expected—such as the amount of short-term restraint provided by higher taxes or lower government spending or the response of the labor supply to changes in tax rates.

The agency often responds to questions from Members of Congress about the methods used in its analyses. CBO's analysts spend a great deal of time meeting with interested Members of Congress and their staff to explain the details underlying cost estimates and reports. In its blog, CBO also highlights answers to questions that have frequently been raised by Members, sometimes explaining what the limitations of its analyses are and how new data and results from well-designed studies could help the agency better predict the potential effects of legislative proposals.

Even though CBO devotes substantial time and energy to presenting its work as clearly and nontechnically as possible, the pace of Congressional action often requires the agency to produce analyses quickly. So the amount of explanation that can be provided when an estimate or analytic report is released is sometimes limited by the time available. And because the overall demand for CBO's work is high and its resources are constrained, the agency needs to balance requests to explain more about finished analyses with requests for new analyses and with its other responsibilities, such as regularly updating its baseline budget and economic projections.

Continuing to Improve CBO's Internal Operations

In addition to focusing directly on serving the Congress, CBO devotes resources to attracting and retaining talented employees, developing their skills, and providing the support services and other infrastructure needed to help them be as productive as possible.

CBO faces considerable competition in attracting and retaining highly educated and skilled employees. More than two-thirds of CBO's staff consists of economists and budget analysts, and CBO also requires managers with the technical skills to lead and manage those employees' work. Talented economists and analysts are highly sought by government agencies, private analytic organizations, and other private companies. Many of CBO's economists and budget analysts could earn significantly more compensation working in the private sector.

To evaluate the competitive market for its employees, CBO routinely compares their salaries with those of employees with similar backgrounds at organizations with which CBO competes. Those organizations include other government agencies, such as the Office of Management and Budget, the Government Accountability Office, the Federal Deposit Insurance Corporation, and the Federal Reserve. They also include academic institutions and private companies.

The compensation gap between CBO and other federal agencies has become substantial. For instauce, in recent years, the Federal Reserve paid about $35,000 more than CBO could offer to people who had recently received their Ph.D. Among economists with doctorates who work in the federal govetnment (excluding the Federal Reserve), about one-third earn more than $160,000; CBO's highest-paid analysts can earn $165,000.

Academia is another strong competitor for economists. Several of CBO's senior staff over the years have been former faculty members, and CBO regularly seeks to hire people who have just received their Ph.D. and loses many strong candidates to positions in academia. Over the past three years, more than 60 percent of those to whom CBO has made offers have chosen to take an academic position instead. Compensation is an important factor in that decision; since 2000, pay for economists in academia has increased substantially, whereas the maximum salary that CBO can offer, adjusted for inflation, has fallen.

To attract and retain talented employees, CBO also relies heavily on the nonmonetary rewards of working at the agency. Fortunately, the appeal of the agency's mission to provide objective analyses, the intellectual challenges, the open and collaborative culture that the agency has maintained since its founding, and the satisfaction of public service have enabled CBO to build a dedicated and skilled workforce. However, with the current limits on the salaries that CBO can pay in the competitive markets for economists, budget analysts, and other professionals, retaining strong performers will be difficult over the long term. Compounding the problem is that the agency is seeing an increase in the retirement of experienced staff.

Staff development both improves work products and helps CBO retain employees. For both purposes, the agency will continue to fund professional development, information technology training, and efforts to improve communication skills. Of course, to remain fiscally prudent, CBO will develop employees' skills by means of internal resources and those of sister agencies to the extent possible.

How Additional Funding Could Bolster CBO's Responsiveness, Transparency, and Analytical Capacity

In response to proposals that CBO provide information even more quickly and transparently than is possible with its current staffing—while continuing to meet its goal of providing objective, insightful, high-quality information—the agency proposes to dedicate additional resources to those efforts. Specifically, CBO proposes to hire 8 new employees in 2019 and a total of 20 over the next three years—or more quickly, if the Congress chooses to appropriate the necessary funding more quickly than CBO is requesting. Certain proposals related to CBO's speed and transparency would require even more resources to implement to the extent possible.

More resources would also help CBO improve its analytical capacity. Currently, the agency is putting special emphasis on two areas: analysis of federal health care spending and expanded access to data. CBO has already shifted some resources to bolster its work in those areas, and it is requesting additional funding for three new health care analysts and for on-site capacity to use sensitive data securely.

Responsiveness

With additional resources, CBO would be able to pursue three main strategies to produce cost estimates more quickly. First, the agency would hire more assistant analysts, who could move from one topic to another and provide support to more senior analysts when demand surged for estimates or analysis about a particular topic, such as health care, natural resources, or banking. Second, CBO would hire analysts to develop deeper expertise about certain topics, such as cybersecurity and higher education policy, so that the agency would be better positioned to analyze new proposals in those areas.

Third, the agency would hire analysts to expand its use of team approaches, in which work on large and complicated proposals is shared.

Furthermore, CBO's proposed expansion of its analytical capacity, which is discussed below, would bolster the agency's responsiveness in the long term hy creating a stronger base on which to build when starting new analyses.

Transparency

The agency is actively exploring ways to provide additional information about its modeling that would be useful to the Congress, such as furnishing more public documentation, presenting the sensitivity of budgetary effects to changes in key parameters of policy proposals, and writing accessihle source code for computer programs used in analyses. Additional funding would help CBO provide more information about models that examine health insurance coverage, the individual income tax system, labor force participation, how changes in the economy affect the budget, and many other issues. Also, cost estimates often involve creating extensions of old models and building new ones, and substantial additional documentation could make information about those models useful to people outside CBO, who lack access to the agency's internal data systems.

In many cases, CBO produces cost estimates and baseline projections through complex processes that integrate information from numerous models and other analytical tools. Additional resources would allow CBO to explain more about those processes in reports, slide decks, and presentations. Such explanations would show how computer programs used in CBO's modeling fit into the broader scope of the agency's analysis, which consists mainly of identifying how proposed legislation would affect the budget; assessing which types of effects would be substantial enough to quantify; and integrating different types of research, on the basis of historical data, to project people's and institutions' responses to legislative changes. The processes generally differ for each estimate so that CBO can make the best use of different types of research to model the effects of a particular legislative proposal. The complexity of CBO's analysis, and the different analytical tools that are often brought to bear, make documentation and explanation important—but also time-consuming and resource-intensive.

Added resources would also allow CBO to produce other kinds of information that would aid transparency. For instance, the results of models often depend on key parameters used in them, and CBO could provide more information about the basis for the values used. Additional funding would also help the agency turn its internal comparisons of projections and actual results—for the economy, revenues, spending, deficits, and debt—into public documents.

Analytical Capacity

Under current law, federal spending on the government's major health care programs will continue to rise substantially. Accordingly, in 2019, the agency anticipates spending a great deal of effort in projecting the costs of federal health care programs and in analyzing proposals to change those programs. Adding analysts to CBO's team would help the agency produce a greater range and volume of analysis.

Interest in legislative proposals related to health care—on the part of committees of jurisdiction, the Congressional leadership, and the budget committees—remains very great. The enactment of the Affordable Care Act in 2010 was followed by strong Congressional interest in analysis of that legislation and possible modifications to it, as well as in potential changes to Medicare or Medicaid. Recently, the Congress has devoted substantial time to discussing proposals to repeal and replace the Affordable Care Act. Those developments have already boosted CBO's workload, and the agency anticipates that the Congress will request much more analysis of such proposals, related executive actions, and other potential changes.

In addition to responding to those immediate concerns, CBO is engaged in longer-term projects, analyzing various aspects of the health care system and enhancing its future analytical capacity to assess the effects of legislation on that system and on the federal budget. Additional staff would enable CBO to make more rapid progress on the important effort of updating its simulation model of health insurance coverage withour constraining its work on current legislative proposals.

Furthermore, CBO would like to have access to more data—both data that analysts already use regularly and sensitive data that the agency hopes to obtain. Such on-site capacity would make CBO's use of data speedier and more consistent. For example, expanded access to data would allow CBO to:

- Enhance its projections of educational attainment, thereby improving its projections of total factor productivity and economic growth;
- Improve its modeling of various demographic characteristics—including marriage patterns and variation in fertility and mortality rates by socioeconomic status—which would bolster its projections of Social Security benefits and income tax receipts;
- Better its undersranding of the resources available to people in retirement, which would allow the agency to expand its analysis of families' wealth to include Social Security income and income from defined benefit pensions; and
- Enhance its understanding of labor force participation by older people and changes in earnings inequality over time, which would improve its projections of Social Security benefits and people's behavior in claiming benefits.

The additional resources needed for secure on-site capacity would increase the quality and timeliness of CBO's work—its budget projections for the next 10 years and the long term, its cost estimates for legislative proposals, and its policy studies of issues that have significant budgetary and economic impacts.

This testimony incorporates information from CBO's budget request for fiscal year 2019, which was prepared with contributions from Leigh Angres, Wendy Edelberg, Joseph E. Evans, Jr., Theresa Gullo, Mark Hadley, Deborah Kilroe, Jeffrey Kling, Cierra Liles, Terry Owens, Benjamin Plotinsky, Stephanie Ruiz, Mark Smith, and Robert Sunshine.

The testimony is available on CBO's website at www.cbo.gov/publication/53481.

Keith Hall
Director

Chairman ENZI. Thank you, Dr. Hall.

Now we will turn to questions. Let me take a moment to explain the process. 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 the Republicans and the minority. All members who were in attendance when the hearing started will be recognized in order of seniority on their side. For those who arrived after the hearing began, you are on the list in order of arrival. If it is your turn to be on the list to be recognized, but you are not available, you move to the bottom of the list and I turn to the next Senator to ask questions. With that, I have a few questions.

A recent legislative proposal introduced in the House and Senate would require CBO to publicly disclose its models and data. You mentioned that in your testimony. The intent of this legislation is to increase transparency and allow for outside analysts to reproduce and replicate CBO projections. While you have made significant strides to open up CBO's work to the public, what efforts are currently underway at CBO to increase the transparency further, both to Congress and the public? Do you think that disclosing CBO models and data would improve the legislative process and the public confidence in the final products? And how would that vary from sharing more assumptions that are used?

Dr. HALL. Well, thank you. We are committed to transparency, and we have certainly been trying to increase transparency. One of the things that we have tried to do is we have tried to do this intelligently, treat our decisions on transparency as good business decisions for us.

There are lots of ways of being transparent. Different ways of being transparent have different benefits to Congress and have different costs. With respect to benefits, who we direct the transparency to, are we being more transparent to Members or staff? Are we being more transparent to outside experts who can evaluate what we are doing? And then, of course, costs. There can be significant time and resources used to become more transparent. So we have to make this sort of benefit-cost tradeoff analysis when we do this.

Part of what we are doing, for example, is we have some ideas on being more transparent. We are calling them pilots in a sense because we want to try them and sort of see how that is received by Congress, see if that is the sort of transparency that you are most interested in.

One of the things that we are doing, for example, is we are doing a complete rewrite of our main model for doing health care insurance estimates, the so-called HISIM model. That rewrite will happen over the next year, but to give you an idea, since I have been on board, we had plans to completely redo this model, and so it has been 3 years. We would have been finished by now if over the past year we had not gotten so many health care-related requests, so the same people who would be updating the model were busy doing cost estimates.

Chairman ENZI. That fits in with my next question, which is one complaint that I often hear from colleagues, that they are unable to receive estimates on their legislation in a timely manner, but

CBO has plenty of time to release a number of other products and reports. How would you respond to that complaint? Are these reports the result of congressional requests or are they agency—initiated? Can CBO provide a list of published reports that did not originate due to a specific congressional request or not directly attributed to a single requesting office?

Dr. HALL. Well, thank you for asking that. As I recall, when I first came on board you expressed concern about that. We have not started a single analytical report since I have been the Director without having specific congressional interest from a congressional committee, expressed interest from a committee with jurisdiction. So we simply do not do analytical reports just on our own. We square that away first.

And, second, of course, is we have lots of different areas of expertise, so when we are really busy on health care, we only have so many people we can pull into health care. So we have time for other people, people that work on other reports. We do our best to not let our analytical reports at all interfere with our work on cost estimates, for example, our work on developing models for cost estimates and that sort of thing.

Chairman ENZI. How do you prioritize those requests for reports, though?

Dr. HALL. Well, we look to committees. We try not to prioritize things ourselves. We get way more work that we could possibly handle, so what we do is we look to committees of jurisdiction and ask them what are their priorities, and we follow their priorities.

One of the more frustrating things that I have to do is——I get calls from Members sometimes who have a piece of legislation they would like CBO to look at, and if we are really busy with committee work, we have to ask the committee, "Can we make this a priority?" And quite often the answer is, "No. Our work takes priority." So we have to put off work. And I know that is frustrating, but, again, we are trying to take direction from committees as to how to direct our resources.

Chairman ENZI. We will be looking into whether there is a role for the Ranking Member and the Chairman of the Budget Committee to have more of a role in that ranking. My time has expired almost, so I will turn it over to Senator Sanders.

Senator SANDERS. Thank you, Mr. Chairman.

Dr. Hall, as we contemplate maybe someday passing a budget here, could you help me refresh my memory here? My recollection is that in the Budget Control Act of 2011, one of the cornerstones of that bill was parity, equal funding for defense and nondefense. And if I am correct, the next three budget deals that were passed also had parity as a cornerstone. Is that correct?

Dr. HALL. That sounds right, yes.

Senator SANDERS. Dr. Hall, my Republican colleagues have spent a lot of time this year on health care, and if my recollection is correct, your agency has been criticized a bit for the analyses that they provided us on various health care proposals. So let us go over it again because I think the consensus is that you were right in your analyses. But the bottom line is that on January 17, 2017, CBO scored the so-called Restoring Americans' Health Care Freedom Reconciliation Act—Mr. Chairman, we have got to do something about these titles.

[Laughter.]

Senator SANDERS. There should be truth in advertising, too. Which was vetoed by President Obama. CBO found that 32 million fewer people would have health insurance after 10 years and that average premiums in the non-group market would almost double by 2026. Does that sound correct?

Dr. HALL. That is correct. The only thing I would say, that is also relative to a baseline, so an expected change in coverage and that sort of——

Senator SANDERS. Right.

Dr. HALL. Yes.

Senator SANDERS. On May 24th CBO scored the American Health Care Act as passed by the House. CBO found that 23 million fewer people would have health insurance after 10 years. Does that sound about right?

Dr. HALL. Yes, it does.

Senator SANDERS. Okay. So, in other words, what CBO did is made the obvious conclusion that when you substantially cut Federal funding on health care, lo and behold, people lose their health insurance. And I will not ask you to comment on this, but I think you came up with the obvious conclusion, but because you came up with that conclusion, which was not terribly palatable to some of my colleagues, you were criticized, and I think that is unfortunate. And I think we should let these guys do their jobs and come up with their objective conclusions without attacking them because we do not like the conclusions that they have.

Let me go to another area. After trying to throw tens of millions of people off of health insurance, my Republican colleagues then took a look at taxes in the United States. Am I correct in saying that CBO's analysis said that the legislation that was finally passed would add more than $1.7 trillion to the deficit when interest costs are included? Does that sound about right?

Dr. HALL. Yes, although I would have to give credit to our colleagues on the Joint Committee on Taxation who did the actual hard work.

Senator SANDERS. Right, I know that. But that sounds about right, yes?

Dr. HALL. Yes.

Senator SANDERS. Am I correct in saying that the JCT's analysis determined the legislation would add more than $1 trillion to the deficit even when we use dynamic scoring? Is that a fair representation?

Dr. HALL. That is right.

Senator SANDERS. Now, I will not ask you to comment on this, but I will comment. But day after day, month after month, I have heard about the world collapsing when we add to the deficit and the national debt. That is not your issue. Some of my colleagues apparently forgot about the lectures that they gave us over and over again about deficit spending.

Dr. Hall, on November 8th, CBO re-estimated the effects of repealing the Affordable Care Act's so-called individual mandate. CBO estimated that the change would increase the number of uninsured people by 13 million within 10 years and increase premiums by about 10 percent in any given year. Does that sound consistent with what you told us?

Dr. HALL. It does.

Senator SANDERS. Okay. More recently, on January 11th, CBO estimated the cost of extending the Children's Health Insurance Program for 10 years, you projected that a 10-year extension would actually save the Government $6 billion. Does that sound about right?

Dr. HALL. Yes, it does.

Senator SANDERS. Okay. All right. Let me just conclude by saying, you know, I think under a lot of pressure your agency is trying to do the objective work that is expected of you and that I hope that some of my colleagues would refrain from attacking the agency because the results that you produce are not something that they are comfortable with.

Thank you, Mr. Chairman.

Chairman Enzi. Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman.

Dr. Hall, I want to go to kind of the line of questioning the Chairman was engaged in terms of who decides what you score and, I guess who do you report to. The reason I am asking the question is that, after the election, knowing that we were going to be bringing up health care, I started through staff informally requesting scores on what would happen if we would repeal the market reforms. It did not get very far, so on March 23, 2017, I sent a letter to you signed by the Chairman and 20 of my other colleagues, 22 Republican Senators, requesting—pretty simple. We requested the Congressional Budget Office, in consultation with the Joint Committee on Taxation, estimate the budgetary effects of repealing the Obamacare insurance regulations.

Now, you are aware the reason we need that—well, first of all, just to understand what policy might cause, but also there is no way that we can even bring it in front of the Senate if we do not have a score to present to the Parliamentarian. So this is a basic piece of information we needed. I want to know why didn't we ever get that score. Again, this is 4 months before this really came to a head. The only response we got was, "Cannot do it."

Now, you do all kinds of different things. You make all kinds of estimates, and I am going to talk next about the estimate of the number of people losing insurance. Just simple, why didn't we get an answer? Twenty-two Republican Senators asked for this analysis. What would it cost the Government if we repealed those market reforms?

Dr. HALL. Well, I can tell you that our health group was just working flat out for months.

Senator JOHNSON. This was in March.

Dr. HALL. Even in March we were working flat out for months. One of the things that is underrated, one of the reasons I tried to make a point about it, is we do a tremendous amount of what I call "technical assistance" where we are getting draft legislation from a committee of jurisdiction and——

Senator JOHNSON. Okay.

Dr. HALL [continuing]. That is going to ultimately wind up being real legislation.

Senator JOHNSON. Again, I will follow this in private with you. Okay. I want to find out exactly why we did not get this, Okay? I want to move on to the question of insurance coverage.

Your scores under Obamacare used the March 2016 baseline, which, again, by law you had to do that. But it is also true that in January 2017 you created another baseline in terms of people in terms of insurance coverage. Correct?

Dr. HALL. Right.

Senator JOHNSON. Now, in your score—and, of course, this was the grenade that the CBO threw into the health care debate that pretty well poisoned the well. You said that in 2018, 15 million Americans would lose health insurance because of the Senate bill. That is broken down 7 million in the individual market, 4 million Medicaid, 4 million employer.

The problem with that is that it's comparing against the March baseline. If you compared it to your most recent baseline, January, the individual market, there had been no additional uninsureds. That 7 million would have gone away. We would have been left with 8 million—4 million dropping Medicaid coverage, 4 million on employer.

Now, I can understand without a mandate why people might lose employer coverage. Why would people drop free Medicaid? Now, fast forward in terms of your estimate for 2026. The 15 million grew to 22 million. But, again, 7 million of that should just be excluded because you already updated your estimate that there would be nobody losing coverage on the individual market based on your January 2017 baseline. So that leaves 15 million people—22 minus 7, 15 million people—all losing Medicaid.

Now, again, you can say people are going to drop basically free coverage because there is not an individual mandate. It makes no sense whatsoever to me. It makes no sense.

So I had a conversation, one of the most frustrating ones I have ever had, with Mark Hadley. Now, in that I asked for the CBO in our latest replacement piece of legislation to break out Medicaid expansion versus Medicaid, and you did that and I appreciate that. I think that was very helpful. It certainly helped my analysis of it.

But I also asked a very simple thing. I said, fine, you know, compare your coverage estimates with your March 2016 baseline. But because you also have a new baseline, why don't you just put that as an alternate scenario?

Now, the response I got, "Well, it was take 2 weeks." You have got the baseline right here showing 19 million people uninsured on the individual, 19 million under the Senate bill, 19 minus 19 is zero. I could do that in seconds. Why did you refuse to provide the American people the information that would not have been freaking them out, where we could have really looked at this analysis and go, well, Okay, 8 million people losing, 4 on the employer, 4 Medicaid. Really we are probably looking at 4. Why didn't you provide that alternate scenario?

Dr. HALL. Well, first of all, it is not clear that the alternate scenario would have gotten the different numbers that you suggest—let me just put it that way—because changing the baseline had sort of two effects, right? Because the premiums were higher while at the same time the coverage was lower.

Also, when we talk about the 15—let us go back to the 15 million drop in Medicaid. That is really—most of that is not a decline in Medicaid, but that is a—the legislation ended the expansion of Medicaid. So those were people primarily who do not have Medicaid, will not get it over the next 10 years, who would have under current law at the time. So we are not really talking about people dropping from Medicaid, but people from——

Senator JOHNSON. Again, this is just simple math. You come up with an estimate. You compared it against a baseline, and you are not providing the American people with the information they need.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you, and there will be an opportunity at the end to submit additional questions, too, that we might want to have answered.

So next would be Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Dr. Hall, welcome. And Senator Sanders covered some of the issues I was going to ask you about, but I wanted to ask you about the impact of CRs, continuing CRs, on the work of the Congressional Budget Office. We heard from the Pentagon spokesperson a few weeks ago that going from CR to CR—we have now had four—results in wasteful spending at the Defense Department and has negative consequences for our defense.

Does going from CR to CR make your work at CBO harder? And what are the consequences of it?

Dr. HALL. Well, it does make things harder. We have actually put off some things. We are tending to put off some computer work and some things like that. If we continue under a CR, right now I think we will have to curtail our hiring. We will have to move down a few slots. We will probably have to cancel some training and travel and that sort of thing. So it does have a consequence for us. It does sort of degrade our——

Senator VAN HOLLEN. In terms of your planning, does it make your planning harder? And does that lead to some inefficiencies in terms of your ability to hire when you need to hire?

Dr. HALL. Yes, it does.

Senator VAN HOLLEN. Okay. Let me ask you about the CHIP program and the scoring, because the good news is the Congress reauthorized the Children's Health Insurance Program for 6 years, and as was referenced, the Congressional Budget Office estimated that it would actually save money, I think you said $6 billion, compared to the earlier baseline. Is that right?

Dr. HALL. Yes.

Senator VAN HOLLEN. Okay. And your analysis of savings was not as a result of the cost of providing health care services to these children going down, was it?

Dr. HALL. No, it was not.

Senator VAN HOLLEN. It was the cost of the alternative going up, right?

Dr. HALL. That is right.

Senator VAN HOLLEN. And the alternative is the health care provided in the Affordable Care Act exchanges primarily. Is that right?

Dr. HALL. Yes.

Senator VAN HOLLEN. Okay. And the reason, the primary reason those costs went up was as a result of the fact that the elimination of the individual mandate resulted, according to CBO, in the cost of premiums going up by 10 percent. Is that right?

Dr. HALL. Yes.

Senator VAN HOLLEN. All right. So I think this is an important point for people to understand. The reason the cost of providing services to CHIP went down is because those children, if they were denied that alternative through the Children's Health Insurance Program, would have gone into the Affordable Care Act exchanges, and as a result of the individual mandate removal being the primary cause, the cost to the taxpayer would go up because when those premiums go up, we all pay a higher tax credit to help meet the needs of those individuals. Is that right?

Dr. HALL. That is correct.

Senator VAN HOLLEN. So that really is my—it just shows that when you do one thing to pull the rug out of the Affordable Care Act, when you get rid of the individual mandate, you increase the premiums by 10 percent, and so that meant that if you did not extend the Children's Health Insurance Program, those kids coming into the Affordable Care Act exchanges would have been paying higher premiums. As a result, the tax credits that we provide people to make sure that that health care in the exchanges is affordable would have gone up. So, yes, it is great we extended the Children's Health Insurance Program and we saved $6 billion, but the savings was relative to the baseline, and the baseline costs went up primarily because of the move in the tax bill to get rid of the individual mandate.

So I just hope members will understand the consequences of their action with respect to actually saving taxpayers' money and providing an important benefit to our kids' health. And I really do appreciate the Congressional Budget Office because sometimes, you know, some of us agree with your analysis, sometimes we disagree with the analysis. But, my goodness, if we did not have some kind of referee here in the U.S. Congress, we would have even more of a free-for-all than we already have. And we already have a hell of a free-for-all.

So I am grateful for somebody being able to take an objective look at this and provide an analysis that we can use. There are too many—we are already having a dispute nationally over what is fact and what is fiction. I am grateful that you provide us some baseline for what is fact, at least as it regards to the budget.

Thank you, Mr. Chairman.

Chairman Enzi. Senator Perdue.

Senator PERDUE. Thank you, Mr. Chairman. Thank you,

Dr. Hall, for being here.

I want to talk about partisanship just a minute. I found three things this morning in a bipartisan way that I agree with the Ranking Member today, and I want to put that in the record.

Number one, I agree with his first opening comment about we need to be serious about the budget process and recognize that it is broken.

The second thing is we all want to find a way to solve the DACA issue.

And, third, and maybe most important, we need to find a way to simplify our titles of bills around here.

But I also want to agree with my colleague Senator Van Hollen. You know, thank you that you are attempting to be an objective source for information for modeling and anticipation and projecting the impact of potential legislation. But I want to talk about how to achieve that.

First of all, this is one of the most partisan committees that I have seen. I was on Judiciary as well. It is very partisan as well. But this is a very partisan Committee, and unnecessarily so. But it is partisan because of the budget process. Members of the other side of the Committee, several members there, Senator Whitehouse, Senator Kaine, members of this side, I think we all agree the process is broken, and it creates a situation here because the budget is not a law, it is a resolution; therefore, the majority crams down the throat of the minority their political statement about what they think that they should do in spending. You get caught in the middle. One side likes your opinion; the other side does not like your opinion. This will change at some point in the future. They will be in the majority; we will be in the minority. Nobody is going to like it. This is a broken process. We have to fix it.

But in the meantime, you play an important role, and I think it is absolutely critical that you be as nonpartisan as you can be. I have two questions for you very quickly.

One is I agree with the Chairman and the Ranking Member that they should be involved in the priorities of what you are allocating time and resources to. You heard very important questions being asked during the health care debate as well as the tax debate that did not get answered. How do you respond to that? And then I want to talk about how you are assuring that we maintain a nonpartisan position in here? Very quickly. Just on hiring—I mean, I am sorry, on the priorities, would you address that very quickly?

Dr. HALL. Sure, sure.

Senator PERDUE. Then I want to go to one more question real quick.

Dr. HALL. One of the difficult things for us is we do so much technical assistance, which often leads to a formal cost estimate, but by technical assistance, we are looking at legislation, we are giving feedback and formal estimates. That is so often done by a committee or leadership, and they want it done confidentially because it is sort of technical assistance. So we wind up doing a lot of work over time where the Budget Committee would not know what we are working on and we cannot tell them that.

And so what we have done is we have developed what we think is a pretty—the most effective thing we can do, and that is when we have—when we are jammed up on topics, we look to the committee of jurisdiction to tell them, hey, we have got these things going on, tell us what your priorities are.

Senator PERDUE. But the ultimate priority really exists in the—or resides in the Budget Committee, right?

Dr. HALL. Yes, that is right.

Senator PERDUE. Okay. So let me go back to one other thing then. In terms of this partisanship—and this is before your time, so I think you can be objective to the response. The question is how to avoid this in the future. It is one thing to disagree with the projection. It is another to look at reality and compare it back to the projection, which is what we do in the real world in business.

In 2013, CBO predicted that Obamacare enrollment in the individual market for the years 2015, 2016, and 2017 would be 13 million people, 24 million people, and 26 million people, respectively. The actual enrollment was 11 million, 12 million, and 10 million.

Now, when you see 100 percent error like that, it raises questions in my mind about impartiality, particularly when the author of those estimates, the head of the CBO's health analysis group, was formerly part of Hillary Clinton's 1993 Health Care Task Force, I have to ask the question: How do you ensure—you were not there then. Going forward, how do we assure ourselves that we are getting a nonpartisan, objective viewpoint, to Senator Van Hollen's point earlier?

Dr. HALL. Well, we do a lot to try to seek guidance and advice from experts on both sides. We try very hard. We actually do our best to go back and look at how we did. We went back and looked at how the estimates turned out there.

The only thing I would say, you know, in defense, of course, is sometimes it is really hard to estimate these things.

Senator PERDUE. Sure.

Dr. HALL. And I think one of the conclusions I would make in going back is certainly with the exchanges we were off. We were not as far off on things like the actual spending and some other things. But everybody else was as well. In fact, we were probably more accurate than most others.

Senator PERDUE. That does not give me a lot of comfort.

Dr. HALL. I know it does not. But it goes to the issue of bias, right? We can be off and we can be wrong, but hopefully we are not consistently wrong. I am a little disturbed that we are consistently overestimating, for example, the exchange participation. We tried to fix it. We still overestimate. Try to fix it—you know, I have a background in economic data. When you are doing economic data, you do not want to have revisions all one way. You want to revise it up and down.

Senator PERDUE. Right.

Dr. HALL. That is what we would like to have. But we try very hard to do that. We try it with the processes and try to do it that way. We try to be transparent. That is why I approved this transparency push.

Senator PERDUE. Thank you.

Thank you, Mr. Chairman.

Chairman Enzi. Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Chairman.

First, let me echo what my friend Senator Perdue has just said. We have seen the Budget Committee become 100 percent partisan and zero percent meaningful. In fact, the most important work that we do here is not even budget work. It is simply the political task by the majority of opening the procedural gateway to another partisan political effort down the road in the Senate. Short of that, we do not need Dr. Hall; we do not need staff. We do not need anything because we do not do anything in this Committee. There is a reason that over and over again we have Committee hearings, even nominally on the budget of the United States, and nobody even bothers to show up in the audience, because people know perfectly well that what we do here has exactly zero effect. Once appropriators got accustomed to beating a 60-vote margin in the Senate on appropriations bills, the Budget Committee's penalty for breaking our budget, which is you have to get 60 votes, made us useless. The fact that we only look at appropriated funds, not the far larger amount of money that goes sloshing out through the back door of the Tax Code, not the health care expenditures of the country, just contributes to my sense that we have made ourselves a useless Committee, and it is something I am extremely eager to correct on a bipartisan basis.

The issue that bedevils us, I think, the most here is the health care cost issue, and, Dr. Hall, I think you have seen me do these before. This is one of my least favorite graphs that has life expectancy in years among the leading developed countries and cost per capita in health care, and basically all of our major competitors are here in this kind of bolus of competition. We are way the heck out here. We cost a fortune more per capita than any other industrialized country, and we have life expectancy comparable to Chile and the Czech Republic. So it is not like we are gaining these massive health gains from that massive expenditure.

So you guys do some really good work, and this is to me one of the more interesting things that I have seen. The red line on the top is the projection for Federal health care spending that was made back here. That was in August 2010. In January 2017, this experience, the actual green line, then got baked into a new projection, and the new projection for this 10-year period is lower by the amount of this green block than what CBO had previously estimated. That reduction is $3.3 trillion in health care savings. If we could pass something in the Senate and in the House that gave us $3.3 trillion in health care savings, that would be one of the most significant things that we could do.

The problem is we do not know exactly why that happened. That is a combination of early experience and then algorithms that you guys run to make your projections with that we do not have a lot of transparency into. So, to me, if you are looking at the possibility of multiple trillions of dollars in future health care savings, it ought to be an absolutely critical priority, a bipartisan priority of this Committee and of your office, to be trying to figure out and explain what are the things that can help make that happen. What are the things that might even dial it up a little bit? If you can get $3.3 trillion, why not $6.6 trillion?

So I hope if we are going to spend more money on staff, this becomes a really important priority, explaining why. Because if you can explain why, we can try to do more of it.

Now, I will say that we have accountable care organizations, provider accountable care organizations in Rhode Island. It is basically doctors' offices that have agreed to sign up for placing a bet that they can give better care at lower cost to their patients. In return, they do not just get paid for doing procedures and prescriptions. They get a bonus from CMS for doing a good job.

Some of the best ones in the country are in Rhode Island, and they are seeing their cost per patient actually go down year over year. And they are generating millions of dollars in savings just in their little local practices.

So somehow there is a connection between being able to save \$3.3 trillion just over 10 years in health care expense and these local experiences that we are all seeing in our provider and other ACOs. How to maximize that to me I think is a job worth doing in a Committee that otherwise appears to have no purpose.

So I look forward to working with you on that, Dr. Hall.

Dr. HALL. Let me say that falls right into our category of analytical reports that we do, and that is exactly the sort of thing that we like to look at that is really of interest budget-wise but explains things.

Chairman ENZI. Thank you. And at the beginning of 2016, we said the budget process was broken, and we did 13 hearings and had a number of things that we had hoped that we would pass before the election so we would not know who the President was going to be or who the majority was going to be. But we did not have enough people involved in that process, so it got stopped before the election. I thought we——

Senator WHITEHOUSE. Do not give up hope, Mr. Chairman.

Chairman ENZI. I will not, and I am planning on doing some hearings based on some task forces led by individuals on this Committee, bipartisan ones, and I suspect that you have an intense interest in health care.

Senator Cotton, welcome to the Committee as our newest member.

Senator COTTON. Thank you. It is good to be here. I am saddened to hear the Senator from Rhode Island and the Senator from Georgia agree that it has become very partisan. I suppose I was added to make it more bipartisan. And I want to start with a bipartisan conversation. I think it will matter to both sides of the aisle, because it is just about the way the CBO interacts with members of this Committee and Members of Congress as a whole, the way they respond to requests for information from us.

I want to use as an example the analysis CBO did last fall about Medicaid coverage losses under one version of our health care bill. I am not sure which one it was. Some of your analysts came to a Republican conference meeting to explain, I think it was, a 5-million-person loss under Medicaid, and that analysis turns out to have assumed that some number of the 18 non-expansion States would expand Medicaid despite their previous decisions not to since the 2010 law, and then if our bill had passed, those States would then decide to drop Medicaid.

When asked which States would be doing that, and especially if Texas and Florida would be doing it, the two largest non-expansion States, since if you did not have one of those two expand, you could not even get to 5 million in total population, the analysts told us they could not answer that, they do not make that kind of prediction. They were just going on past programs and so forth. I found that pretty astonishing. At root, that is more of a political judgment than it is an economic assessment. And there is just no good explanation for why they reached that conclusion. And I found that to be fairly consistent with my study of CBO reports, which are usually pretty good when it comes to Government revenues and outlays, but leave something to be desired when it comes to things like political judgments or market forces and incentives, or the incentives of private individuals. And I believe that those assumptions are rarely made adequately public or explained, and it makes it harder for us to do our job and certainly harder for the public to understand the kind of projections you are making.

Let me stop there and see if you would like to respond to that.

Dr. HALL. Sure. We are not particularly happy about having to make that sort of assumption, but it was absolutely key to understanding the proposal how many States will choose to expand or not expand. If we choose no more would expand, that is an assumption that would affect our numbers. If we chose that some would expand, we are trying to do that. We tried our best to look at past history, and what we did is we put States into buckets. We had different buckets, you know, more likely to expand, less likely, in the middle. And we actually really did put the States in there, but our thinking was we did not want to talk about particular States, because if you are wrong about a State in the wrong bucket here, it should be over here, there might be some State here that should be over there. So the errors can somewhat cancel out.

Senator COTTON. If I could, Dr. Hall, I do not want to get into the details of that particular analysis. My point is, though, that was a very small universe of data.

Dr. HALL. Sure.

Senator COTTON. Eighteen data points. It is not millions of data points, as are often used.

Dr. HALL. Right.

Senator COTTON. The kind of analysis and assumptions you just made was not explicit in the reports we received. It took four of your analysts coming to explain that to us in detail for Senators to understand it and certainly for the American people to understand it. Why not just make that kind of thing public, you know, do something like different scenario analysis, making your assumptions more explicit, both for us and for the public?

Dr. HALL. We are happy to start trying to do more of that. My only defense at this point is we only have so many people, so much times, and these are tradeoffs. But if Congress, if you all want more time spent on that sort of transparency, we will do it.

Senator COTTON. How many people do you have?

Dr. HALL. Well, on health care, let me just do health care first. Health care, complete health care, we have 40 people. So the people who are really engaged were probably less than 20 people on all these estimates. So, you know, we have 230 people total. We have about 40 on health care. We have lots of other buckets we have to cover. So we are not huge. But we do have some people, and I tell you, they were working full out on things.

Senator COTTON. Let me conclude with a story. In the summer of 2013, I was a new Congressman, and there was an immigration debate going on at the time. The CBO had produced an immigration estimate, and it was controversial I think on all quarters for the estimates it made about future immigrant flows, legal versus illegal, impact on population, impact on wages and so forth. I wanted to get a little more information about that. I spoke with your predecessor. After some time he offered to come by. I said, "I do not want to just get the wave tops here. I want to get down into the details." He said they just do not have the resources to do that. I said, "I will come to you. You do not have to come to my office." He said that it was not a finished product. I said, "Look, 2 years ago I was modeling complex economic and business problems at a private consulting firm. I understand how to work a spread sheet. I will sit with your analyst at her desk and go through everything." And that was refused to me. Is that an appropriate response to make to Congress?

Dr. HALL. No, no. We would like do a lot better.

Senator COTTON. So if I have a similar question about a future analysis, then I would be welcome to come and sit at someone's desk and walk through assumptions and modeling?

Dr. HALL. Absolutely. I have never refused to go and talk with a Member and bring staff and talk about something.

Senator COTTON. Thank you.

Chairman ENZI. Thank you.

Senator Kaine is not here, so Senator Kennedy.

Senator KENNEDY. Dr. Hall, thanks for coming today.

Dr. HALL. Thank you.

Senator KENNEDY. CBO has a well-deserved reputation, I think, as being a neutral arbiter. And I understand you work under a lot of pressure. I get that. You and all your people are very, very, very bright. That much is clear to me.

You are serving us, but you are also serving the American people. And I am going to make just a couple of suggestions about what we need but, more importantly, I think, the American people need.

Number one, you have got to move more quickly. I know that is easy for me to say, but for a variety of reasons, I think the pace has quickened in many respects when we get in the middle of discussing an issue.

Number two, you have got to be clearer. It does not do any good—and I do not want to overstate this, please. That is why I prefaced what I am saying here with how extraordinary I think the work you do is. But the analysis has to be thorough, but it has got to be written in non-Swahili so that the American people and the press can pick it up and say, Okay, here are the conclusions, here is why CBO reached the conclusions, and here are the assumptions that they are making, understanding that you are not clairvoyant and in predicting the future you have to make certain assumptions.

Now, you can accompany that with a long, detailed Ph.D. dissertation type document, and I am not being critical, which I can assure you more Members of Congress than get credit for it will read. But what is important, it seems to me, is that we get it quickly and that the American people have an opportunity to understand it better.

Now, that is not because the American people are stupid. They are not. I have said this before. Most Americans do not read Aristotle every day because they are too busy earning a living. But they will figure it out. I am just suggesting that we can all do a better job of helping them do that.

That is my only comment. I know it is easy to criticize and Monday morning quarterback, and you work under a lot of pressure. But we have got to have it faster, and I think the American people, given your well-deserved reputation, deserve a little more clarity. And I say that gently and with a spirit of gratitude for the good work you do.

Dr. HALL. Well, thank you. I think you have identified the two biggest problems I think that we have: the responsiveness and the transparency. And, unfortunately, they sometimes collide with fixed resources.

Senator KENNEDY. I know.

Dr. HALL. And so we have been working hard to sort of think of some ways we can improve that process-wise. And it is also part of why we are asking for some more resources.

Senator KENNEDY. Thank you.

Dr. HALL. But I appreciate the feedback. Thank you.

Senator KENNEDY. I am not leaving because—well, I am way over—no, I am not. I have got to go back to another committee, but I want to thank you for being here today.

Dr. HALL. We appreciate any more ideas you have on how we can do our job better.

Senator KENNEDY. Will do. Thank you.

Chairman ENZI. Thank you, Senator Kennedy.

Senator Boozman.

Senator BOOZMAN. Thank you, Mr. Chairman. And thank you, Dr. Hall, for being here. I know that you all do work awful hard, and our purpose is to help you get the job done.

You know, one of the things that—as you know better than anybody, you are kind of in the central position that we simply cannot do things many times without you all weighing into it. One of the things that somebody ought to look at, yourself or GAO or whatever, would be how much—not getting information, how much that adversely affects the ability of Congress to do its job. Again, that is a huge deal.

The other thing that I do think is important—and I know that you have problems with resources and things like that, but we need to measure things. And you all weigh in on bunches of stuff. Many times that is accurate. Sometimes it is not as accurate. And sometimes it is not because of the fact that, you know, there is a mistake to be made. It is just very difficult to do these things. I think it would be helpful for us to know the areas that we can truly rely on the information versus it is a guess. But you can only do that through metrics. You know, you have to have the ability to check yourselves out, and I do not think that that is happening right now.

Can you talk about that? And if you do not have the resources to do that, then, you know, what would it take for us to give you that ability? Because I do think, regardless of what we do, you know, you simply—you need to have that information; we need to have that information as we make really important decisions.

Dr. HALL. Well, I can say one of the things that we do every year, we call it an "analysis of actuals," where we sit down and look at all the budget categories and see what happened during the year and what we predicted during the year. How did we do? How far were we off? We actually sit down and go through that, and I have a meeting. How close are we? How far off? How are we going to adjust our view of this going forward?

One of the things that we have been thinking about—it sounds like it may help with this—is we are going to maybe start publishing our analysis of actuals so you can actually see how we did in one of these budget categories.

Senator BOOZMAN. I think that would be helpful.

Dr. HALL. The tricky part, of course, is sometimes the budget categories are larger than pieces of legislation, so it is hard to know about a small piece of legislation. But this will give you an idea of where we are being more accurate and less accurate.

Senator BOOZMAN. And I think at times, too, we run into disagreements. You know, there are areas where I think the Committee staff truly are experts in particular areas, have significant disagreements, and I would hope that, you know, there is dialog to try and work out the differences and at times maybe change your perspective as to what is going on.

Dr. HALL. Yes, well, one of the things that we now do—we have always sort of done it, but we are now sure to do—is when we get pieces of legislation and a committee has some data that they have looked at, has some analysis that they have looked at, we ask for that and we be sure we look at that. We always go further to do an independent look.

Senator BOOZMAN. Sure.

Dr. HALL. But we want to be sure that a committee feels like we have given them a fair look at what they have looked at. I think that is an important starting point for us to be sure that we are unbiased and objective.

Senator BOOZMAN. I very much agree. One of the things I think you talked about when you were talking when you were here last time, you talked about the problems of retaining qualified people, and then also I think you said in your testimony that over the past 3 years, back then, more than 60 percent of those to whom CBO had made offers had chosen to stay in academic positions. So, you know, it sounds like that is a huge problem, acknowledging the funding constraints that we are under and things like that. What do we do to help you get the people that you need and retain people?

Dr. HALL. Well, one of the things——

Senator BOOZMAN. Be a more competitive employer.

Dr. HALL. Sure. Actually, one of the things that has changed is we had been capped so that all the salaries had to be basically below a Member's salary, below my salary, while a lot of the people were competing for senior managers in the executive branch, they have a higher pay scale. They can make as much as $30,000 more than I make or anybody at CBO.

We have now got a change, so we are allowed now—going forward, we are going to be allowed to start paying our senior managers as much as the executive scale. Not that we are going to do it, but I think that will make us more——

Senator BOOZMAN. But you have got that flexibility?

Dr. HALL. We now have that flexibility. I think that is going to be an important thing for retaining our top people. So that actually was a really good move. We are trying to be careful on how we use it.

Senator BOOZMAN. So retaining and then also recruiting?

Dr. HALL. That is right.

Senator BOOZMAN. Very good.

Well, thank you, Mr. Chairman.

Chairman ENZI. Thank you. I appreciate all the input from members today. I have got a lot of notes. There are a lot of things that we as well as CBO need to do to improve the process.

One thing, though, that kind of is—you had it in your opening comments, and it kind of stuck with me, and I think it has been echoed a little bit here but not directly. Have you considered serving as kind of the aggregator collecting estimates from a number of outside think tanks and things and reporting that are part of the transparency, as well as the answer that you come up with? Is that a potential solution?

Dr. HALL. I am not sure it is. We are happy to do what we are asked to do, but one of the things you get with CBO is you get consistent quality. We do high-quality work, and we work very hard to be unbiased. And this is one of the issues, for example, where we make models available. Part of the advantage of CBO is not just that we have these models, but we are the ones who run the models.

If we want to get input from think tanks, et cetera, I think that is a good idea, and I think we do, in fact, go and talk to think tanks and get their views on this, get their feedback on how we do things. We are happy to try to do that more and see if that helps.

As to whether think tanks will spend a lot of time producing competing estimates on so many of the small things we do, that is probably not realistic. But I do think that there is value in having us assure you at least that we go and talk to think tanks and spend some time getting their views on things.

Chairman ENZI. Okay. I appreciate that. I have learned a lot today. I think there was kind of general agreement that we have a broken budget process. I have watched this for years now and chaired it for a while, and I know that most of the budgets never last more than 40 days before there is a waiver of the budget. And as Senator Whitehouse pointed out, it only takes 60 votes to overcome it, which is usually the same amount that it takes to pass the legislation. So it is virtually 100 percent assured.

One of the things we had from our hearings, the 13 hearings that we did while Senator Whitehouse was the Acting Ranking Member, was that there ought to be a higher threshold for higher numbers. And I think we should consider that if we are going to have any possibility of this making a difference.

I will continue to hold some hearings, and we will go back and review the material from those hearings that we had. From today, some of the other things that I—I did hear that this is the most partisan Committee, and I want people to know that it has been the most partisan Committee since 1974 when it was first initiated. And the process has been for the majority party to hold opening statements so that the other side can comment on the budget and then let them see the budget. And I never considered that to be fair, so we have changed that process. They now get it 5 days in advance, and I think it helped to expedite the markup and the hearing.

Of course, in exchange for giving it 5 days earlier, everybody has to turn in their amendments. And one of the things I learned working with Senator Kennedy when I chaired the Health, Education, Labor, and Pensions Committee was that when those amendments come in early, there is a seed of possibility in every one of those amendments. And sometimes you have got to let them grow, and more often what you need to do is look at the same seed being planted by both sides of the aisle and see if the people cannot get together and come up with the common one that will work. And that is what I am hoping will come out of this budget process and make it less partisan. When it does not exist, when the results do not exist more than 40 days, then reconciliation becomes the most important part. And reconciliation has its shortcomings, too, because every amendment has to have a budgetary impact of some significance. And so the rules that follow that make actual legislation very difficult. But if that is the only way to move forward, then that becomes the method of choice, and both sides have used it. I think there are better ways to legislate, and I hope that we can get to that.

Now, on the things that we did today, I think one of the key messages was also that assumptions matter. And, you know, when we talk about transparency, there are not many people that are going to follow a model, you know, with all the different arrows and things that would be involved in that, which are even tougher to explain verbally. But assumptions, I think that they do have a pretty good ability to understand, and if they know what assumptions go into it, that might make the kind of transparency that we are talking about for particularly non-economists, which I would assume is almost everybody on the Committee and almost everybody in the U.S. Senate.

I also like the idea that everything should be written in plain English. And we should have some better titles for our bills that are not quite as biased as what they might be but tend to get people to not be able to vote against them based on how good they sound, whether the text that follows does that or not.

And I appreciated your comment about allowing people to be able to sit down with the analysts and get a little better understanding of where the information came from. I think that particularly for people that have been an analyst, that would be very helpful.

So thank you for being here today and for your comments, and we will continue to work with you, and I will be trying to engage the Committee in doing more oversight work in particular areas that we can—not that we would legislate in, but that we would pass the information on to the committees of jurisdiction.

So thank you, and with that, this hearing is concluded. As a reminder people can turn in lists of questions if they wish, and we will send those over, and I am sure we will get a response. Thank you.

Dr. HALL. Thank you.

[Whereupon, at 11:51 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

FEBRUARY 23, 2018

Answers to Questions for the Record Following a Hearing on Oversight of CBO Conducted by the Senate Committee on the Budget

On January 24, 2018, the Senate Committee on the Budget convened a hearing at which Keith Hall, Director of the Congressional Budget Office, testified about CBO's work in 2017 and its future plans.[1] *After the hearing, Chairman Enzi, Senator Harris, and Senator Van Hollen submitted questions for the record. This document provides CBO's answers. It is available at* www.cbo.gov/publication/53601.

Chairman Enzi

Question. Last year, both the House and Senate spent considerable time working on health care reform. Throughout the process, CBO was subject to heightened scrutiny and congressional demands. At times, senators became acutely aware of the constraints and limitations of your agency. For example, legislative proposals often took four to six weeks to model and then analyze. Can you help us better understand the constraints and limitations CBO experienced last year? How much time was dedicated to conceptualization and interpretation of data compared to actually running your health care model? How does CBO know when its conceptual work is complete? Are there any metrics CBO could use to make this process more efficient?

Answer. CBO and staff of the Joint Committee on Taxation (JCT) analyzed several proposals last year that would have made substantial changes to the way Americans pay for health care, and lawmakers made many other proposals that the agencies did not have the capacity to analyze. Because the proposals would have made such extensive changes, it took CBO and JCT weeks to develop a modeling strategy and undertake their analysis of the various proposals.[2] That work included:

- Assessing each proposal's likely key effects and considering the pace at which those effects would occur;
- Researching how federal agencies, states, insurers, employers, individuals, doctors, hospitals, and other affected parties would respond to proposals;

1. See testimony of Keith Hall, Director, Congressional Budget Office, before the Senate Committee on the Budget, *The Congressional Budget Office's Work in 2017 and Plans for the Future* (January 24, 2018), www.cbo.gov/publication/53481.

2. For additional discussion, see Congressional Budget Office, *How CBO and JCT Analyze Major Proposals That Would Affect Health Insurance Coverage*, www.cbo.gov/publication/53571.

- Projecting and reviewing effects on health insurance coverage and premiums; and
- Estimating budgetary effects of those changes in coverage and premiums.

Most of the time was spent researching the responses and building new tools to model the ways those specific proposals worked. Understanding the interaction of changes in the way states could implement waivers of provisions of the Affordable Care Act (ACA) with other elements of the proposals and then modeling those effects was especially difficult. Considerable time was also spent analyzing changes to the proposal after modeling had begun. Once the tools were built, computation could usually be done in a day or two for any given model. The analysis used several different models to translate coverage effects into budgetary effects.

In terms of the conceptual work needed to create new tools, the work is complete when those tools are functioning in a way that produces results that appear to be logical and in the middle of the distribution of possible outcomes. CBO has developed measures of the time used for each step in its process and has reduced the time needed to produce estimates of proposals that are similar to those that have been analyzed before.

Question. Last year, CBO produced about 740 formal cost estimates and thousands of informal cost estimates on legislation considered before the Congress. After legislation is passed, how often do CBO analysts go back and review their initial projections? Do you currently have a process in place, outside of putting together subsequent baselines, where CBO leadership reviews what you got right, what you got wrong, and where you can improve? To the extent that lessons can be learned that could benefit future work and estimates, shouldn't this type of review be a priority?

Answer. CBO routinely monitors the budgetary effects of enacted legislation to help the agency improve its projections of spending and receipts under current laws, as well as to improve cost estimates for new legislative proposals.[3] Such review is a high priority. At the end of each fiscal year, CBO carefully compares the actual results for that year with its projections of those results at various points in time. The agency also examines patterns over multiple years in the differences between estimates and actual outcomes to improve future estimates.[4] In addition, CBO consults with outside experts on federal programs to improve its estimating methods.

Judging the accuracy of CBO's cost estimates for legislation that is ultimately enacted is often quite difficult—generally because the actual costs or savings resulting from enacting legislation are a small part of a large budget account or revenue stream and cannot be separately identified. As a result, when spending for a government program turns out to be more or less than CBO had expected after a legislative change, it is usually unclear whether the error

3. For additional explanation of CBO's processes, see Congressional Budget Office, *How CBO Prepares Baseline Budget Projections* (February 2018), www.cbo.gov/publication/53532, and *How CBO Prepares Cost Estimates* (February 2018), www.cbo.gov/publication/53519.

4. See Congressional Budget Office, *CBO's Record of Projecting Subsidies for Health Insurance Under the Affordable Care Act: 2014 to 2016* (December 2017), www.cbo.gov/publication/53094, *An Evaluation of CBO's Past Outlay Projections* (November 2017), www.cbo.gov/publication/53328, and *CBO's Revenue Forecasting Record* (November 2015), www.cbo.gov/publication/50831.

should be attributed to the previous baseline projection for spending under that program or to CBO's estimate of the effects of the new legislation.

Most of the cost estimates that CBO completes are for legislative proposals that are not enacted, so it is not possible for the agency to determine how close its cost estimates were to actual results in those cases. In addition, CBO regularly prepares cost estimates for legislation when bills are reported by committees of the House of Representatives or the Senate. In some cases, such legislation is changed before enactment. Although CBO often provides updated cost estimates prior to enactment of legislation, proposals are sometimes amended after cost estimates were prepared.

Question. CBO's June Budget and Economic Outlook projects 2.2 percent real GDP growth in 2018. The January Blue Chip consensus forecast is 2.6 percent and, in December, the Federal Reserve announced their 2018 outlook increased to 2.5 percent. Do you expect CBO's economic growth projections for 2018 to more closely match outside forecasts in the upcoming baseline?

Answer. Much has happened to fiscal policy and the economy since June 2017, and when CBO updates its economic projections it will incorporate that information. CBO's near-term economic forecasts are often quite similar to the *Blue Chip* consensus, so it would not be surprising if the agency's projection for 2018 is similar again this year.

Question. The recently enacted tax reform bill included a provision that, beginning in 2019, eliminates the individual mandate penalties imposed by the Affordable Care Act. At the time the legislation was being considered by Congress, CBO and JCT estimated that the provision would reduce the federal deficit by roughly $300 billion over the ten-year budget window and that, in the absence of such penalties, some individuals may decide not to obtain health insurance. The effectiveness of the individual mandate is evolving and major methodological changes in its analysis would likely come in the near future. When did CBO first realize it was overestimating the effects of the individual mandate? What data or economic literature led you to that conclusion? When does CBO plan to update Congress on its work in relation to this issue?

Answer. The estimates of major proposals affecting health care in 2017 were all assessed relative to CBO's March 2016 baseline (with adjustments for subsequent legislation), on the basis of consultation with the budget committees. That baseline was used because the budgetary effects of reconciliation legislation are typically estimated relative to the baseline that underlies the budget resolution that specified the reconciliation instructions.

CBO and JCT's estimates of outcomes under the ACA were reasonably close to the actual results for 2014 and 2015. A large difference first became apparent in the results for 2016. The agencies wrote last June that "enrollment in the marketplaces under current law will probably be lower than was projected under the March 2016 baseline used in this analysis, which would tend to decrease the budgetary savings from this legislation. However, the average subsidy per enrollee under current law will probably be higher than was projected in March 2016, which would tend to increase the budgetary savings from this legislation."[5]

5. See Congressional Budget Office, cost estimate for H.R. 1628, the Better Care Reconciliation Act of 2017 (June 26, 2017), p. 9, www.cbo.gov/publication/52849.

CBO and JCT came to that conclusion after reviewing enrollment and subsidies for 2016 and preliminary data for 2017. Some of the overestimate of marketplace enrollment and underestimate of the average subsidy per enrollee in that baseline was probably related to the effects of the individual mandate, but it is difficult to tell how much. The implications for the budget were not clear because those two effects work in opposite directions. In November 2017, CBO and JCT published an updated estimate of the effect of the individual mandate incorporating revised baseline projections of enrollment in health insurance, premiums, and other factors.[6]

In writing about that estimate, the agencies also indicated that they were undertaking considerable work to revise their analytic methods. CBO and JCT examined data and research that might shed light on the effects, discussed the issues at a meeting of CBO's Panel of Health Advisers, and consulted other experts.[7] Because that work was not complete and significant changes to the individual mandate were being considered as part of the budget reconciliation process, the agencies published the update in November without incorporating major changes to their analytic methods.

The preliminary results of analysis using the revised methods indicate that the estimated effects on health insurance coverage of eliminating the mandate penalties will be smaller than the numbers reported previously, as noted in the November report. In addition to other technical and economic changes, CBO's next baseline will incorporate estimates of those effects because the repeal of the penalty for not having insurance, which goes into effect in 2019, is now part of current law. CBO plans to describe those baseline projections and all the changes in a report this spring.[8]

Senator Harris

Question. Californians are particularly concerned about the cap of the State and Local Tax Deduction (SALT) in the Tax Cuts and Jobs Act. They are concerned, not only because they know they won't be able to claim as much of a deduction, but also because the cap on SALT will likely make it harder for state and local government to find the funds necessary to finance essential services, such as public safety and education. When an earlier tax proposal was floated to eliminate the deduction altogether, the National Education Association estimated that doing so could result in the loss of 250,000 education jobs, and 38,132 education jobs in California alone. Is CBO able to conduct a similar analysis of the impact that the cap in the SALT deduction might have on funding for state and local governments? If this is in your jurisdiction, could this analysis include projections about potential job losses in fields such as education if funding for local governments is reduced? Lastly, in your assessment, will the GOP tax law, as a whole, create growth in the economy?

6. See Congressional Budget Office, *Repealing the Individual Health Insurance Mandate: An Updated Estimate* (November 2017), www.cbo.gov/publication/53300.

7. For further explanation of these issues, see Alexandra Minicozzi, Unit Chief of Health Insurance Modeling, Congressional Budget Office, "Modeling the Effect of the Individual Mandate on Health Insurance Coverage" (presentation at a meeting of CBO's Panel of Health Advisers, Washington, D.C., September 15, 2017), www.cbo.gov/publication/53105.

8. For last year's version of the report, see Congressional Budget Office, *Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2017 to 2027* (September 2017), www.cbo.gov/publication/53091.

Answer. CBO does not have the capability to examine the effects of changes in state and local income tax deductions on funding for state and local governments. CBO expects that the recent major tax legislation, Public Law 115-97, will increase economic output over the coming decade. CBO is incorporating that effect into its projections; that analysis is not yet complete and will be published this spring.

Question. Last year, Standard & Poor's (S&P) published a report which suggested that if more women entered and stayed in the workforce, we could grow nominal U.S. GDP by 5 percent to 10 percent over the next few decades. In addition, the United States ranks 20th out of the top 22 nations in terms of how many women in this country participate in the workforce. One of the recommendations the report made was that the CBO should prepare a score about the impact that legislation could have on making it possible for more women to participate in the workforce. Do you think it is possible for CBO to complete a score that analyzes whether the long-term projections about GDP growth are accurate? Additionally, do you think it is possible for CBO to examine how policy decisions, such as the lack of child care affordability, has contributed to the United States falling so far behind other countries in women in the workforce?

Answer. Broadly speaking, CBO could analyze what would happen to economic growth under various assumptions about women's participation in the labor force. Analysis of ways that public policies and other factors have contributed to changes in labor force participation is a subject that CBO has examined recently and could study further.[9]

How any particular piece of legislation would affect that labor force participation may be difficult to assess. CBO would analyze the effects of proposed legislation on economic growth over the next decade in certain circumstances. The Concurrent Resolution on the Budget for Fiscal Year 2018 and a House rule for the 115th Congress require CBO, to the greatest extent practicable, to incorporate the budgetary impact of macroeconomic effects into its 10-year cost estimates for "major" legislation that Congressional authorizing committees approve. Major legislation is defined as either having either a gross budgetary effect—before incorporating macroeconomic effects—of 0.25 percent of gross domestic product in any year over the next 10 years, or having been designated as such by the Chairman of either Budget Committee. Those macroeconomic effects might include, for example, changes in the supply of labor or in private investment. Such estimates must also include, when practicable, a qualitative assessment of the budgetary effects for the following 20 years.

Question. Congress created CBO in 1974 to be a source of expert, impartial analysis to lawmakers and I appreciate the work that you and your staff do on a daily basis to help inform the decisions that we make. However, the current Administration has made comments deriding the work of CBO. In May, the Office of Management and Budget (OMB), Director Mick Mulvaney, said that we had to ask ourselves if the "day of the CBO had come and gone?" Some suggest that OMB itself should be in charge of making budgetary projections about proposed legislation. What is the value in the work CBO provides Congress versus the same work from the Administration's Office of Management and Budget?

Answer. CBO's mission is to help the Congress make effective public policy by providing nonpartisan information that supports the budget process. In carrying out that mission, the

9. See Congressional Budget Office, *Factors Affecting the Labor Force Participation of People Ages 25 to 54* (February 2018), www.cbo.gov/publication/53452.

agency offers an alternative to the information provided by OMB: Lawmakers created CBO to give the Congress its own information about budget matters. In keeping with CBO's mandate to provide analysis that is objective as well as impartial, the agency makes no policy recommendations. Instead, it strives to present fully and fairly the likely consequences of proposals being considered by the Congress so that lawmakers can make informed policy choices.

CBO also devotes substantial effort to providing technical assistance, sometimes including preliminary estimates, at other stages of the legislative process—such as when legislation is being developed or when amendments to legislation are being considered. Such technical assistance occurs primarily through staff-to-staff communications, and it takes place very frequently—for the development of thousands of legislative proposals and amendments each year. OMB does not generally provide such assistance to both the majority and minority staffs of committees. In some cases, preliminary estimates are prepared when Members or their staffs are evaluating alternative proposals to accomplish their goals, have not made any specific proposals public, and need the flexibility to modify their proposals before they become public, sometimes in response to CBO's preliminary estimates. In such situations, CBO recognizes that the confidentiality of its work is critical to committees' deliberations, so it keeps preliminary analysis and estimates confidential as long as the proposals are not made public.

Question. Last month, the Department of Housing and Urban Development released its Annual Homelessness Assessment Report to Congress (AHAR). That report found that California's homeless population has increased 14 percent to 134,278 people.[10] However, we are seeing signs that the housing market is rebounding. Last year, the Case-Shiller National Home Price index showed that home prices nationally are now above their pre-crisis level. So, on one hand, we are seeing remarkable recovery in the housing market, but this recovery has not translated into progress on making housing options more affordable. Is there any data that CBO has that could shed some light on this disconnect between a rebounding housing market and a homelessness problem that continues to grow?

Answer. Data that might shed light on the relationship between a rebounding housing market and growing homelessness are available from a variety of sources. The recovery in the housing market—the increase in home prices evidenced by the S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, along with the increased demand for rental housing—implies that private property owners have opportunities to charge more for housing units.[11] Hence, the supply of less expensive rentals has declined, particularly in centrally located communities.

In addition, federal housing assistance for low-income households, which generally requires recipients to contribute 30 percent of their income toward rent, has shifted over time toward support for units that are privately owned instead of publicly owned. Consequently, fewer units may be available to people with low income. The National Low Income Housing Coalition recently reported that for every 100 extremely low-income renters (defined as

10. See Department of Housing and Urban Development, *The 2017 Annual Homeless Assessment Report (AHAR) to Congress* (prepared by Abt Associates, December 2017), https://tinyurl.com/yddmgojc (PDF, 14.2 MB).

11. See Joint Center for Housing Studies of Harvard University, *America's Rental Housing of 2017*, https://tinyurl.com/y8882gtg (PDF, 3.7 MB).

those who earn less than 30 percent of area median income), only 35 rental units of adequate condition were available at a cost of 30 percent of their income.[12]

CBO recently examined federal housing assistance for low-income households, although the agency has not examined the homeless population in particular.[13] Low-income housing assistance is largely provided through discretionary spending that serves only about one-quarter of the eligible population. Most of those served are extremely low-income households. Among the eligible households that do not receive assistance, there are roughly eight million households with "worst-case needs" as defined by the Department of Housing and Urban Development (HUD). The homeless constitute an additional population that is eligible for, but does not receive, federal housing assistance. The estimated size of the homeless population is available in the department's annual report to the Congress. In its most recent publication, HUD reported that the number of people experiencing homelessness declined in 30 states and the District of Columbia between 2016 and 2017, but increased in 20 states.[14] The largest percentage increases were in North Dakota (18 percent) and California (14 percent).

Senator Van Hollen

Question. I have a question about the expiration of the authorization of appropriations for WMATA. I understand that Congressman Connolly's office recently reached out to you on this issue. I am particularly interested in the provision from H.R. 2095, the Railroad Safety Enhancement Act of 2008, that authorized $1.5 billion in funding for WMATA. There seem to be differing interpretations about the language. Some maintain that FY18 is the last year of the authorization and others say FY19 is the final year, and still others say the authorization expires after the full $1.5 billion has been appropriated. The WMATA authorization is not on CBO's list of expiring authorizations for FY18.[15] Also, a CBO estimate that examined the original bill language that eventually became Title VI in H.R. 2095 and which included language identical to the authorization language in H.R. 2095 acknowledges that the funding would probably start in FY2010 and continue for ten years from that point to FY19.[16] Can CBO please provide further guidance on when this authorization expires?

Answer. Every year, CBO publishes a report on *Expired and Expiring Authorizations of Appropriations* (EEAA) as required by section 202(e)(3) of the Congressional Budget and Impoundment Control Act of 1974 (as amended). That report identifies:

- All programs and activities funded for the current fiscal year for which an explicit authorization of appropriations has expired, and

12. See National Low Income Housing Coalition, *The Gap: A Shortage of Affordable Homes*, (March 2017), http://nlihc.org/research/gap-report.

13. See Congressional Budget Office, *Federal Housing Assistance for Low-Income Households* (September 2015), www.cbo.gov/publication/50782.

14. See Department of Housing and Urban Development, *The 2017 Annual Homeless Assessment Report (AHAR) to Congress* (prepared by Abt Associates, December 2017), https://tinyurl.com/yb7rvdrj (15 MB).

15. See Congressional Budget Office, *Expired and Expiring Authorizations of Appropriations* (January 2018), www.cbo.gov/publication/53444.

16. See Congressional Budget Office, cost estimate for H.R. 401, the National Capital Transportation Amendments Act of 2007 (April 27, 2007), www.cbo.gov/publication/18592.

- All programs and activities for which an explicit authorization of appropriations will expire during the current fiscal year.

The purpose of that report is "to help Congress use the early months of the year to adopt authorizing legislation that must be in place before the regular appropriations bills can be considered." [17] In preparing the report, CBO consults with the appropriate committees of the House of Representatives and the Senate, which it does by sharing preliminary drafts of the appendixes attached to its annual report.

Your question concerns the authorization of appropriations in section 601(f) of the Passenger Rail Investment and Improvement Act of 2008 (div. B of Public Law 110-432). That provision authorized $1.5 billion in appropriations for the Secretary of Transportation to make grants to the Washington Metropolitan Area Transit Authority for capital and preventive maintenance projects. Specifically, it states:

"There are authorized to be appropriated to the Secretary of Transportation for grants under this section an aggregate amount not to exceed $1,500,000,000 to be available in increments over 10 fiscal years beginning in fiscal year 2009, or until expended."

CBO has considered the authorization in subsection 601(f) to be permanent because it does not specify either an expiration date or a finite period of applicability. CBO has viewed the second half of that subsection as providing guidance about when and how funds should be appropriated if the Congress subsequently chooses to do so: that is, either in increments over a 10-year period, or perhaps over a longer period of time "until expended."

For that reason, CBO did not include this authorization of appropriations in its current EEAA report, which details authorizations of appropriations that will expire during fiscal year 2018. Moreover, CBO does not record this as an item due to expire during fiscal year 2019 in its Legislative Classification System. In fact, because the provision does not specify a set period of time for the authorization, the item would never appear in CBO's report as an expiring or expired item.

CBO's EEAA report is intended to aid the Congress by identifying expired and expiring authorizations of appropriations. However, the agency's determinations for that are not authoritative for other purposes, such as the enforcement of the rules of the House of Representatives and the Senate. Determinations about whether an appropriation lacks authorization—and therefore may violate a House or Senate rule—are the purview of each chamber.

17. See U.S. House of Representatives, *Balanced Budget and Emergency Deficit Control Act of 1985: Conference Report to Accompany H.J.Res. 372,* House Report 99-433 (December 10, 1985), p. 114. The conference report amended the Congressional Budget Act of 1974 to include the requirement for this report.

THE PRESIDENT'S FISCAL YEAR 2019 BUDGET PROPOSAL

TUESDAY, FEBRUARY 13, 2018

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

The Committee met, pursuant to notice, at 10:01 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, Merkley, Kaine, King, Van Hollen, and Harris.

Staff Present: Elizabeth McDonnell, Republican Staff Director; and Warren Gunnels, Minority Staff Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. Good morning. I will call to order this Senate Budget Committee hearing.

Good morning and welcome to the Senate Budget Committee's hearing on the President's budget proposal for fiscal year 2019. This budget submission comes to us on the heels of a very busy first year for President Trump. I am proud of all the hard work and leadership that went into passing the Tax Cuts and Jobs Act, a historic pro-growth tax bill that is already bringing investments back to America and boosting take-home pay for workers. With the President's new budget submission, I am interested in learning how the administration proposes to build on this momentum and further strengthen our economy.

One of my greatest concerns as a United States Senator is our country's national debt, a figure that has now eclipsed $20 trillion. To secure our economy long term for future generations, we must tackle this growing problem. While lowering taxes is proving to bolster our economy, which will bring in new revenue, we must more closely examine the spending priorities and habits of the Federal Government. We have a spending problem in America, and so I look forward to hearing from our witness which ways the administration believes we can use taxpayer dollars more efficiently.

Today we have the opportunity to hear from Office of Management and Budget Director Mick Mulvaney. Director Mulvaney, thank you for coming this morning to discuss the President's fiscal year 2019 budget request. We look forward to your testimony and the opportunity to discuss possible solutions to the Nation's budgetary woes. I also want to congratulate you on the documents that came yesterday. I want to congratulate you on how concise they are, how explicit they are, and the difficulty that you went to to not only explain the budget but also to very specifically point out the major savings and reforms that are being suggested. It is one of the clearer presentations that I have seen, and I have seen a lot of them.

The submission of the President's annual budget proposal marks an important first step in what should be an orderly budget process. Over the years, however, under successive Congresses and administrations, this process has broken down, leaving behind a confusing, illogical, wasteful maze of legislation and ad hoc governing, a perfect example of which was on display last week with the latest budget—busting spending deal. Instead of funding the Federal Government week by week or month by month, we must address the structural deficiencies of our budget process, returning to a system that actually works.

Serving on the Budget Committee for 15 years, I have tried to work to solve our fiscal problems. In 2016, I devoted much of the year to working on bipartisan ideas to fix America's broken budget process. We were able to get a conversation started through hearings and meetings with experts. While we made some good progress at the Committee level, for a variety of reasons we did not succeed in advancing the kind of reforms we need. I am hopeful that, learning from our recent experience with continuing resolutions and caps deals, the time to really reform the budget process is now. To be successful, we have to have bipartisan support, which is why I am again extending my hand to the other side of the aisle looking for willing partners to join me.

I hope this renewed call for budget reform receives support from my colleagues in the Senate and even from Director Mulvaney this morning. I welcome all my colleagues' ideas on budget process reform, even on budget, and on the programmatic proposals in the President's budget. While these issues often divide, I believe we can find common ground and make progress. This is the way the legislative process is supposed to work. The way to approach the task ahead for us is to focus on what I call the 80-percent rule, focusing on the 80 percent of issues that we have general agreement, rather than the 20 percent that not only lack consensus but we have been fighting over for years. That way we are not sidetracked and can achieve real results. That is the way that Ted Kennedy and this former shoe salesman from Wyoming were able to get things done on the Health, Education, Labor, and Pensions Committee in years past.

The American people are counting on us to work together to fix the Nation's fiscal mess. We must start now because one thing is clear: Ignoring the tough problems today will not make them disappear, and the longer they persist, the more difficult they will be to fix.

Every year, we spend $4 trillion—I do not think anybody really knows how much that is, but it is a lot of money, and we try to spend that amount, make the decisions on spending that amount every year. We really do not make changes. We just increase for inflation and what I call the "panic factor." Well, that is not quite true. We do make changes. We add new programs. But we do it without eliminating or even consolidating existing programs or even updating the old programs.

The spending deal has a provision for fixing the broken budget process. The budget is supposed to be our road map to the future. We talk about the need for infrastructure. The budget is one of those infrastructures that we better be working on if we are going to have a better budget process. It is a tough road ahead, but I am confident that we can find success together.

Senator Sanders.

OPENING STATEMENT OF SENATOR SANDERS

Senator SANDERS. Mr. Chairman, thanks very much for holding this hearing, and, Director Mulvaney, thanks very much for being with us this morning.

I do not have to tell anybody that in America today there is a lot of political demoralization. Congress has held one of lowest favorable levels today than at any time in history. The vast majority of the people think we do a terrible job. President Trump's favorable ratings are the lowest, I believe, for any President who has served the length of time that he has served.

So people look at Washington, and they do not see much that they feel very good about. And I think there are a couple of reasons for that which this budget really demonstrates.

Number one, there are politicians who run for office, and they say one thing. President Trump, when he was a candidate, ran for office, and he said, "I am a different type of Republican. I am not the Mick Mulvaney type of Republican. I am different. I am going to stand with working families. We are going to take on the establishment," and so forth and so on. Well, it turns out he did exactly the opposite, and this budget is a clear manifestation of him doing exactly the opposite.

And, second of all, I think what the American people understand is their one vote, their one voice matters relatively little in a Congress which is dominated by big—money, wealthy campaign contributors. The Koch brothers are going to spend some $400 million in the coming campaign. And you know what? This budget is the budget of the Koch brothers. It is the budget of the billionaire class. And the American people understand it.

This is a budget which will make it harder from our children to get a decent education, harder for working families to get the health care they desperately need, harder to protect the air that we breathe and the water we drink, and harder for the elderly to live out their retirement years with dignity and respect.

This is not a budget, as Candidate Donald Trump talked about, that takes on the political establishment. This is a budget of the political establishment. This is the Robin Hood principle in reverse. It is a budget that takes from the poor and gives to the very wealthy.

During the campaign, as we will all recall, Donald Trump told us that "the rich will not be gaining at all" under his tax reform plan. "The rich will not be gaining at all." But as President, the tax reform legislation Trump signed into law a few weeks ago provides 83 percent of the benefits to the top 1 percent, raises taxes on millions of middle-class families, and drives up the deficit by $1.7 trillion by the end of the decade.

And if you are wondering how President Trump plans to pay for his massive tax cuts to millionaires, billionaires, and large corporations, this budget answers that question for you—by breaking his campaign pledge not to cut Medicare, Medicaid, and Social Security. In fact, President Trump's budget would slash Medicaid by over $1.3 trillion, cut Medicare by over $500 billion, and reduce Social Security by nearly $25 billion.

Mr. Chairman, as you know, Medicaid now pays for more than two-thirds of all nursing home care in our country. What happens to senior citizens who have their nursing home coverage paid for by Medicaid if that program is cut by $1.3 trillion? Think about it. People now in nursing homes with Alzheimer's, serious illnesses, massive cuts, what happens to them? What happens to their families?

And it is not just seniors. Today Medicaid covers millions of children with special needs. We are the only major country on Earth not to guarantee health care to all people, and this budget would then throw millions more people off the health insurance they have.

We have an opioid epidemic that every person up here talks about every day, but when you slash Medicaid by $1 trillion, you make it infinitely harder for communities, cities, and States to deal with this terrible crisis.

During his campaign Donald Trump told the American people that he was going to provide, and I quote, "health insurance for everybody" with much lower deductibles. But President Trump's budget would throw an estimated 32 million people off the health care they currently have. Thirty-two million people. And at the same time, it would substantially raise premiums for older Americans.

Mr. Chairman, what this budget is about is a massive transfer of wealth from working families, the elderly, the children, the sick and the poor, and the most vulnerable people in our country to the top 1 percent and large corporations. As a candidate, Trump said that he understood the pain that working families across the country were feeling. Well, Mr. President, you are not responding to that pain when you propose a budget that would throw over a million children off after-school programs. You are not a champion of working families, you are not responding to pain when your budget would kick half a million families out of their homes by gutting affordable housing. We have a massive crisis in affordable housing from coast to coast. This budget would make it much, much worse.

You do not help working families, Mr. President or Mr. Mulvaney, by throwing more than 100,000 children off of Head Start. We need to move to universal pre-K. Every family in America should know that their kids have good-quality child care. You do not throw 100,000 children off of Head Start.

You do not help working families when your budget would eliminate financial aid to more than a million and a half low-income college students. Kids are graduating school $30,000, $40,000, $100,000 in debt. This budget makes their problems even worse.

You are not a "different kind of Republican" by proposing a budget that would eliminate heating assistance to nearly 7 million families in this country. Let me tell the President, Mr. Mulvaney, it gets cold in Vermont and many other parts of this country, and many of our elderly people keep warm in the wintertime through the Low-Income Heating Assistance Program. Do not eliminate it.

Mr. Chairman, while President Trump tells us we do not have enough money to help the working people of this country, he does believe that we have enough money to provide a massive, massive, massive increase in the Pentagon, an agency of Government that has not been able to do an audit and where study after study shows us that there are hundreds and hundreds of millions of dollars in waste.

So, Mr. Chairman, the good news is this budget is going nowhere. Everybody knows that. But it does indicate where Trump and his friends are coming from, and the American people have got to understand that, and we have got to stand up and say no, these are not the priorities of this country.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you, Senator Sanders.

I will now introduce the witness. Our witness this morning is Mick Mulvaney, the Director of the Office of Management and Budget. Director Mulvaney has held this office since February 2017 and is charged with assisting the President to fulfill his vision through the production of the Federal budget and its implementation across the executive branch. Prior to his time as Director of the Office of Management and Budget, 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 has served on both the Budget Committee and the Joint Economic Committee.

For the information of colleagues, Dr. Mulvaney will take less than 7 minutes for his opening statement, followed by questions.

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. Thank you, Mr. Chairman, Ranking Member Sanders. Thank you for the promotion. My mother would be glad to know I finally did get that doctorate.

[Laughter.]

Mr. MULVANEY. I appreciate the opportunity to be here.

Chairman, I have already submitted a formal opening statement for the record. I am going to depart from that substantially just to say a few things before I start taking your questions to explain really what we have sent you in the last 24 hours.

Last year, when I sat here, I had sort of half a budget. We had what was called the "skinny budget" at the time, the very first time I came before you, which was just the discretionary side of spending, which is not unusual during a transition year.

This year, I have sort of come down with two budgets. What we have sent you in the last couple of hours—actually, just since yesterday—takes our 2018 budget and makes an effort to bring that budget from last year sort of into compliance or at least into line with the caps deal that you all cut on Friday.

In addition, we also have sort of two 2019 budgets. We have the 2019 budget that we have been working on at the Office of Management and Budget since last summer, which we have also tried to sort of bring up to speed in light of the caps deal.

Let me make it very clear that the numbers that you get are extraordinarily good. They are solid numbers. There is no question about it. But it is impossible to do 6 months' worth of work in a weekend, especially when we also had a brief Government shutdown on top of that. So the numbers I will talk about today, they are solid numbers, there is no question, but still expect over the course of the next couple of weeks and months to see additional tweaks. The example that I give, gentlemen, is that the caps deal, for example, extends the mandatory sequester by 2 years. It will take us several weeks, if not months, to run that number through the system. Instead of, however, waiting until April or May to give you this budget, we decided to come forth with these numbers here today.

What have we done with the 2018 and the 2019 budgets? We have tried to deliver two messages—two messages at the same time. And the message from the administration is this——and I recognize the fact that a budget is a messaging document. We can sort of beat you to the punch and ask the question whether or not it is dead on arrival. I will never forget Senator Leahy called me last year right after I sent down the first budget, and he said, "Young man, do not feel bad. This budget is no more or less dead on arrival than the other 40 I have seen since I have been here." But it remains a messaging document.

So what are those messages? There are two primary messages in what we bring to you today.

Number one, you do not have to spend all of the money that you just allocated or provided for in the caps. But if you do, here is how the administration would prefer to spend it. You do not have to spend it all. And that is what we put in the 2019 budget. Yes, we have added money back to the 2019 budget, money in addition to what we would have sent you if there was no caps deal. But we do not spend all the way up to the caps on the 2019 budget.

The second half of that first messages is but if you do spend it, here are the administration's priorities. That is the 2018 budget. We have taken the 2018 budget and added back, I think, $117 billion worth of nondefense spending to 2018, to spend up to the caps in 2018 in addition to the $26 billion we add to our 2018 budget for defense spending. So that you have in front of you the administration's two positions. You do not have to spend it all, and if something happens between now and the appropriations bill that you pass in March or the appropriations bill that you pass for 2019 between the end of March and September of this year, if you decide not to spend all the way up to the caps, then you have the administration's guidance on how we would prefer to do that, and that is in our 2019 budget.

Conversely, if you decide in 2018 or 2019 or in both to spend all the way up to the caps and you are curious as to how the administration would prefer to spend that money, that is the 2018 budget.

That is what we have sent to you, and we do believe that that message still has value even though you folks changed the numbers in the last 3 days. And we signed it. So it is not like you did it to us. We all did it together. We respect that.

Also, interestingly—and I say this to my Democrat colleagues—folks have asked us if the 2019 budget is evidence of the administration reneging on the implied agreement regarding the caps deal. No. Again, I say that if you are interested in spending all the way up, which is what the caps deal contemplates, the 2018 budget is there.

Keep in mind, the 2018 and 2019 caps numbers are only $10 billion difference. The difference between—I think the 2018 number is 80 for defense and 63 for nondefense; the 2019 numbers were 85 and 68. So it is only a $10 billion difference in the caps deal between the 2 years. So the two things do stand as information from the administration as to how we would spend it.

I will close by saying this: It does not balance. It does not balance within the 10-year window. I think I said to you folks, I know I said to my members in the House last year that I worried that when I came to you last year that it would be the last chance I would have to bring to you a budget that balanced in 10 years. And I said at that time that if Congress did not take steps last year and the administration did not take steps last year to change the trajectory of our spending, that I would not be able to balance the budget within 10 years this year, and that has been the case. I would contend to you that the numbers this year are even more solid. I know that my good friend Senator Van Hollen from Maryland and I like to go back and forth about the solidness of the numbers, and I can tell you, Senator, that I am even more comfortable this year that the numbers are more solid, that there are fewer plugs this year because we have had a chance to digest a year's worth of information, to put policies to numbers. And as the numbers firmed up, it would have been possible to probably bring you today a balanced budget if I had fudged the numbers. But I would rather bring you numbers that are true and honest, that set forth a better picture of our fiscal condition, than lie to you and tell you the budget would balance in 10 years. So it does not balance within 10 years, and we'll talk about that today as well.

Anyway, Mr. Chairman, I appreciate the opportunity to make an opening statement. I look forward to answering questions from the members of the Committee.

[The prepared statement of Mr. Mulvaney follows:]

TESTIMONY OF
MICK MULVANEY
DIRECTOR
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE SENATE COMMITTEE ON THE BUDGET

February 13, 2018

Chairman Enzi, Ranking Member Sanders, Members of the Committee:

Thank you for this opportunity to testify on President Trump's Fiscal Year (FY) 2019 Budget.

Last year, I sat with you in this same room and laid out the goals of the President's first budget, which focused on something Washington has not done in quite some time: put the American Taxpayer first.

Our first budget put a premium on policies that would help us reach sustained, 3% economic growth, a goal designed to help millions of Americans climb out of the economic malaise that defined the previous Administration. Those policies included pro-growth tax reform and deregulation.

One year later, I am happy to report that we are making progress toward our goal of higher wages, more take-home pay, and growing our nation's economy.

Unemployment is the lowest it has been in 17 years, consumer confidence is back to highs unseen since the year 2000, and 2 million jobs were added in calendar year 2017. Economic optimism in America is high. In short, we have made significant progress in realizing the President's vision to restore prosperity in America through sustained economic growth. The vision, which we coined MAGAnomics, is working.

President Trump's FY 2019 Budget focuses on four main priorities:

1. The safety and security of the American people.
2. Continuing to build an even stronger and more robust American economy.
3. An enhanced quality of life for hardworking Americans; and
4. A commitment to a better future.

A simple reality undergirds this budget: our nation's fiscal path is unsustainable. Moreover, as government has grown more expensive, it has also grown more intrusive.

The Budget recognizes that we must restrain unnecessary spending and rightsize the Federal Government, or the better future we hope to leave to our children will instead be a massive debt burden. Every dollar allocated within this budget was done so efficiently, effectively, and with accountability.

The FY 2019 Budget includes $3 trillion in deficit reduction, including $1.7 trillion in reductions to mandatory spending and receipts. This represents a larger amount of deficit reduction than proposed by any previous President. It proposes nearly $46 billion in major reductions to discretionary programs for FY 2019, including $26 billion in program eliminations. It also includes a "two-penny plan" that reduces non-defense discretionary spending by two percent a year after 2019. The proposals in this budget, along with historic tax reform the President signed last year, will help grow the economy while substantially reducing the deficit over the budget window and beyond.

The Budget also accounts for the agreement that Congress reached last week to significantly raise the defense and non-defense discretionary spending caps in FY 2018 and FY 2019 in the *Bipartisan Budget Act of 2018.*

The Budget is consistent with the FY 2019 defense spending levels included in the *Bipartisan Budget Act*, which are critical to help rebuild our military after years of under-investment. However, given our dire fiscal situation, the Administration is not proposing to match the new non-defense cap in FY 2019. The Administration does not believe these non-defense spending levels comport with its vision for the proper role and size of the Federal Government. However, in light of Congress's new caps, we believe it is prudent to lay out the Administration's roadmap for how to account for these higher spending levels in a fiscally responsible manner. As such, the Budget proposes additional funding for Administration priorities, while also fixing long-time budget gimmicks that Congress and the prior Administration have used to circumvent spending caps and add billions to our deficits.

Safety and security of the American people

- Defense: The first priority of the FY 2019 Budget is to keep our nation safe from those who wish to do us harm. To ensure that our Commander in Chief has the tools necessary to destroy ISIS, deter would-be competitors like China and Russia, and rein in rogue states like North Korea, this budget fully funds the National Defense Strategy, providing a total of $716 billion for national defense. Additionally, we propose shifting funding from Overseas Contingency Operations (OCO) to the base budget, to begin the transition away from using OCO as a gimmick to avoid the sequestration caps.

Other investments in the Budget include:

- **Military Pay Raise.** The Budget requests a 2.6% pay raise for our troops, the largest since 2010.
- **Force Structure**. Over five years, the Budget increases the total end strength of our military by 56,600 service members, procures an additional 54 ships for our Navy, and adds three Air Force fighter squadrons.
- **Modernization.** The Budget requests $99 billion over five years to modernize our nuclear, space, cyber, missile defense, and other capabilities.
- **Readiness, Forward Posture, and Resiliency.** The Budget addresses the readiness crisis our military faces with investments in training, weapons systems, and facilities, while supporting our global posture to deter our adversaries.

- Securing the Border: As the President has said, a nation without borders is not a nation at all. The Budget reflects the President's commitment to fully securing the border by providing $18 billion to fund construction of the border wall. With the *Bipartisan Budget Act* now the law, the Administration is seeking to fully fund the border wall in FY 2018 and FY 2019. The Budget also provides robust funding for interior enforcement, to secure our ports of entry, and to protect against emerging threats - all components of the Administration's comprehensive approach to border security and immigration.

  In addition, specific investments in the Budget include:

  - **Law Enforcement.** The Budget proposes $782 million to hire and support an additional 750 Border Patrol agents and 2,000 ICE officers and agents.
  - **Detention Beds.** The Budget provides $2.7 billion to fund 52,000 detention beds.
  - **Immigration Judges.** The Budget funds an additional 75 immigration judge teams and provides $25 million for technology modernization.

- Supporting Our Veterans: Our commitment to those who serve does not end once our troops come home. Keeping faith with our veterans, the Budget requests an 11.5% increase for the Department of Veterans Affairs medical care from 2017 enacted levels, including substantial increases over the FY 2018 request to address medical care needs, improve VA's infrastructure, and invest in an updated Electronic Health Records (EHR) system. The Budget funds a smooth transition from the existing CHOICE program to CARE, a new, consolidated community care program, fulfilling the President's promise to provide veterans with more choice in their healthcare. It also includes several new proposals for vocational rehabilitation and education, including counseling prior to separation for certain service members and preparatory courses for GI Bill beneficiaries.

Continuing to build an even stronger and more robust American economy

- Pro-Growth Tax Reform: The *Tax Cuts and Job Act* has resulted in millions of American workers receiving a wage increase or bonus. The historic tax reform law simplifies the tax code by lowering individual tax rates and broadening the tax base. It also increases the standard deduction and child tax credit. Finally, it repeals the individual mandate. The Budget recognizes that tax reform will help grow our economy and improve our Nation's fiscal picture over the long term.

- Deregulation: In Fiscal Year 2018, the Administration currently projects the publication of almost 450 deregulatory actions and the addition of only 131 new regulatory actions. Federal agencies have committed to achieving $9.8 billion in net savings in present value terms. In addition, agencies project they will continue to drive the deregulatory effort by eliminating three existing regulations for each new regulation created.

- Infrastructure Initiative: On Monday, the Administration released details of our proposal to generate $1.5 trillion for rebuilding our nation's infrastructure. The Budget includes $200 billion in federal support for this effort, focused primarily on incentive grants, formula funds for rural infrastructure and major transformative projects. Combined with major reforms to the permitting process, the infrastructure initiative will generate jobs and growth and pay dividends for decades to come.

- Apprenticeships: The Budget requests $200 million for apprenticeship programs, doubling last year's budget request. Studies suggest that the apprenticeship model of combining classroom training with real-world job experience – all while earning a paycheck – dramatically improves participants' lifetime earnings. Investments in our budget will support States' efforts to expand apprenticeship, establish a new industry-recognized apprenticeship system, and take steps to expand the model in high-growth sectors where apprenticeships are underutilized.

An enhanced quality of life for hardworking Americans

- Welfare Reform: Welfare reform is critical both for our fiscal health and for the well-being of the American people. The Budget takes an innovative approach to the Supplemental Nutrition Assistance Program (SNAP), combining the current retail-based benefits with delivery of 100% American grown food. The Budget also proposes incentives for States to invest in activities that will help SNAP participants find and keep jobs and become self-sufficient.

  The Budget also provides States the opportunity to propose Welfare to Work Projects, which streamline funding from multiple public assistance programs and redesign service delivery to tailor it to constituent needs. These projects will be rigorously evaluated to ensure that they reduce welfare dependency and promote child and family wellbeing.

- Protecting Medicare: Protecting our seniors remains a cornerstone of this Administration's priorities. In keeping with the President's promise, this budget proposes reasonable reforms to the operations of the Medicare program without a reduction in the coverage or benefits for beneficiaries. The proposals in this budget will save $237 billion over the budget window and extend the program's solvency by roughly eight years. By promoting efficiency, reducing the cost of prescription drugs, and eliminating waste, fraud, and abuse, the Budget saves money for all taxpayers.

- Drug Pricing: The Administration is moving aggressively to address the problem of high drug prices, provide greater access to lifesaving medical products, and ensure the United States remains the leader in biomedical innovation. The Budget puts forth new strategies to rationalize the current incentive structure and foster greater competition. Overall, the proposals in the Budget reduce beneficiaries' out-of-pocket costs and provide better protection against catastrophic expenses.

- Combatting the Opioid Epidemic: Deaths from drug overdoses have almost doubled in the last 10 years, and drug overdose is the leading cause of unintentional injury deaths for Americans under the age of 50. Opioids are a major driver of this crisis, and the Budget provides the resources needed to continue the Administration's efforts on this front.

  The Administration is seeking nearly $17 billion government-wide in opioid-related spending in 2019 to stop this deadly scourge. Notably, the Administration proposes $3 billion in new funding in 2018 and $10 billion in new 2019 funding in the Department of Health and Human Services (HHS), for a total of $13 billion for HHS over two years to combat the opioid epidemic by expanding access to prevention, treatment, recovery support services, research to develop new treatments for addiction, and support for mental health. The Budget also includes investments to help stop the illegal supply of drugs. In addition to investments outlined here, under the levels in the *Bipartisan Budget Act*, the Administration is seeking $18 billion for the border wall. Building the wall is critical to impeding and denying the flow of illicit drugs into our country. The Administration is committed to providing law enforcement personnel with the tools and resources they need to respond to this threat.

The President has also committed resources to have the Drug Enforcement Agency and Secretary of HHS work together in revoking a provider's certificate that permits them to prescribe controlled substances when that provider is barred from billing Medicare based on a pattern of abusive prescribing.

- <u>Obamacare Repeal</u>: Obamacare has wreaked havoc on the individual insurance market. Average premiums are increasing dramatically as the number of insurers on the exchanges dwindles. The Budget supports a two part-approach to repealing Obamacare, starting with the enactment of legislation modeled after the Graham-Cassidy-Heller-Johnson legislation, and continuing with the enactment of additional reforms to help set government health care spending on a sustainable fiscal path. Under this two-part approach, the Federal deficit will decrease as States take charge of their own health care markets and are given the flexibility to implement their programs in a cost-efficient and consumer-friendly manner.

- <u>Investing in School Choice</u>: The Budget provides a $1.6 billion investment in school choice, a $1.16 billion increase from the FY 2018 CR level, eventually ramping up to $20 billion annually within the next ten years. The proposal includes funding for charter schools and magnet schools, and a new proposed grant program that supports both public and private school choice. Regarding the Budget's investments in private school choice, the increase of private school scholarship programs at the State level clearly shows that parents across the country want access to private school options for their children.

<u>A commitment to a better future.</u>

- <u>Modernizing Government:</u> As part of the Administration's technology modernization agenda, the FY 2019 Budget includes $80 billion in IT and cyber funding, which is a 5.2% increase over FY 2018. In addition, the Budget requests $210 million for the Technology Modernization Fund (TMF) as a critical component of advancing the Administration's technology modernization agenda and an important first step in changing the way the Federal government manages its IT portfolio. The TMF, established by the recently enacted *Modernizing Government Technology (MGT) Act*, is designed to facilitate the retirement of antiquated IT systems across Government and transition agencies to more effective, secure, and modern IT platforms.

The Budget also outlines a number of proposals designed to drive civil service reforms that empower senior leaders and front line managers to align staff skills with evolving mission needs. Just like any organization, the Federal Government should have the means to be able to hire the best and fire the worst. To this end, we are recommending that $1 billion in FY 2018 funding be aligned to a new workforce fund that targets recruitment and retention incentives for top performers with mission-critical skills.

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Chairman Enzi, Ranking Member Sanders, Members of the Committee:

Millions of Americans have benefited from the first year of President Trump's administration. The FY 2019 Budget before you today proposes to build on this success and expand our vision of safety, security, and prosperity to even more Americans.

Thank you for the opportunity to testify, and I look forward to taking your questions.

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Chairman ENZI. Thank you, Director.

Now we will turn to questions. Let me take a moment to explain again the process. 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 we started will be recognized in order of seniority. For those who arrived after the hearing began, it will be in order of arrival. And if you are not here at the time that you are called on, you will move to the bottom of the list. So, with that, I will begin my questions.

The broken budget process that I discussed in my opening statement was on full display last week with the latest caps deal. This legislative action occurred too late to incorporate in the President's budget proposal. I appreciate your explanation. You did release an addendum with supplemental information on the administration's vision for spending in light of the Bipartisan Budget Act. Can you explain how the administration proposes to adjust spending levels as a result of the legislation passed last week and to what extent it is using this opportunity to address some of the more egregious budget gimmicks?

Mr. MULVANEY. Thank you, Senator. I will deal with the gimmicks separately. We took advantage of the caps deals, ladies and gentlemen, in both 2018 and 2019 to do a couple things. We moved a tremendous amount of money off of the OCO budget and into the base. We did that in both defense and nondefense. I think it was $12 billion in nondefense for this year. I cannot remember what the total number was in nondefense, but we started transition off of OCO and into the base. As part of our longer-term projections, you will see in the budget that we actually dramatically reduce OCO beginning in 2020. I think we take the total OCO budget down to no more than $20 billion in our projections beginning in the out-years.

We also got rid of a lot of the CHIMPs, which I know immediately puts everybody to sleep, the gimmicks, for lack of a better word, that both Houses and administrations have used in the past to justify additional spending. So we took as much opportunity as we could given the additional money that was available under the caps to try and give a more transparent view into our actual spending.

As regards to the actual spending priorities, Mr. Chairman, as I mentioned, in the 2018 budget, when we went back to plus-up the budget from last year to match the caps, we added $26 billion for defense, $117 billion to nondefense; $34.5 billion of that was for infrastructure, of which roughly 20 contemplates the President's infrastructure package that was introduced yesterday. An additional $15.7 billion went for border security. That would bring, gentlemen, the total for the border wall for 2018 and 2019 to about $18 billion, which is the actual cost of the physical structure. Keep in mind you may have heard the number of $25 billion for southern border security. The $18 billion is for the wall. The rest of it is for technology, personnel, and so forth.

What does that mean? That means that the proposal that we have sent you actually contemplates a DACA immigration deal being done, because we recognize the fact that you have no interest in giving us money for the full border wall unless it is part of a larger comprehensive immigration bill. So we fully contemplate that that deal is reached.

Yes, we have asked for small amounts in 2018, \$1.6 billion in 2018, \$1.6 billion in 2019, as part of the ordinary appropriations process. But we fully anticipate in these proposals that a DACA deal is reached and that we have full funding for the wall.

We have \$3 billion additional in opioid spending for 2018, an additional half a billion dollars for IT modernization, not very glamorous, not very sexy, but something that I think we all take very seriously. We spend about \$80 billion a year—that is \$80 billion with a "b"—on IT in this administration or in this Government. The overwhelming majority of it is for maintenance of outdated systems.

We have an additional \$9 billion for research and development, keeping in mind that in both the 2018 and the 2019 budgets, R&D total spending increases. Do not be misled by some of the nondefense discretionary reductions. Overall, R&D is increased in both of the budgets.

We have mentioned already the OCO to base shifts, and the budget gimmicks that I talked about represent almost \$18 billion for the changes.

In the 2019 budget, Mr. Chairman, I will not take a lot of time to go down, but the biggest increases would include an add-back of almost \$16 billion in Health and Human Services, of which over \$9 billion is the NIH budget. I came to last year—I do not know if you are aware you did this or not, but I came to you last year with a proposal to reduce the NIH budget as an effort to try and get them to look at their administrative budgets. And I tried to make the case that if the NIH only allocated or only spent as much money on their administrative portion of their grants as they did from private grant money, we could actually reduce their spending by \$9 billion but actually get the same amount of research. Not only did that not sway very many people in the legislature, but you all actually added something in the April omnibus that said that it is against the law for us to go in and look at the administrative costs. So I know when I am beaten, and we have actually added back the \$9 billion to the NIH budget. But there is a long list, Senator, of the other add-backs to 2019 as we try and reprioritize, given the additional moneys that were made available during the caps.

Chairman ENZI. Thank you for being that concise.

Mr. MULVANEY. Sorry.

Chairman ENZI. Well, that is fine. I appreciate the information. Senator Sanders.

Senator SANDERS. Thank you, Mr. Chairman. You know, budgets deal with trillions of dollars and thousands of pages and words after words after words and numbers after numbers after numbers. But the truth is, as I am sure Director Mulvaney knows, these numbers have real meaning to the lives of ordinary people.

Mr. Chairman, I want to put into the record, if I might, an article from PolitiFact dated June 27, 2017.

Chairman ENZI. Without objection.

[The article follows:]

Politifact

Bernie Sanders' projection of 'thousands' of deaths from lost health coverage is well-supported

By Louis Jacobson on Tuesday, June 27th, 2017 at 12:17 p.m.

During an interview on NBC's *Meet the Press*, Sen. Bernie Sanders, I-Vt., didn't hold back in his criticism of Republican efforts to roll back the Affordable Care Act: He said such legislative efforts will literally be deadly.

"What the Republican proposal (in the House) does is throw 23 million Americans off of health insurance," Sanders told host Chuck Todd. "What a part of Harvard University -- the scientists there -- determine is when you throw 23 million people off of health insurance, people with cancer, people with heart disease, people with diabetes, thousands of people will die."
Sanders continued, "I wish I didn't have to say it. This is not me. This is study after study making this point. It is common sense."

Even if it seems like common sense that insurance would save lives, would it be on the scale of "thousands," as Sanders said? And would legitimate studies show that?

Studying the studies

When we contacted Sanders' office, spokesman Josh Miller-Lewis cited two sources.
One is the "Harvard study" Sanders mentioned -- published on June 22, 2017, by the liberal Center for American Progress. It was co-authored by a Harvard professor of social epidemiology; two medical students who graduated from Harvard's T.H. Chan School of Public Health, and two policy specialists at the Center for American Progress.

To come up with their estimates, the authors of the Harvard-Center for American Progress report adapted the results of a peer-reviewed 2014 study of the Massachusetts state health care law -- a law that was a model for the Affordable Care Act. The 2014 study was lead-authored by Harvard professor Benjamin D. Sommers.

The Harvard-Center for American Progress study projected that there would be one excess death for every 830 people who lose coverage as a result of the AHCA. Using Congressional Budget

Office projections of the impact of the House version of the bill, the authors estimated an additional 217,000 deaths over the next decade, or 21,700 per year.

The second piece of evidence Sanders' office cited was an op-ed by yet more health policy specialists who are affiliated with Harvard -- David Himmelstein and Steffie Woolhandler, who are professors of public health at Hunter College-City University of New York as well as lecturers at Harvard Medical School.

The op-ed -- published on Jan. 23, 2017, well before either chamber's Republican health care bill was introduced -- used as its basis a different study lead-authored by Sommers. This 2012 study tracked what happened after states expanded Medicaid.

Adapting the findings of the 2012 study to a scenario in which 20 million Americans lost coverage -- which turned out to be lower than what the CBO found for the House bill -- Himmelstein and Woolhandler estimated that there would be 43,956 deaths annually due to the GOP's health policy changes.

It's worth noting, however, that both of these projections come from the ideological left. As we noted, the Center for American Progress is a liberal think tank. And Himmelstein and Woolhandler are founders of Physicians for a National Health Program, a group that advocates for single-payer national health insurance -- a proposal that is even further to the left than the Affordable Care Act.

So can Sanders' assertion be supported by the peer-reviewed literature alone?

What prior studies say

In our previous fact-checking of this issue, we found at least seven academic papers that detected a link between securing health insurance and a decline in mortality. Here's a rundown.

- In 2002, a panel of more than a dozen medical specialists convened by the federally chartered Institute of Medicine estimated that 18,000 Americans had died in 2000 because they were uninsured. In January 2008, Stan Dorn, a senior research associate at the Urban Institute, published a paper that sought to update the IOM study with newer data. Replicating the study's methodology, Dorn concluded that the figure should be increased to 22,000.

- A 2009 *American Journal of Public Health* study concluded that a lack of health insurance "is associated with as many as 44,789 deaths in the United States, more than those caused by kidney disease."

- Three studies looked at state-level expansions of Medicaid and in each case found "significant" improvements in mortality after such expansions of coverage. These include a 2012 *New England Journal of Medicine* study of New York, Maine, and Arizona by Harvard researchers, and a 2014 study of Massachusetts by researchers from Harvard and the Urban Institute. (These were the two articles that formed the basis of the analyses cited by Sanders' staff.)

- A 2014 study published by the blog of the health policy publication *Health Affairs*looked at states that, at the time, had declined to expand Medicaid under the Affordable Care Act. It estimated that the 25 states studied would have collectively avoided between 7,000 and 17,000 deaths.

- A 2014 study in the *Journal of Clinical Oncology* found improved survival rates for young adults with cancer after securing insurance under the Affordable Care Act.

- A 2017 study in the journal *Medical Care* looked at a provision of the Affordable Care Act that allows young adults to be covered under a parent's policy. The study found a decline in mortality among this population from diseases amenable to preventive treatment. (Mortality from trauma, such as car accidents, saw no decrease, as would be expected.)

We found two papers with results that were more equivocal.

- A paper published in April 2009 in *HSR: Health Services Research*. In it, Richard Kronick of the Department of Family and Preventive Medicine at the University of California (San Diego) School of Medicine, raised questions about the conclusions of the seminal Institute of Medicine study from 2002. Kronick's study adjusted the data -- as the IOM had not -- for a number of demographic and health factors, including status as a smoker and body mass index, and found that doing so removed the excess number of deaths found in the original study.
- A 2013 paper in the *New England Journal of Medicine* co-authored by Katherine Baicker of Harvard University compared about 6,000 patients in Oregon who got coverage through a 2008 Medicaid expansion and about 6,000 who didn't. While the study found improvements in out-of-pocket medical spending and lower rates of depression among those who got coverage, key benchmarks for physical health -- including blood pressure, cholesterol, and blood sugar -- did not improve in such patients.
- But even the two lead authors of the more equivocal studies have told us that the scholarly record demonstrates that having health insurance saves lives, and that not having insurance can lead to additional deaths.

We asked several of the authors of these papers whether they believe Sanders' assertion of "thousands" of deaths is generally supported by the scholarly evidence. We heard back from three of them.

"'Thousands' is completely fair," Dorn said.

Baicker agreed. “It is of course difficult to pin down an exact number of deaths that would be caused by a specific new policy,” she said. “But a number like ‘thousands’ does not seem unreasonable, based on the available evidence.”

And Sommers -- whose work formed the indirect basis of the studies cited by Sanders -- concurred.

“I agree that it’s challenging to pin down an exact number on this," Sommers said. But overall, the academic evidence "certainly gets you into the range of thousands of deaths per year.”

Our ruling

Sanders said, "When you throw 23 million people off of health insurance -- people with cancer, people with heart disease, people with diabetes -- thousands of people will die. … This is study after study making this point.”

Sanders’ statement on *Meet the Press* was phrased generally enough to be defensible. We found ample evidence in the academic literature to suggest that legislation on the scale of the House bill would produce "thousands’ of additional deaths.

That said, we can’t say with any specificity how many deaths will occur. It’s important to note that the studies provide estimates only, and each study found a slightly different result. On balance, we rate the statement Mostly True.

Senator SANDERS. Without going into all of what the article says, it basically confirms that when you throw many millions of people off of the health insurance they have, thousands of them will die. This budget calls once again for the repeal of the Affordable Care Act. The estimate is that some 32 million Americans will lose their health insurance. And what study after study shows is that when you throw 32 million people off of their health insurance, tens of thousands of them will die. Will die.

Director Mulvaney, tell me about the morality of a budget which supports tax breaks for billionaires, throws 32 million people off the health insurance they have, resulting in the deaths of tens of thousands of fellow Americans. Do you really think this is something that we should be doing in the year 2018.

Mr. MULVANEY. Actually, I do not think it is something that we are actually doing, Senator. Again, I am not familiar with the article that you have mentioned. My guess is that it references the CBO report regarding various Republican proposals to repeal and replace Obamacare. I do remember one of the major points of contention regarding the way the CBO scored the proposals was that it would assume that several tens of millions of people would be, to use your terminology, "kicked off" of health insurance by the repeal of the individual mandate. And when we drilled down into that, Senator, what we found was that the CBO assumed that if we got rid of the individual mandate, that millions of people would voluntarily give up Medicaid expansion, which is——

Senator SANDERS. Mr. Director, I apologize. We just do not have a whole lot of time. This is not——

Mr. MULVANEY. Well, if you want me to answer your question—but go ahead.

Senator SANDERS. And I understand the individual mandate. This goes beyond. You are proposing a cut of over $1 trillion in Medicaid, and independent analyses have indicated—we can argue about nobody knows for sure, is it 25 million people who are going to be thrown off? Thirty million? I do not know to be honest with you. You do not know. But what we do know is when you throw tens of millions of people off, they will die. Some of them will die. Studies show that thousands of them will die. And I would just suggest that in the United States of America, the only major country not to guarantee health care to all people, we should not be making a very bad situation worse by throwing tens of millions of people off of health insurance.

Let me ask you another question. Mr. Director, according to Americans for Tax Fairness, the Koch brothers, the third wealthiest family in America, worth $94 billion, and a family dedicated with a few of their billionaire friends to put hundreds of millions of dollars into the coming election, will receive a tax break of up to $1.4 billion a year from the Trump tax plan. Meanwhile, this budget eliminates funding, as I indicated earlier, for the LIHEAP program that keeps almost 7 million families warm in the wintertime, and the vast majority of these families have children or they are senior citizens or they are people with disabilities.

Explain to me the morality of a process by which we give the third wealthiest family in America—a major contributors, I might add, to the Republican Party—over $1 billion a year in tax breaks and yet we cut a program which keeps children and the elderly warm in the winter.

Mr. MULVANEY. Here is the morality of the LIHEAP proposal, Senator. Eleven thousand dead people got that benefit the last time the GAO looked at it. That is not moral, to take your money, to take my money, to take the money from the people of——

Senator SANDERS. Eleven thousand people got it who should not have, correct that. But 7 million people get the program. To say that 11,000 out of 7 million—deal with that. I agree with you.

Mr. MULVANEY. All 50 States now have individual programs designed to prevent the cutoff of utilities either during the summer in the South or the winter in the North, which is exactly what the LIHEAP program was originally designed to do. So the program——

Senator SANDERS. Mr. Mulvaney, when it gets 20 below zero—I come from a State which tries to do its best. Vermont and other States around this country, including Wyoming, do not have the resources to keep people warm when it gets 20 below zero. You have just created a situation—not you; the President must take responsibility for this budget—created a situation where people will go cold, some may freeze to death, and that is not what we should be doing in America.

Chairman ENZI. Senator Grassley.

Senator GRASSLEY. In all my years in the United States Senate, I have never seen such positive results just because we passed a tax bill so soon. I have seen positive results down the road a ways, but not within a month of the passage of the bill. So I want you to know that I appreciate the administration's focus on maximizing economic growth as part of its first two budgets. We simply cannot settle for the anemic growth of under 2 percent experienced under the last administration.

The passage of the tax bill in December is a key component of this administration's effort to achieve annual average economic growth of about 3 percent, which is the average of the 50 years before 2008. We have already started to see the positive effects. Many businesses have announced pay raises, employee bonuses, and increased investment in the U.S. Additionally, this month employees are beginning to see bigger paychecks as less tax is withheld.

So, you know, under reconciliation we can only pass tax legislation for 10 years. So, Director Mulvaney, can you speak to the importance of tax permanence in achieving long—term sustainable growth envisioned in the President's budget?

Mr. MULVANEY. I can. Thank you, Senator. And, in fact, we assume that for the largest portions of the tax bill, we assume that in our budget, even though the tax bill that passed ends the individual tax rate reduction after 5 years, we assume its permanence. In fact, you will see that there is a variation between the CBO baseline for revenues over the course of the next 10 years and our budget, fully half a trillion dollars of that is associated with that extension. We do not extend some of the smaller tax reductions. I think there were some specific 1-and 2-year programs that are not extended. But under the proposals in this budget, the individual tax rates and the corporate tax rates would be permanent.

Senator GRASSLEY. I have heard the rule that the administration put out that for striking—or implementing regulations, two have to be repealed. I have heard the President speak about hundreds of regulations being reduced. I would like to have you give me some data that will show the benefits of such, because maybe you reduce—you are eliminating regulations that have not been enforced for the last 20 years. What good does that do? I am not bad-mouthing what the President is trying to accomplish here because I think less regulations has had a great deal to do with increasing the economic growth. But can you put some quantifiable terms so we can see what this is doing to benefit the economy?

Mr. MULVANEY. I can. I can do it a couple different ways.

First of all, I want to thank Congress for taking up under the CRA revision, I think it was 15, 16, or 17 different regulations, and I want to reinforce the fact that while the administration can take steps to undo regulations, it can be slow, it can be tedious, and it might not be permanent. When you all take it up under the CRA, you make sure that no future administration ever makes a similar rule. So I want to thank you on behalf of the administration for the work you have undertaken there.

The actual ratio that we have achieved, Senator, this year instead of 2:1 was 22:1 on major regulations. We had 22 major rules and regs revoked versus, I think, only three or four brand-new ones total. The total number of rules, regulations, and other limitations that were either withdrawn, made inactive, or delayed is approaching 1,600.

The net present value benefit of that to the economy last year was $8 billion, and that will go forward now. So we really do believe—in fact, I think if you go back—you talked about economic growth, Senator. We actually saw increases in economic growth, improvements in economic growth, before the tax bill was even actually fleshed out, let alone passed. And we absolutely believe the work the administration and Congress did to roll back the regulatory burden had an immediate impact on the economic health of this country, and that that is sustainable and structural. It is not stimulus. It is not a sugar high. It is something that fixes the economy long term, so it is something we look forward to continuing. The President continues to make it a priority for the administration, and we will continue to make it a priority as we move forward next year.

Senator GRASSLEY. I have got 3 seconds left. I do not expect you to answer this question, but I want to make sure that you know it is important to me, instead of putting it in an email to you. As you know, the Senate has been working to try to stabilize the durable medical equipment Medicare benefit. This benefit is important because it allows patients to remain in their homes, avoiding hospitalization. The Obama Administration put in place a rule that applied competitive bidding rates to rural and other areas that were expressly excluded from the competitive bidding program. In some cases these changes resulted in rates being below the cost suppliers incur for providing services and equipment. And I was encouraged in August last year when I saw that CMS sent an interim final rule to OMB that would mitigate these changes. However, this rule has been pending since then. So I want you to tell me in writing specific steps you are taking to make sure that the OMB reviews and releases that rule.

Senator GRASSLEY. Thank you.

Mr. MULVANEY. Thank you, Senator.

Chairman ENZI. Senator Stabenow.

Senator STABENOW. Thank you very much, Mr. Chairman. And welcome.

First, I have to start, Director Mulvaney, and say I cannot believe here you go again on the Great Lakes. I cannot believe this. Last year, the administration zeroed out the Great Lakes Restoration Initiative, which is a bipartisan initiative strongly supported in the House and the Senate to make sure that we have dollars available for emergencies as well as water quality issues and so on. And after you zeroed it out last year, we put the full funding back in, strong support from the entire region, and now you are back again with almost zeroing it out.

And so I just do not understand it. I know that last year you said this was a local issue, but believe it or not, there is another country that cares about this right next to us called Canada. And we have a Great Lakes Initiative with eight States. It is funded Federal, State, local, and internationally. But the administration does not seem to understand that 20 percent of the world's fresh water surrounding the Great Lakes is important. So please explain this to me.

Mr. MULVANEY. Thank you, Senator. And you are absolutely correct. We did zero that out last year. I believe that after the caps deal, one of the add-backs we made either to 2018 or 2019—I cannot remember which one it was—was for $30 billion split between that and some of the work we are doing in the Chesapeake Bay.

What our research indicated over the course of the last year—and you did raise this with our office, as did many members of the area, both the House and Senate from both parties—was that there is some Federal long-term monitoring programs ongoing, and we propose to continue to fund that, but also to send the message at the same time that it is just not something that we are interested in doing long term. We do consider it to be regional. We do consider it to be something that the States are capable of doing and that we would very much like to see us get out of that business in the long term.

Senator STABENOW. This is a major resource for our country, I would just say. Have you seen the Great Lakes? Have you ever been?

Mr. MULVANEY. Yes, ma'am.

Senator STABENOW. So we are like the ocean without the salt. It is pretty big. One out of five jobs in Michigan comes from the water. It is a very big deal—a $16 billion boating industry, $7 billion fishing industry. I could go on and on. And that is just Michigan. And so the idea of taking what is a commitment every year of $300 million to be able to tackle things like Asian carp, which we are trying to keep out of the Lakes, and instead put in $30 million, again, we are going to go right back at it again and do our level best to make sure that this does not happen. But I do not understand why this major natural resource for our country, where 40 million people get their drinking water from the entire region, is something that this administration does not understand. So we are going to go back at it again and hopefully be able to keep the funding going.

Something else I wanted to ask you about, and that relates to Michigan and Canada again. We trade everything across a bridge and tunnels and so on, except prescription drugs. We are not allowed, and we have probably the highest prices for prescription drugs in the world, and we can drive 10 minutes across a bridge and lower the prices oftentimes 40 percent to 50 percent for seniors and others. So we are not talking about luxuries here. We are talking about in many cases whether or not people are going to get their cancer medicine, their insulin. It is life and death.

So President Trump has made promises about lowering the cost of prescription drugs, and the administration could open the border right now to safe importation. And Senator Sanders is offering a bill that I am a cosponsor of. I have taken bus trips with seniors to Canada over the years, and I am wondering—we have not seen any action so far, so is it fair to say the President does not support opening up the border to reimport safe prescription drugs into the United States?

Mr. MULVANEY. I will say this, Senator. I believe that it is a promise that the President has already started to keep. The things that we have done in the administration already this year, part of the changes at CMS, have actually already saved our seniors this year, 2018, over $300 million. And the budget——

Senator STABENOW. Have prices been going down? I am sorry. I am just not aware of prices going down.

Mr. MULVANEY. Prices went down either within Medicare or Medicaid in 2017 for the first time since 2012. So——

Senator STABENOW. On reimportation, which would——

Mr. MULVANEY. No, ma'am, not on reimportation. We do not address that in the budget, but there are other ways to get at this issue. I believe you may have heard that the President actually mentioned lowering drug prices in the State of the Union address. The budget contains a series of proposals, including a doubling of the funding for the FDA, an extra $100 million this year in order to work on generics. We have had successes there already. We look forward to continuing those.

Senator STABENOW. Yes, and I do support generic drugs and more competition in that area, and I think that that is very important. But I also know there are things that he could do right away. His own commission that looked at the opioid crisis recommended that there be immediate negotiation to bring down the price of naloxone, and that could be done and has not been done. Opening up the border to be able to bring lower-cost prescription drugs can come back. I am very concerned that at this point we have seen—and I will conclude, Mr. Chairman—that when we look at what is actually happening in the marketplace for seniors—because folks are not talking to me about prices going down. They are talking about to me about prices going up. What I am concerned about is we have seen major windfalls from the tax cut. AbbVie now is going to have an effective tax rate cut to 9 percent, the corporate rate 35 to 9, and others as well. And I would just say I have not seen anybody lowering prices because they got a big windfall in the tax cut. And that would be something that would be very nice for the President to focus on.

Thank you, Mr. Chairman.

Chairman ENZI. Senator Corker.

Senator CORKER. Thank you, Mr. Chairman.

Director Mulvaney, welcome back. I do want to applaud you for creating a more real budget. It seems that every year we have these fake budgets that balance in 10 years.

It does not matter who the administration is or what side of the aisle they are on. We have these fictitious budgets that create imaginary things that are never going to occur. And you did not do that, so I want to thank you for that.

I know that you and I are of the same ilk. We care deeply about the deficits that our Nation has. I know you were a strong proponent of balanced budgets when you were in the House, and now you are in this position, and we as a Nation, as you know, are on an unsustainable path. And I do not want to get into specifics right now, and I think we all understand where we are as a Nation. I was somewhat discouraged that the cap deal that was reached last week was really far above what even the President had asked for. So I think we have to say that Congress in this particular case went way beyond what the President was even requesting. As strong of a military supporter as he is and I am, Congress went way beyond that, both on military spending and on the non-military spending.

So you have had to actually jack your budget up, so as people are giving you a hard time today about deficits, you actually requested less money and at the last moment had to elevate everything to take into account what Congress on its own accord did to create even bigger deficits.

And so what I would like to ask you is, just philosophically, where do we go? By 2028, we are going to be at 91 percent debt to GDP. I know that our military leaders would tell us that our deficits are the greatest threat to our Nation—not Russia, not ISIS, not the many things that we are dealing with in the Middle East and around the world, but our debt. I know that you care about that. So, just philosophically, tell me where we go from here.

Mr. MULVANEY. Well, I think the budget gives some insight into that, Senator. Keep in mind even though it does not balance within the 10-year window, this budget still represents a $3 trillion reduction in spending over the course of the 10-year window. That is the second largest reduction in proposed spending of any budget ever. The only one that is larger was the budget that we introduced last year. In fact, but for the caps deal, it probably would have been larger this year. That is a $1.7 trillion reduction of that 3 in mandatory spending.

To Senator Sanders' point, I would contend to you that we absolutely keep our promises. We do not take a look at or make any reforms to Social Security retirement. We do not take a look at or make any reforms to Medicare recipients, services that they get. But there are other moneys that can be saved. We save $1.7 trillion in mandatory spending here by looking at things like the way drugs are priced within Medicare. We do some tremendous new ideas, I think, on things like food stamps and the farm bill, other mandatory spending. There are some good ideas out there in this budget that the legislature could take up to get real long-term savings and that could make a dent in that GDP ratio.

In fact, I think you see by the end of our budget, even though we do not balance, we are getting very close, and we do bend the curve down in terms of debt to GDP. I think we are down below 1.5 percent debt to GDP by the end of this window. So that is a tremendous move in the right direction.

Senator CORKER. And so over the longer term—I think most of us realize that with the baby-boomer generation this is going to go on for some time. Over the longer term, based on the way you see Congress acting and you see the other pressures that we have to invest in things like infrastructure, you are actually more hopeful, because it does not feel that way to me, that we are heading in a hopeful direction as it relates to solving our Nation's deficits.

Mr. MULVANEY. I consider myself to be an optimist. With no disrespect to my Democrat friends, I think one of the reasons I am a Republican is that I am an optimist. I will tell you, though, that there was a very interesting dynamic in going through the plussing up of the budgets. It is a lot more fun to spend money than it is to reduce. It is a lot harder to reduce spending in the long term than it is to spend. And I think that it is incumbent upon all of us to start making difficult decisions, to decide together as a legislature and as an administration are these deficits that we are really willing to tolerate. We are not as an administration, which is why we have a budget that bends that curve down in the appropriate direction. And we hope that the legislature takes us up on some of the ideas that we offer this year.

Senator CORKER. One last question. My time is expiring. There is a huge plus-up in several areas that take some of the agencies that are plussed up per this last cap deal—including the Pentagon, which, you know, I support making sure that our military has what it needs. But the plus-up is so large that you could have a situation where people are just rushing to get contracts out the door to take advantage of the moneys that are available that year. What are you all doing to ensure that we do not end up doing multiple wasteful things in light of these massive plus-ups in one year?

Mr. MULVANEY. I will give you one example. I think one thing the administration is extraordinarily proud of, in addition to increasing the spending at the Defense Department, for the first time ever, as of September, the DoD now tells us they are ready to be audited. We are starting that process. In fact, we have already seen the first fruits of that. You saw a report last week about the Pentagon's inability to track about $800 million. That is a good thing because that was something that we have been able to expose and now we will be able to fix. So we absolutely take that risk seriously and hope to be able to do better with it now that we have made some improvements.

Senator CORKER. Thank you, Mr. Chairman.

Chairman ENZI. Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Chairman. I share Senator Corker's frustrations with where we are, and I think you, Mr. Chairman, have expressed similar frustrations. We have a ridiculous budget process, and as a result of that, we end up with ridiculous budgets. This budget is going no place. We all know that. It was cooked up in the laboratories of the Koch brothers and a bunch of other creepy billionaires who want to remake America in Ayn Rand's image. It was cooked up in the laboratories of polluters who want absolutely no regulation so they can despoil at will. It includes over $1 trillion in Medicaid cuts that are clearly going no place.

It is completely out of step with the funding bill that the President just signed and touted. It is off by $58 billion just from the nondefense discretionary part of the funding bill that the President just signed.

It knocks down HHS with a 21-percent cut as opposed to the funding bill that we just passed, which has $6 billion in opioid funding that I think Americans desperately need. The funding bill we just passed added $20 billion in infrastructure-related investments. This cuts it by $40 billion, for a $60 billion delta going the wrong way on infrastructure. And part of the reason that these silly things are in here is because the process is so silly. It is completely partisan, which is why it ends up cooked up in extremist laboratories. And it is unrelated to the funding process because of its failures. We have a budget process over here that ends up producing nothing, and then we have a funding process that is led by leadership and the appropriators that ends up actually doing the work of putting the funding measures of Government together. And there is virtually no relationship between the two. The budget is like a firework that goes off with a big bang and everybody pays attention to it because it is noisy and bright, and it has zero effect on the people who actually make the decisions year in and year out on funding the Government. And I think it is a shame, and I think the signals that this is wrong are, first of all, that there is no bipartisanship whatsoever. That has been a problem for a long time. It is a vehicle for one party to express its political persuasion, to express its loyalty to its big funders, and to create a path for another purely partisan vote using the reconciliation measure. That is basically all it accomplishes.

A budget process that worked would also look at tax expenditures. More money goes out the back door of the Tax Code than gets spent through most of these appropriations, and yet we do not look at that. The health care expenditure of the country, of the Federal Government, in the 10-year out-period has been estimated to have fallen by about $3 trillion. That is a big number, and we do not know why. I think it has something to do with ACOs and with payment reform and with changes in treatment by doctors at the local level that are actually driving down per patient year-over—year costs, but we do not know that. We ought to be vitally interested in trying to figure out why we got that $3 trillion and how we can make more of it if we are getting it by better patient care.

My God, what could be more important than improving patient care and lowering costs at the same time instead of going after preposterous cuts?

We have to have the budget have some parliamentary effect if it is going to be meaningful. Right now the budget has zero parliamentary effect because the 60-vote penalty is the 60-vote minimum for appropriations. So we are shooting blanks. We have absolutely no effect here. We are a null factor.

And, finally, we have got to look at revenues. I know it is torture for our Republican friends to look at revenues sometimes, but for crying out loud, we cannot have passion about deficits and then at the same time abandon our passion about deficits as soon as it runs up against the carried interest exception that protects the biggest billionaires on Wall Street. We cannot maintain a passion for deficits that evaporates as soon as it bumps up against tax benefits for big oil, for crying out loud, the companies that need the least tax relief of any companies in the world. And yet there is this magic disappearing passion about deficits when they bump up against some very obvious ways to raise revenue.

Now, we each have our own politics on either side to bring to this, and we can keep ricocheting back and forth from one extreme to the other, but until and unless we have a meaningful bipartisan process that actually looks at tax expenditures and takes a responsible look at what is going on in health care so that we can reduce costs without cutting benefits and looks at revenues and has some parliamentary effect, all we are doing here is noisemaking and firing off fireworks into the sky that people look at and think, “Oh, that must be really interesting, look what this budget just did.” And, in fact, everybody who is in on the scheme knows that it has no effect whatsoever, and the appropriators and the leaders are going to get together and make a deal like they just did, and that is how this is going to continue.

We have got, Mr. Chairman, to fix our broken budget process, and one of the best things in the recent funding bill that we just passed was to set up a bicameral committee to take a look at how we solve a broken process. The way to a budget that works is the path of bipartisanship. We have to create such a road. And here endeth my statement. Thank you, Chairman.

And, by the way, I sincerely appreciate your leadership on this particular question. You may not agree with every word that I said, but I think we have common cause in believing that the budget process needs reform and improvement. And I appreciate your leadership in moving us in that direction.

Chairman ENZI. Thank you. Thank you for your comments.

Senator Gardner.

Senator GARDNER. Thank you, Mr. Chairman, and thank you, Director Mulvaney, for your time and testimony today and your service to the country.

I agree with my colleague Senator Whitehouse about the need for budget reform. In a process that has been in place since the 1970's, it has worked two or three times. My gosh, this is a disaster that is unfolding to the American people, and we have got to find a reform that can actual hold stick and work for the American people.

But I want to talk about something that is working, and that is the tax cut bill. And I think today some more crumbs were announced for the American people: $1,500 in bonuses from a developer in Maryland; MetLife increasing minimum wages; bonuses and benefit packages around the country are increasing. And I think this is important to talk about, the fact that people are earning more dollars, their wages are going up, benefit packages are increasing. I think our colleague from Vermont talked about utility rates. We have seen now people reducing—we have seen utilities reducing their utility rates because of the tax cut bill.

Director Mulvaney, what happened when people earn more money from a revenue standpoint?

Mr. MULVANEY. It goes up. In fact, that is exactly what our projections have shown. Senator Whitehouse has stepped out, but one of the things he mentioned was to look at the revenues, and one of the beneficial impacts of the tax bill is that the revenues are actually up on our projections versus the CBO baseline. In fact, in 2027, we expect that the Government will take in almost $350 billion more than it otherwise would have.

Senator GARDNER. Well, surely these are just crumbs, right?

Mr. MULVANEY. I have often wondered if $1,000 would be a crumb if it came in the form of a Government check.

Senator GARDNER. And so if you are looking at a utility rate that may average $120 for somebody, $120 a month I think is perhaps the Pepco region that we are in right here, 300,000 customers, $1,000-plus could cover a year's worth of utility. Do you think that is crumbs?

Mr. MULVANEY. I do not.

Senator GARDNER. Do you think a minimum wage boost is crumbs?

Mr. MULVANEY. I do not.

Senator GARDNER. Do you think salary bonuses are crumbs?

Mr. MULVANEY. Only a very wealthy person from San Francisco would think that was a crumb.

Senator GARDNER. Thank you, Director Mulvaney. And I am excited for what we have here because you anticipate making this permanent, correct?

Mr. MULVANEY. We do. Yes, sir.

Senator GARDNER. I think that is important.

Mr. MULVANEY. And our assumptions assume that.

Senator GARDNER. It is important to talk about.

I want to shift to some of the other ideas that are in the legislation. One of the most important things for Colorado's economy is the outdoor economy. It is a huge economic driver. Last year, we passed a bipartisan bill to take a look at the outdoor economy, make sure that it is measured as a part of our overall economic activities, almost $1 trillion in terms of economic development that has taken place as a result every year of our outdoor recreation economy, consumer spending, et cetera, 7.6 million jobs, some $65 billion in taxes.

The budget does zero out land acquisition under the Land and Water Conservation Fund. I am concerned about that. Land and water conservation funding does not come from tax dollars. It actually is funded through other revenue mechanisms within the budget, so these are not taxpayer dollars being spent in this program. I would just like to better understand the administration's thinking behind the budget request for something like the Land and Water Conservation Fund.

Mr. MULVANEY. And, Senator, we have reached the point where I do not know that one off the top of my head. I apologize.

Senator GARDNER. Okay.

Mr. MULVANEY. I would be happy to reach out to you. I know it is important to you and your district. We do a couple of other things that we think would be beneficial out West, including adding back some money for PILT, which I know is a big deal for Colorado. But I do not know the answer off the top of my head on that particular issue.

Senator GARDNER. And that is very important for Colorado, and I thank you for that. And we would also save you some rent money if you moved the BLM office out of Washington, DC, and you re-headquartered out in Colorado, perhaps Grand Junction, Colorado. That would save a little bit of money, too.

Mr. MULVANEY. If only we knew the Director of the Office of Interior.

[Laughter.]

Senator GARDNER. Thank you.

Also, energy dominance, speaking of the Director of Interior. American energy dominance I think is a great, great thing to be proud of, to support, and to pursue. American energy dominance I think is a very strong and powerful diplomatic tool as well as economic driver. The budget does have about $1.3 billion cuts to the Energy Efficiency and Renewable Energy Office, and that could affect the National Renewable Energy Laboratory. I want to make sure that you view renewable energy as part of American energy dominance.

Mr. MULVANEY. We do. A couple different things. I want to make very clear that we are absolutely satisfied that under the proposals we have, no labs will close, number one.

Number two, what the budget does reflect, Senator Gardner, is a refocusing, a reprioritization of basic research, and there are places where we believe the Federal Government has moved out of the role of basic research into more applied research, stuff that is closer to market. And what we are simply doing is saying, "Look, that is the stuff the private sector should be able to take care of. Let us refocus our efforts on basic research in those areas."

Senator Gardner. Thank you. I am going to run out of time here, but I want to summarize a couple of questions that I was going to ask.

On DACA, this week we are debating DACA. We are debating a very important solution. There are hundreds of thousands of workers legally right now in Colorado that are going to be affected by the decisions this Senate makes, this Congress makes over the next several weeks. Just back—of-the-page math, we are looking at a population in jobs right now that could be responsible for as much 3.4 percent of GDP. And if that was a group of people that were to be eliminated out of the work force, I think that would have a detrimental effect on a budget projection of 3 percent growth or more, as we try to achieve that. So that is something to consider as we go forward, very important that we get this.

NAFTA, critical to our economy, critical to growth, critical to that GDP assumption that we are building into our budgets. Obviously, trade overall is, and I think any kind of decision on NAFTA that could affect our trade dominance, so to speak, could negatively affect—if it is in a negative way, could negatively affect the GDP growth as well that we face.

And, finally, a quick question that you can get back to me on. When we are talking about concerns over revenues, have you given any thought or has the administration given any thought to monetizing Fannie Mae and Freddie Mac, something like that, what it would mean?

Mr. MULVANEY. Senator, that is a longer discussion for another day, but, yes, sir, there is considerable discussion going on within the administration, led in part by Treasury and HUD, as to what to do about the Government-sponsored enterprises.

Senator GARDNER. Thank you.

Chairman ENZI. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Welcome, Director Mulvaney.

First, and I cannot talk about this at length, but very, very disturbed that the Trump administration reneged on the longstanding plan to consolidate the FBI campus in a way that would provide a more secure setting. We can have that conversation later.

Back in 2016, during the campaign, Candidate Trump called himself the "King of Debt." It is pretty clear that this is one of the promises he has kept as President of the United States.

To my friend Senator Corker, who said this is the first time we have seen an "honest budget" because it does not balance in 10 years, actually President Obama presented budgets that were very honest. They did not balance in 10 years, and you and our Republican colleagues raked him over the coals for that. But what we saw was borrowing, $1.5 trillion to give windfall tax breaks to corporations, and since Maryland was brought up, I would just point out our legislature is now having to try to pass laws to stop big tax increases on Marylanders; $350,000-plus Maryland households will see tax increases, including 123,000 Maryland households with incomes between $25,000 and $50,000. That is not a middle-class tax cut. That is a tax increase on hundreds of thousands of Marylanders.

Now, I wanted to ask you about what you say in here about the Trump economy, because the more I look at these numbers, it looks like the Trump administration is simply benefiting from the continuation of the Obama economy.

You say here that Trump economics is working. You cite the fact that 2 million jobs were added in calendar year 2017. That is on page 1 of your testimony. That is great that 2 million jobs were created. That is fewer jobs than were created the previous year in 2016, isn't it?

Mr. MULVANEY. I do not have the numbers in front of me, Senator, but I believe you.

Senator VAN HOLLEN. It is somewhat fewer than the year before, and it is fewer than in 2015, isn't it?

Mr. MULVANEY. Again, I do not have the historical data, but there is no reason for you to lie to me.

Senator VAN HOLLEN. Well, the reality is it is fewer than in any year since 2011. So I am glad we saw 2 million jobs created, but it is interesting to herald this as a great new result of the Trump economy when it is less than in any year since 2011.

I want to look at the rate of economic growth. Economic growth last year was actually slower than it was in 2015 and 2014. And

I went back and I looked at what the CBO projected, what the CBO projected for economic growth in 2017. Do you know what they projected in 2017?

Mr. MULVANEY. Again, I do not have the historical numbers. I know that we projected 2.3 in last year's budget, and you accused me of being way too optimistic.

Senator VAN HOLLEN. Actually, I did not accuse you of being way too optimistic with respect to that number. That was the same number CBO had.

Mr. MULVANEY. Okay.

Senator VAN HOLLEN. I said what you did last year, and it sounded like you confessed a little bit to it, that last year's budget was very overly optimistic with respect to out-years. But let me—my question here, Director Mulvaney, is this——

Mr. MULVANEY. I think we beat last year's numbers, but go ahead.

Senator VAN HOLLEN. Because I am just puzzled by these claims of how the first year of the Trump administration deregulation brought all this added economic growth. The CBO projected 2.3 percent growth in 2017. That was not based on any assumptions about Trump economics. That was just based on where they saw the economy going. And, in fact, the economy grew at 2.25, a little lower than what CBO projected. So I am trying to figure out where your—the basis for your comment, you just made it again, that this first year, deregulation produced all this economic growth, when it was actually slightly lower than what CBO projected, and they did not take into account any of those claims.

Mr. MULVANEY. Senator, I think if you look at the last three quarters, we had two quarters over 3 percent; the fourth quarter was just under 3 percent, including some tremendous financials. I think the Atlanta Fed just predicted first quarter someplace in the neighborhood of 5.4. So I think everybody, I mean left and right, has admitted that the economy grew faster last year than expected.

Senator VAN HOLLEN. Well, I do not think so. CBO projected 2.3 percent. I never quarreled with that number, and, actually, it was slightly lower than that. So this sounds a lot more like puffery than reality.

My last question, putting your other hat on, CFPB, as you know, your predecessor at CFPB filed a lawsuit against some scam artists in the payday lending area. One of them was Golden Valley, which charged like 950 percent interest rates. I mean, this is higher than Mafia loan sharks. It is reported that you dropped that lawsuit, and the spokesperson for CFPB first said that you were not part of the decision and then said you were. A simple question. Were you part of the decision to drop the case against Golden Valley?

Mr. MULVANEY. Yes, sir.

Senator VAN HOLLEN. Okay. I will follow-up with that. I think it is an outrageous decision and an anti-consumer decision.

Mr. MULVANEY. Keep in mind, Senator, because you and I are always very candid with each other, there is an ongoing investigation into Golden Valley, so it would be unlikely I would be able to answer many of your questions other than the one you have just asked.

Senator VAN HOLLEN. Well, it sounds like you dropped the lawsuit.

Mr. MULVANEY. We dropped—again, let me be very clear in my wording because I have a lawyer sitting here behind me. There is an ongoing investigation against Golden Valley, and for that reason, it is not appropriate for me to comment on that work. I cannot answer the specific question that you asked me.

Senator VAN HOLLEN. All right. Thank you, Mr. Chairman.

Chairman ENZI. Senator Boozman.

Senator BOOZMAN. Thank you, Mr. Chairman. Thank you for being here today, and we appreciate all of your hard work.

The administration budget projects the debt-to-GDP ratio will begin to decline in 2023 and ultimately reduce below pre-recession levels over the 25-year horizon. Presumably, economic growth plays a role in this change of trajectory as well as restraining spending. Can you explain some of the key policies that Congress should consider in order to put our country back on a fiscally sustainable path? And then, also, what is a healthy debt-to-GDP ratio in your estimation?

Mr. MULVANEY. I will deal with the second question first. I think a lot of the academic literature would suggest to you that 80 percent really is sort of that danger zone, so if we can keep it below that, that would be great. I would love to see it below 60, which is, I think, back below the pre-recession numbers. But we have too much now, I think is the short answer to your question.

Regarding the policies that we would encourage the Congress to consider, on the revenue side, Senator, you may not have been here earlier when we mentioned that this budget assumes that the individual tax rates which expire, the reductions that expire 5 years into the current window, we assume those to be permanent. And I will tell you that our assumptions regarding long-term growth assume that they are permanent.

So we encourage you to keep an eye on the revenues, and if the revenues do, in fact, turn out the way we expect them to be—and, again, we expect revenues to decline in the short term, as you and I discussed during the discussion of the tax bill, but start to increase, actually increase almost immediately and to turn positive compared to the baseline by 2023, and are almost $350 billion to the positive by 2027. So let us continue to watch the revenue line and to continue to tweak the tax bill to make sure we can maintain that.

On the spending side, Senator, we have offered $3 trillion in long-term savings over the course of the budget; $1.7 trillion of that is on the mandatory side. I think you and I share a concern that the mandatory side of the budget continues to eat into a larger and larger share of our spending every single year. And while fiscal restraint in any form is to be encouraged, certainly taking a look at that mandatory spending would be helpful.

Senator BOOZMAN. What is a healthy GDP to deficits?

Where are we at now?

Mr. MULVANEY. Senator, right now—oh, deficits? I think we are approaching 5 in the next year or two. We get down to 1.1, 1.2, I think, by the end of the 10-year window. That is better than zero. I would like to see a balanced budget in the long term. But if you are going to run a little bit of a deficit, keeping it as low as possible would be advisable.

Senator BOOZMAN. Okay.

Mr. MULVANEY. Actually, let us put it to you this way: I would love to see revenues growing faster than expenses, and that allows us to shrink the size of the deficit as a percentage of GDP every single year. You run a business, and if your business' expenses are growing faster than your revenues, you are in trouble, and so is the Government.

Senator BOOZMAN. Right. That is a good point.

Tell me, we are in the process now of the DACA voting and things, you know, trying to get that sorted out. One of the things that is very important to the President and very important to myself and so many others is securing the border. We would like to make it such that we have a significant amount of money, you know, going that way because it is going to take that. How do we do that in a way that we can get some money up front and yet protect that money into the future, but also very importantly, making sure that we have the oversight that we need going forward?

Mr. MULVANEY. The good news, Senator, is that as we sat down to look at the caps deal that was just signed, it does provide considerable additional funding, and we actually take a big chunk of that and put that toward border wall security, border security including a wall, including the wall. In fact, I think you may have heard me say earlier that our budget assumes a DACA deal; it assumes an immigration agreement is reached. We want one to be reached. I want to make that very clear on behalf of the administration. And for that reason, we actually explicitly assume that a deal is reached and that the money for the wall is set aside.

One of the early proposals that we sent down for you all to consider is to set up a trust fund so that while we have the money available with the caps being increased this year and next, that we set aside that money in that trust fund so that we do not have a situation like we had in 2006 where border security was authorized but was never appropriated.

Senator BOOZMAN. I agree with that totally. And, again, as far as the oversight, how do you oversee the trust fund? What would be your proposal to——

Mr. MULVANEY. I do not know if we have gotten to the details yet on how to do that, Senator. All I can offer you is the examples that we have brought to some of the other agencies. I mentioned earlier that we have finally been able to bring the Defense Department to an auditable position after many years of trying. I give several administrations credit for doing that, but it was finished in September of this year. We would encourage at least that same level of oversight, if not more, on that trust fund.

Senator BOOZMAN. I think it is really important. We do not want the border wall to be the new CFPB.

Mr. MULVANEY. I absolutely agree with that, Senator. I think one of the risks that you run if you put it in the ordinary appropriations is not only that it is not spent, but that it is misspent in order to get that appropriation out the door that year as opposed to taking a longer-term view that you might be able to take with a trust fund.

Senator BOOZMAN. I agree, and that is why, you know, we need to be creative and create some sort of a hybrid to make sure that both of those are accomplished with the money being there, but also with the good oversight that it is going to require.

Mr. MULVANEY. I absolutely agree.

Senator BOOZMAN. Thank you.

Chairman Enzi. Senator Merkley,

Senator MERKLEY. Well, thank you, Mr. Chairman.

So we have cuts in this budget, just to take four line items: health and Medicare and higher ed and food, that is, SNAP. There is $1.5 trillion right there. So, you know, a big outline for America. Let us give $1.5 trillion in the tax bill to the wealthiest Americans and proceed to cut our health, our commitment to our seniors on health as well; cut the affordability of college because, you know, the rich are Okay, they can pay their college, do not worry about the rest of Americans. And, oh, by the way, the hungry in America, too bad, let those children go hungry. They are from poor families; they do not matter.

What kind of a message does this send about this administration? They say they are for working families. They are going to address the challenges, the challenges of living-wage jobs and health and education. And right here health and education get hit enormously, the foundations for families to thrive.

Or we can take some others. There are more cuts than that. How about the $3.4 billion to heating and the offset of a tax cut to Wells Fargo of the same amount? What is more important, Mr. Director: the heating program or the tax cut to Wells Fargo, which has defrauded so many hundreds of thousands of people across this country? Which one is more important to you?

Mr. MULVANEY. Actually, Senator, I am familiar with the $3.39 billion in LIHEAP. I think I addressed that earlier with Senator Sanders. I am happy to review it, if you like. I am not at all familiar——

Senator MERKLEY. I am just asking which one is more important to you: the cut to heating or the tax cut to Wells Fargo, which has defrauded so many people?

Mr. MULVANEY. Senator, I would have to challenge the——

Senator MERKLEY. Yes, I have noticed you never answer questions from Democrats, so I am not expecting you to answer. But I thought I would give you the chance.

Or how about the $4.3 billion cut to rental assistance? We have people living on the streets in the cloverleafs and underpasses all across America because the cost of housing over the last four decades has gone up enormously compared to the living wage. But you want to do a $4.3 billion cut in rental assistance while giving $6 billion to Exxon Mobil. Which is more important to you: people having housing or $6 billion to Exxon Mobil? Which one?

Mr. MULVANEY. One of the things I mentioned during my opening——

Senator MERKLEY. It is a choice of the two——

Mr. MULVANEY [continuing]. Statement, Senator——

Senator MERKLEY [continuing]. You can answer one way or the other. I think the public would like to know.

Mr. MULVANEY. It is, but also I do not like to answer loaded questions that are simply rhetorical and may not be correct. I am not even sure that $4.3 billion number is right. As I mentioned——

Senator MERKLEY. That is the amount in your budget, and you should be aware of that when you testify here.

Mr. MULVANEY. My opening statement——

Senator MERKLEY. Let us turn to something about the after-school programs, the STEM programs, our ability to undertake high-tech advancements in our economy. You have got about $1 billion to $1.4 billion to the Koch brothers and a $1.2 billion reduction in after-school STEM programs. Which is more important: educating our children or more money for the Koch brothers?

Mr. MULVANEY. Again, I cannot even see that part of your——

Senator MERKLEY. Do you think the Koch brothers consider it a good investment that they say they will spend $400 million on the next election and then they get you to give them a $1.4 billion reduction in their taxes? Is that a pretty good investment for the Koch brothers?

Mr. MULVANEY. I have no clue where that $1.4 billion range comes from or if it is accurate.

Senator MERKLEY. How about Chevron getting $2 billion while you cut development assistance by $2.8 billion? Everything we see in this budget is about help to the powerful and an assault on working Americans. And although I hear a whole lot of bragging about, "Oh, we are going to help lower-income Americans with a tax cut," but you put a provision into the tax bill that will wipe out health care for 13 million people and raise health premiums more than 10 percent next year for the rest, that in itself wipes out any gains from the tax bill.

I am really disappointed to see that the philosophy of this administration ran on of fighting for ordinary Americans became just this is an administration by and for the powerful and about undermining the opportunity of ordinary families to thrive.

Now let us turn to your other role. You seem to take great pleasure in having wiped out the payday loan rule and allow interest rates of 500 to 1,000 percent, far more than the Mafia ever charged. Why is that a good thing for America?

Mr. MULVANEY. Senator, I think it is inaccurate to say that we have wiped out the payday rule. We have simply given notice that we are going to take additional comments on additional rulemaking.

Senator MERKLEY. Did you or did you not suspend implementation of the payday rule?

Mr. MULVANEY. Again, we gave notice that—the payday rule, as far as I know, is still in effect. We have simply given notice that we were going to take additional comment for additional rulemaking.

Senator MERKLEY. You delayed it. You can call it whatever you want, but you prevented it from going into effect. I am not sure why you are dancing around about it, because you seem pretty happy about having done so to help out these payday loan companies charging 500 to 1,000 percent.

Mr. MULVANEY. I am sorry. Was there a question there, Senator?

Senator MERKLEY. Yes. The question is: When you are so happy about having helped out the payday loan companies, why don't you own it now? Why do you want to dodge the question?

Mr. MULVANEY. Again, Senator, we have given notice that we are going to take additional comments for additional rulemaking.

Senator MERKLEY. How about Equifax? Millions of Americans, 143 million Americans lost the integrity of their data, and you just let them off the hook.

Mr. MULVANEY. I can——

Senator MERKLEY. No accountability. How about accountability? How about that concept being embedded in the work of what was our consumer watchdog that now is our consumer "roll over and let the big companies scratch its belly" organization?

Mr. MULVANEY. On Equifax, I can tell you, Senator, that there has been no change in the position from the previous leadership of CFPB regarding Equifax.

Senator MERKLEY. Yes, Okay. All right. If you are going to make these decisions, you might as well own them and defend them. Thanks.

Chairman ENZI. Senator Graham.

Senator GRAHAM. Thank you. Good morning. About priorities, I want to thank you and the President for negotiating a budget agreement that gives long overdue relief to the military on behalf of the men and women who have been serving who have been asked to do a lot with a little bit. Thanks. I just cannot tell you how important it is that we set aside the sequestration cuts for the next 2 years and rebuild our military, and I want to thank you and the President. That was great leadership.

Graham-Cassidy, you mentioned that in the budget. Is that correct?

Mr. MULVANEY. Yes, sir. In fact, we assume it passes.

Senator GRAHAM. Well, I hope it will. Can you sort of explain to the Committee here very briefly why you think it is important that it does pass?

Mr. MULVANEY. The way we do it, it does a couple of different things. Writ large, it transfers control of this issue, this very important issue of health care, to the States, and we just think that is a more efficient way to provide that service. You and I both served in the South Carolina State Legislature, and I absolutely believe in my heart of hearts that South Carolina knows better for South Carolinians on how to provide them with health care than we do in this chamber. And Graham-Cassidy goes to the very heart of that while providing importantly the funding necessary for States to do that. Oftentimes we hear folks say let us just give it to the States, but we do not give them the funds necessary to do it, the unfunded mandates we hear so much about at the State level. Graham-Cassidy does not do that, so we think in a bunch of different places, both fiscally and in terms of policy, it is by far the best idea we have seen come down the pipe in a long time.

Senator GRAHAM. If I could just build on what you said, four States receive 35 percent of the money under Obamacare funding as it is today: Maryland, Massachusetts, New York, and California—all great folks. They are 22 percent of the population. Under Graham-Cassidy, we try in a 10-year period to level out that funding, to have it per patient be the same no matter where you live. Then we will adjust for inflation based on region. Do you think that is a fair way to deliver health care?

Mr. MULVANEY. No. Again, that is one of the reasons that we support the Graham-Cassidy bill and hope that you all see fit to pass it at some point.

Senator GRAHAM. Well, I think every State will benefit, and we will try to make it the least amount of pain as possible to the four States who get most of the money compared to the other States.

MOX, I asked three questions 2 years ago about alternatives to MOX. Can I just send you these questions? Or should I sent them to DoE?

Mr. MULVANEY. Copy us both, because as you and I know, we have met together with Secretary Perry. We are very much aware of your concerns and your interest in MOX. You are also concerned—I think you are aware of ours.

Senator GRAHAM. Yes.

Mr. MULVANEY. Which is that there needs to be a more cost-effective way to do what we are doing.

Senator GRAHAM. Right, so what I will do is I will send a copy of the questions, the basic questions about an alternative, to you and Secretary Perry, because from your person view do you think it is 70 percent complete, 30 percent complete, the MOX program? What do you think?

Mr. MULVANEY. My concern, Senator, is that I have seen projections that say it may not be finished until the 2030's, and I think the last time they asked the people what it would cost to finish, they could not give an answer, and as the budget Director, that really, really worries me.

Senator GRAHAM. Well, I think it is 70 percent complete, and I think I am going to get you an answer on what it would cost to complete. I just do not think there is a viable alternative. But the State Department: "If you do not fund the State Department fully, then I need to buy more ammunition ultimately." That was General Mattis when he was CENTCOM commander. Do you doubt that statement?

Mr. MULVANEY. I do not, Senator. I would encourage folks to look at the State Department budget and realize that the President ran on saying we were going to give less money to other countries overseas, and the State Department budget does contain a lot of that foreign aid, and that is what represents a lot of those reductions.

Senator GRAHAM. So it is a 20-percent reduction in the State Department's budget.

Mr. MULVANEY. It is, but I think we increase spending on humanitarian assistance. We do lower our commitments to some of the multilateral institutions to try and right-size our contributions to support what Secretary Haley—excuse me, Ambassador Haley is doing. But we are very much aware of your concerns and look forward to working with you on trying to make the State Department more effective.

Senator GRAHAM. Do you agree that the State Department is really national security in another form, as General Mattis indicated?

Mr. MULVANEY. What do they say, that war is just diplomacy by other means? Yes, sir, the two are intricately entwined.

Senator GRAHAM. So I will look forward to working with you to make sure that we do not take off the table diplomatic options, not only to prevent war, to make sure that gains on the battlefield are not lost. And I think, again, General Mattis said it better than I could ever say that this is a steep cut in the State Department that will lead to instability, put our people at risk who are serving overseas, and I look forward to working with you. I think you are doing a very good job, and I really appreciate the steady hand you provided when it comes to budget matters and your willingness to negotiate and compromise. So thank you very much. We are all proud of you at home.

Mr. MULVANEY. Thank you, Senator. I wish I got back there more often.

Chairman ENZI. Senator Murray.

Senator MURRAY. Thank you, Chairman Enzi. Before I turn to Director Mulvaney, I do want to comment on the new Joint Select Committee on Budget and Appropriations Process that was included in the budget caps deal. I expect we will be hearing a lot about that in the coming months, and I just want to make my views very clear.

Republicans spent 2017 hijacking the budget process for two things: first of all, a partisan attempt to take health care away from millions of families, which, thankfully, crashed and burned; and, second, jamming through the massive tax cut for the wealthiest Americans and a permanent tax cut for the biggest corporations, without even trying to work with Democrats on ways we could help the middle class.

Now, in 2018, things have been a little different. Republicans came to the table and worked with us on a 2-year budget deal that increased investments in education and health care and child care and other domestic and military priorities. Now, finally, the Appropriations Committee has clarity, and we are able to get to work and pass our bills by the March deadline.

So, with all due respect to Chairman Enzi and my House and Senate Republican colleagues, we do not need a new select committee to tell us what the problem is. It is pretty obvious. This Budget Committee has been unable or unwilling to do its job. So we had to lurch into one crisis and then another before the rest of Congress could come together and cleanup a mess. I am hoping we can do our jobs on the Appropriations Committee, and I continue to hope that this Committee can do its job and not rely on new select committees that are intended to pass the buck instead of making the tough calls, and I just wanted to make that clear.

Director Mulvaney, if this were a normal budget hearing, I would start off by commenting that budgets are statements of values and priorities, and I would dig into the various proposals, what they said about what kind of country we were, what kind of country we wanted to be.

If this were a normal Budget Committee, I would point out that the so-called immigration proposals it includes are wasteful, divisive. I would point out that it is widely misguided and simply wrong to ask low-income families and the workers who need a hand up to bear the brunt of massive cuts while trillions are being spent on tax cuts for the rich and while austerity flies out the window when it comes to the military.

If this were a normal Budget Committee hearing, I would point out how absurd it is to cut $200 billion in financial aid for college while students are struggling to afford college and keep their heads above water. And I would point out serious concerns about this administration's request for veterans' care.

You know, if this were a normal Budget Committee, I may even praise some of the attention that is finally being paid to tackling the opioid crisis. But, Director Mulvaney, this is anything but a normal budget and Budget Committee hearing. President Trump just signed a 2-year budget agreement into law that makes this request irrelevant. Democrats and Republicans have ignored President Trump's budget request before in the interest of trying to get something done, and this one will be no different.

So it seems this budget proposal is only good for one thing: reminding people across the country that President Trump cares more about giving tax cuts to the wealthiest Americans and biggest corporations than he does about investing in health care and education and child care and middle-class priorities.

So, Director Mulvaney, for years I have heard you rail against deficit spending. You called yourself a "deficit hawk." You claim to take our debt very seriously. You called for balanced budget amendments. You said our debt is "so large as to defy description." Well, the debt has only grown since. The deficit has increased under this administration, approaching $1 trillion this year and next. And it cannot "defy description" because you describe it in the pages of this budget proposal. And do not even try to hold yourself to the standard you held President Obama to when you were a Member of Congress.

So I was prepared to come here today and call you out on the hypocrisy, but then I heard you on Sunday, that if you were in Congress, you would have voted against the budget legislation that President Trump just signed. So I wanted to give you a chance today to step back from the hypocrisy. If you were in Congress, would you have voted for this budget that you are presenting?

Mr. MULVANEY. Sure, and I will give the same answer I gave on Sunday, which is that as a Member of Congress representing the 5th District of South Carolina, I probably would have found enough shortcomings in this to vote against it, as did many members of this Committee. But I am the Director of the Office of Management and Budget, and my job is to try and fund the President's priorities, which is exactly what we did.

Senator MURRAY. So you would say this as a Member of Congress?

Mr. MULVANEY. Yes, I think I have said that before.

Senator MURRAY. Okay.

Mr. MULVANEY. I do not think that reflects on my opinion of it as a member of the administration.

Senator MURRAY. Okay. Well, let me ask you one more question.

Mr. MULVANEY. I am just trying to give an honest question to an honest answer, Senator.

Senator MURRAY. I appreciate it. I appreciate it. Republicans have busted our budget with trillions in tax cuts for the rich, and this budget starts asking the middle class to actually pay for that. You have said before that you would like to cut Social Security and Medicare. Can you commit to me today that you will not be asking for a penny of cuts to benefits from either of these critical programs in future budgets to pay for the President's tax cuts?

Mr. MULVANEY. And that is exactly what this budget reflects. The proposals that you see that touch on Social Security do not deal with old-age retirement benefits, do not deal with core Social Security. As we discussed last year, we tried to address some reforms within Social Security Disability Insurance.

Senator MURRAY. What do you propose?

Mr. MULVANEY. I think, well, in Medicare, for example, let us talk about Medicare, because it was the other thing you—we do not propose any changes to any benefit, any benefits, any services to beneficiaries. We tried to focus on lowering drug prices within Medicare. The number I have heard, by the way, a couple times today and in the press is that we propose to cut Medicare by half a trillion dollars, $500 billion. That is just not right. The number is $236 billion, and most of that is tied up in drug reforms and some other proposals.

For example, Senator Murray—and thank you for the time to do this. I do not know if you know this or not, but your Medicare money—Medicare money that you pay in FICA that goes into the Medicare Trust Fund—actually goes to pay for graduate medical school tuition. It goes to pay for bad debts from non-Medicare patients at hospitals. And we propose to move that funding——

Senator MURRAY. Are you eliminating that?

Mr. MULVANEY. We do actually move that on to another part of the budget so that we actually still pay those, but we do not pay them out of the trust fund. And there are a lot of folks who said, "Well, that is a cut to Medicare." No, it is not. It is actually improving the Medicare Trust fund, and I think the proposals——

Senator MURRAY. And put it somewhere else where you can cut it. Okay. I got it. We are out of time.

Mr. MULVANEY. Thanks.

Senator MURRAY. Thank you.

Chairman ENZI. Thank you.

Senator Kennedy.

Senator KENNEDY. Thank you. Mr. Director, I am over here.

Mr. MULVANEY. You are on my right. I know that, Senator Kennedy.

Senator KENNEDY. Yes. It is the correct place to be.

Mr. MULVANEY. That is right.

Senator KENNEDY. This is America. We all are entitled to our opinion, but I think you are doing a great job.

Mr. MULVANEY. Thank you, sir.

Senator KENNEDY. I know you to be a fiscal conservative. I think you share my, I do not know, concern, disbelief, curiosity. I do not understand why taking care of our generation requires robbing the next generation. I want to thank you and your budget for emphasizing our need to do something about improper payments. As you know better than I do, we have got $144 billion of improper payments being made every year. Now, we are not going to stop all of them, but if we can stop 20 percent, that is $30 billion.

I have introduced a bill with Senator Carper to try—it is called the "Stop Paying Dead People Act." I was just amazed. You cannot make this stuff up. We have got a death file at Social Security, but Social Security will not share it with its sister agencies. So people are being—dead people are getting checks, and they are being cashed. Obviously, there is fraud. In some States you can vote when you are dead, but cashing a Government check is just a bridge too far, as far as I am concerned. So I hope you will continue that.

In the few minutes I have left, I want to get a little maybe metaphysical here. We talk about the need for a balanced budget, but sometimes—and I support a balanced budget. But sometimes I think we conflate balanced budget with Government spending, and here is what I mean. We have got a $20 trillion economy. That is all the goods and services we produce every year. If Government is spending $4 trillion—I know the President's budget comes in a little higher, but if Government is spending $4 trillion, the Government is taking $4 trillion out of that, let us say, $20 trillion. Are you with me so far? Okay. Do you think that America would be better off if we had a balanced budget of $4 trillion Government spending and $4 trillion of taxes? Or would we be better off in terms of personal liberty if we had $2 trillion worth of spending and $1 trillion of taxes and, therefore, we would have to borrow $1 trillion?

Mr. MULVANEY. Well, from an individual liberty side, if you assume for the sake of this discussion that the larger the Government is, the less individual freedom you have, then by definition you would be better off from an individual liberty standpoint by having that $2 trillion Government expenditure with only $1 trillion taken out of the economy. Plus I think I can make the argument to you, take individual liberties out of the equation and look at the allocation of capital. If I give $4 trillion to the Government, it is likely to misapply a lot of that, spend it inefficiently; whereas, if I let people keep more of their own money, they are by definition going to apply it very efficiently. In fact, that is efficient. That is the market. People spending their own money is the market, and nothing allocates capital more efficiently than the free market. So I think in many ways you would be better off by having that smaller footprint.

Senator KENNEDY. Well, I want to be clear. I support a balanced budget, and I know you do, too. But would one way to skin this cat be to approach legislation that would limit Government spending to a certain percentage of GDP?

Mr. MULVANEY. Certainly, in theory, yes, sir.

Senator KENNEDY. Okay. Do you think the President would support something like that?

Mr. MULVANEY. I have not talked to the President. I know that came up a couple times in the House, Senator. I know you and I have not talked about this before, so we are just sort of thinking off the top of our heads. But I think that actually came up in the past as part of a debate regarding a balanced budget amendment. Would we cap Government expenditures as a percentage of the overall economy? The theory being that it was Okay to grow the Government as long as you were growing the economy at the same time. Go back to my comments before about your revenues growing faster than your expenses. It is wrong to grow Government faster than the economy of the people that can pay for it.

Senator KENNEDY. I am out of time. Thank you, Mr. Director, for your service.

Mr. MULVANEY. Thank you, Senator. I always enjoy it.

Senator KENNEDY. I am a big admirer.

Chairman Enzi. Senator Perdue.

Senator PERDUE. Director, thank you for surviving another one. It is always interesting.

Mr. MULVANEY. It was a lot easier the first time I was in this room, I can tell you.

Senator PERDUE. They do not get any easier, I am sure.

I want to make a comment, Mr. Chairman, very quickly before I get to two questions quickly.

One is I take a different view totally than the Senator from Washington. I respect her work over the years, and I know we can work together, but we have got to fix this budget process. Director, I know we have had this conversation. I think you agree with this. I am not asking for you on the record right now, but I want to make a comment. The budget process has only worked four times in 44 years. It has led to this debacle of $20 trillion. We are not going to solve our debt crisis over the next 20 or 30 years unless and until we fix this debt crisis.

I applaud leadership on the House and Senate, and I applaud the White House's support of this select committee, and I look forward to its outcome later this year.

Director, I want to comment—just a question on the debt. The size of this Government in 2000, the last year of Bill Clinton, was $2.4 trillion in current dollars. Last year, it was about $4 trillion directionally. There is our problem. The largest growth of that, though, was in the mandatory side. Today $4 trillion, 75 percent of that is mandatory. Only about 25 percent is discretionary. That is what you have to work with primarily.

I am concerned about over the last administration we borrowed about 35 percent. It looks like over the next 10 years in this budget we will borrow somewhere north of 20 percent. It is new debt.

I know your heart. I know what you have done historically on this. Help us understand sort of the long—term investment return concept I know the White House has in terms of dealing with the debt. There are things that we have to invest in growing the economy. We have to build the infrastructure and all that. That will yield return, as I understand it, and I believe that.

The question is: Are we moving toward a longer-term solution outside a 10-year window that is a directional pathway toward getting this debt down to some more meaningful percentage of GDP? We talk about spending. The problem with spending is, of the $1 trillion, only 350 is non-military. Of the $1.1 trillion discretionary, about 700 now is military, about 200 is VA, and the balance there of 300, 350, is all the domestic discretionary programs that we still have out there. And they have been cut dramatically as well over the last decade.

So give me some comfort that we have at least a north eye on the long-term solution toward this mounting debt crisis.

Mr. MULVANEY. We do. And, fortunately, Senator, we have got an example that works. We have actually balanced the budget during my adult lifetime, back in the late 1990's, and——

Senator PERDUE. On a per year basis.

Mr. MULVANEY. On a per year basis. I recognize there was some funny accounting when it came to the Social Security receipts and so forth, but if you look generally to the concept, what happened was we figured out a way to grow the economy faster than we expected, and we had fiscal restraint. Democrats take credit for it, Republicans take credit for it. But the truth of the matter is the Government grew slower than the economy. And if you can do that long enough, revenues will catch up. And you and I have not talked about this either, but we have talked to the administration a lot of times about prioritizing deficits. There are actually different types of deficits. Deficits that allow people to keep more of their own money because of the allocation of capital is actually a fairly relative efficient deficit. In the middle you might have stuff on things like infrastructure where at least you might get some return on that. The least efficient type, from an economic standpoint, of deficit would be something for wealth transfer payments. So we do try and prioritize that as we look across our deficits going forward.

But the big picture, writ large, is you have to figure out a way to grow your economy faster than you are growing your Government.

Senator PERDUE. Thank you for that. One last question, Mr. Chairman.

With regard to infrastructure investment, again, as you just said, investments hopefully that will produce a return, unlike the $1 trillion that we threw toward investment in infrastructure back in 2011 that was not made with those priorities. I call out one type of investment, particularly when we talk about spending the money we are talking about in this budget on infrastructure. The question is: Are we prioritizing based on the return that we get in terms of economic growth and contribution then in turn to reducing this long-term debt? And I specifically call out an issue that I believe is caught between current authorizations and the future infrastructure investments. Those are in States like Texas, Louisiana, Florida, Georgia, your home State of South Carolina, Virginia, New Jersey. These are our ports, our eastern ports that are all trying to accommodate the new Panamax ships that would dramatically improve our ability to compete around the world.

I believe those investments are caught up in the Army Corps of Engineers' budgets being cut, but are not being moved over to the infrastructure investments, and these port investments actually offer a higher rate of return than some of the infrastructure investments that I think were contemplated. Can you address that?

Mr. MULVANEY. I would. At the risk of making a small correction, we absolutely anticipate that the deepwater ports be part of the infrastructure bill. In fact, the largest part of the infrastructure bill, the 50 percent of the $200 billion, $100 billion is sort of in our minds set aside for programs that can contribute their own portion of the funding. And as you know, the port of Savannah does exactly that. So we had specifically the deepwater ports in mind when we fashioned the infrastructure——

Senator PERDUE. That is comforting. Thank you.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you, and I want to thank the Director for his comments.

I do want to ask an additional question here just from some confusion about GDP that we were talking about earlier. The President's budget projects a GDP growth average of 3 percent annually with a long-term trend line of 2.8 percent. This long-term trend is nine-tenths percentage points higher than the CBO's 1.9 percent forecast, which was published last June prior to the passage of the Tax Cuts and Jobs Act. There has been downward pressure on the long-term projections due to demographic changes. How does the administration reach its growth projections? And how will the Tax Cuts and Jobs Act encourage labor force participation?

Mr. MULVANEY. Thank you for the question. At the risk of getting deep down in the weeds and showing my inner geek, we were fairly disappointed in the GDP numbers in the fourth quarter. We expected them to be north of 3. They were not.

But if you drill down into the details, one of the things you will see is that the capital investment and the durable good numbers were almost 4 times what we expected. We were expecting something about 0.8, 0.9, and they came in just south of 3 percent. That is how you do it, Senator, and that is why such a critical part of the tax bill, gentlemen, was that corporate tax rate and the depreciation rules, in order to get the type of GDP growth that we need long term, given the demographic challenges that we face, we need individual productivity to increase. That comes from capital investment. You invest in a new machine, you invest in new technology, you invest in education, and you get individual productivity up. And we think we have seen the seeds of that planted almost immediately. Someone mentioned earlier that we have seen benefits from the tax bill far quicker than we thought that we would. Everyone pays attention to the bonuses that were given and the wage increases that were given. But if you look even deeper into the numbers and you see the investments that people are making, companies are making in the United States of America, we think we see the seeds planted for long-term structural improvements to our productivity, and that is our economic health.

Chairman ENZI. I am counting on that proving out. I did ask for a static score when we were working on taxes because during the health care debate we asked for a dynamic score, and I found out that that was going to require 6 weeks for every amendment to be evaluated. And we do not do legislation where we have 6 weeks between amendments. It may seem like that, but we do not have that.

So I want thank you for your testimony today. Your full statement will be included in the record. I think you did an outstanding job of presenting the President's suggestions and priorities, and that is what the President's budget is, suggestions and priorities, because the Constitution actually specifies that we are the ones that are going to be doing the actual work on that. I do hope we find a better process for doing that actual work.

Another little inconsistency that I heard this morning was saying that for preschool, there needs to be a program for preschool. I have been saying that all along since I got here. There were 119 when I started. We got it down to 45 preschool programs. It seems to me like one or two really good ones reviewed again and reauthorized might be better.

There were also some comments about housing programs here. I checked. There are 160 housing programs administered by 20 agencies. Nobody is in charge. Nobody is setting goals. Nobody is checking to see if they are being met. So how can we say that a decrease in the housing funding would put people out on the streets? We might actually come up with some better solutions.

A little note that I found in reading through your documents was a suggestion that colleges have some risk accepted on student loans. That is kind of a novel concept. We kind of made the for-profit schools do that same thing, and we put them out of business. But there ought to be some kind of risk acceptance in it.

I appreciate your comments about capital budgeting, and you used an example of the FBI building for that. I have been talking about capital budgeting since I got here. I think separating that out might make our job a little bit easier.

I would mention that if anybody has any additional questions, the questions can be submitted for the record by 6 p.m. today with a signed hard copy delivered to the clerk at Dirksen 624. And you will have up to 7 days to respond to those questions to get additional good information so that we can understand this budget as well as we can so that we can do our budget.

Thank you very much for an outstanding presentation.

Mr. MULVANEY. Thank you, Senator.

Chairman ENZI. Adjourned.

[Whereupon, at 11:51 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:]

FY 2019 Budget Committee Questions for the Record

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The wildfires that have been burning across the West are getting bigger, burning hotter, and are becoming increasingly deadly. We are spending more now than ever fighting fires without adequately budgeting for or addressing the underlying problem. I am pleased to see the Administration agreed it is crucial that we not only address the issue of fire borrowing, but take preventative action by including substantial forest management reforms in any fix put forward. What reforms would the Administration need to see in order for agencies to more proactively manage our nation's forests, making them more resilient to fire, insects, and disease?

The President's Budget proposes a new discretionary cap adjustment of $1.5 billion for wildfire suppression operations at the Departments of Agriculture and the Interior. It further proposes an adjustment of approximately $2 billion annually throughout the budget window. Is the Administration confident that this adjustment is sufficient to finally end the practice of "fire borrowing" at those agencies? Please provide the historical data used to derive the proposed cap adjustment formula.

To resolve concerns about the sufficiency of wildfire suppression funding, the Budget fully funds anticipated wildfire suppression costs at the ten-year average, and proposes a separate wildfire cap adjustment if program costs exceed that average in a given year. The cap adjustment proposal for wildfire suppression ensures that adequate resources are available to fight wildfires during a severe wildfire season and minimizes the risk of detrimental fire transfers or "fire borrowing". In addition, we believe that meaningful forest management reforms to strengthen our ability to restore the Nation's forests and improve their resilience to destructive wildfire should be a part of any permanent solution to this issue.

FY 2019 Wildfire Suppression Cap Adjustment Calculation
(Dollars in Millions)

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Cost Forecast Upper Bound	2,950	3,114	3,278	3,442	3,606	3,770	3,934	4,098	4,262	4,426
FS/DOI 10-year avg. w/5% Growth Rate	1,519	1,595	1,675	1,759	1,847	1,939	2,036	2,138	2,245	2,357
Difference = Cap Adjustment Level	1,431	1,519	1,603	1,683	1,759	1,831	1,898	1,960	2,017	2,068

General Methodology - Cost Forecast Upper Bound:

The cap adjustment calculation uses a Forest Service cost forecast for all federal suppression spending based on in-year and out-year time series regression models for FY 2017, FY 2018 and FY 2019. To account for the potential effects of long-term drought conditions, unnaturally dense forest landscapes, and expected population growth in the wildland-urban interface, a growth factor of 1.5 was applied, resulting in a forecast upper bound of $4.426B.

Sen. Enzi

National Parks play an important role in communities around the country and I appreciate the effort of the Administration to address the staggering maintenance backlog our parks are facing. The Budget proposal included a new fund to address the $12 billion deferred maintenance backlog. With regard to that fund, I have the following questions:

- **What steps will the Administration take to ensure that high priority projects that impact visitor experience, public safety and access are prioritized?**

- **Will the Administration commit to ensuring that any funds allocated toward the maintenance backlog do not interfere with the already-allocated payments to states from mineral receipts?**

- **Will the Administration commit to ensuring these funds will go toward the deferred maintenance backlog rather than new acquisition or administrative overhead?**

- **While this proposed fund would provide a steady stream of funding to reduce the maintenance backlog, without corresponding regulatory reforms to expedite projects, I fear the Administration will not be able to appropriately address the deferred maintenance in our national parks. How will reducing regulation on infrastructure projects speed up the timeline on reducing the maintenance backlog completely?**

The Administration will work to ensure resources from the Public Lands Infrastructure Fund (PLIF) are directed towards the highest-priority infrastructure projects. To prioritize projects chosen for funding, the National Park Service (NPS) will utilize their current asset management and ranking system. This systematic approach allows NPS to prioritize deferred maintenance projects based on the condition of assets and their importance to the parks' mission, as well as other criteria related to financial sustainability, resource protection, visitor use, and health and safety. OMB will also engage with NPS and Department of the Interior staff to ensure appropriate parameters are developed for administration of the PLIF.

The Administration's 2019 Budget proposal for the Public Lands Infrastructure Fund would cover only incremental receipts over an established baseline, excluding resources that are otherwise allocated to other purposes. This exclusion includes payments to states from mineral receipts, in addition to revenues allocated by law to programs, such as the Reclamation Fund, Land and Water Conservation Fund, Historic Preservation Fund, and Permit Processing Improvement Fund.

The Fund is to be used solely for the repair, replacement or improvement of infrastructure in national parks, national wildlife refuges, and Bureau of Indian Education (BIE) schools. A small portion would be used for planning, design and project management, as done with all other construction accounts.

In addition to providing additional Federal funding, the Budget's infrastructure initiative includes several proposals to streamline permitting decisions to accelerate project delivery while maintaining environmental safeguards. For example, the initiative proposes creating a new "One Federal Decision" structure that includes firm deadlines for completing environmental reviews, eliminating redundant agency reviews, delegating responsibilities to States where appropriate, and pilot programs to experiment with innovative approaches to environmental reviews.

Sen. Enzi

Last year I asked you to investigate the decision to sequester the funding of privately-funded independent agencies such as the Financial Accounting Standards Board, the Public Company Accounting Oversight Board, and the Securities Investor Protection Corporation. I believe this decision contradicts Congressional intent and threatens the ability of these entities to remain objective and unbiased. Have you reviewed this issue, and if so, why can't the funding for these organizations be free from the reach of sequestration?

Section 251A of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended ("BBEDCA") directs a sequester of all "discretionary appropriations and direct spending accounts", including accounts listed in the President's Budget, absent an express exemption. The Financial Accounting Standards Board (FASB), the Public Company Accounting Oversight Board (PCAOB), and the Securities Investor Protection Corporation (SIPC) are subject to sequestration because all three entities have accounts included in the President's Budget and section 255 of BBEDCA does not list these accounts as exempt from sequestration. The Congress has not enacted legislation to include any of these entities on the list of exempt programs and activities in section 255. Further, these entities have provisions of law that make funds available for obligation and expenditure which also result in the accounts containing sequestrable budgetary resources. The non-Federal status of FASB, PCAOB, and SIPC does not factor into the sequestration classification of budgetary resources possessed by the entities.

Sen. Grassley

As I mentioned at the hearing, the Senate has been working to try to stabilize the durable medical equipment Medicare benefit. This benefit is important because it that allows patients to remain in their homes, avoiding hospitalizations.

The Obama Administration put in place a rule that applied competitive bidding rates to rural and other areas that were expressly excluded from the competitive bidding program. In some cases, these changes resulted in rates being below the costs suppliers incur for providing services and equipment.

I was encouraged, in August 2017, when I saw that CMS sent an Interim Final Rule to OMB that would mitigate those changes. However, this rule has been pending since then.

Can you tell me what specific steps you are taking to make sure that the OMB reviews and releases that rule?

On August 24, 2017, the Centers for Medicare and Medicaid Services (CMS) submitted a draft of its interim final rule entitled, Durable Medical Equipment Fee Schedule, Adjustments to Resume the Transitional 50/50 Blended Rates to Provide Relief in Non-Competitive Bidding Areas to the Office of Information and Regulatory Affairs (OIRA). OIRA is conducting a review of this rule under Executive Order 12866. We have been working with CMS and new leadership at HHS to review the rule and will consider your comments and concerns.

Sen. Harris

Last year, at a White House press conference where you defended the President's FY 2018 budget request, when asked about federal research on climate change, you stated "we're not spending money on that anymore. We consider that to be a waste of your money to go out and do that." Yet, a few months later, the National Climate Assessment, a federal government report, stated that we are already facing the impacts of climate change and that those impacts are expected to become more extreme. The report also states that we know large wildfires across the West have increased since the 1980s and, as climate change continues, we will likely continue to experience more and more of these large, destructive wildfires. In 2017, California experienced the most destructive wildfire season on record. Homes were destroyed, over 40 lives were lost, and with climate change, the destruction is likely a sign of things to come. Unfortunately, the President's budget released yesterday yet again calls for the defunding and elimination of climate change programs and research across the federal government. Do you think that funding research to understand these devastating wildfires and how we can protect Americans against them in the future is a "waste of money?" Wouldn't you say that research that helps prevent fires and losing lives is worth funding? As Californians work to rebuild their lives, do you commit to fully support those impacted by the Southern California wildfires and mudslides in the next emergency disaster supplemental?

The President's Budget clearly signals that this Administration does not think funding research to understand wildfire is a "waste of money," with $27 million in the request to support wildfire research. This includes $12 million for Wildfire and Fuels Research and $15 million for Fire Plan Research and Development. We want to be proactive in our wildfire research and advance our knowledge base to better protect communities and safeguard human lives, including the lives of our firefighters. I look forward to working with you, and the Federal Emergency Management Administration, as we consider all options to support Californian's as they work to rebuild from natural disasters.

Sen. Harris

Another item that this budget proposal targets for cuts is scientific research. There are two Department of Energy Office of Science labs in California, Lawrence Berkeley National Laboratory and SLAC National Accelerator Laboratory. These facilities are home to researchers that are discovering the kind of breakthroughs that fuel our innovation economy that this country is known for, such as lifesaving drugs, new materials for electronics, and even the ability to turn the camera of a cell phone into a microscope. Additionally, these labs are job creators. Lawrence Berkeley is responsible for creating more than 12,000 jobs nationally. Without labs like these, our country faces challenges from foreign companies in innovation and technology. At a time when we need to be more competitive, the Administration is requesting budget cuts in funding for important federal research, including cutting the budget of the Office of Science. <u>How do we continue to lead the world in scientific discovery when the President still wants to invest less money in research?</u>

Overall, the 2019 Budget Request does not cut R&D funding. It increases total R&D funding by an estimated 9 percent when compared to 2017 actuals. There is a small decrease in non-defense R&D funding by about 4 percent, but defense R&D funding grows by about 21 percent — which is consistent with our prioritization of defense throughout the Budget.

The 2019 Budget Request for the Office of Science (SC) of $5.4 billion, level with 2017, continues to focus the 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. The SC Budget Request focuses on cutting-edge innovation by supporting scientific research, as well as the design, development, construction, and operation of unique, open-access scientific user facilities. The SC basic research portfolio includes extramural grants and contracts supporting about 23,000 researchers located at over 300 institutions and the 17 DOE national laboratories, spanning all fifty states and the District of Columbia. The portfolio of 27 scientific user facilities serves nearly 31,000 users per year. SC programs invest in foundational science, including basic research for the advancement of clean energy, to transform our understanding of nature and strengthen the connection between advances in fundamental science and technology innovation.

Sen. Harris

This budget proposal again proposes cuts to the Department of Labor budget. In the request itself, there is a proposed 21% cut compared to 2017 enactment levels, although that has been somewhat offset by the recent congressional spending bill. Regardless, Americans are facing challenges in transitioning to new roles in the workforce right now and they need their government to support them in making that transition possible. The budget request states that the Secretaries of Education and Labor are working on a "comprehensive plan to consolidate and reorganize Federal workforce development programs" that will be released in the spring. How do you propose to reorganize these critical programs without undermining the services these workers need -- especially when this reorganization will take place within a Labor Department that is facing budget cuts?

As you note, the Administration has proposed a revised 2019 Budget that funds the core DOL Workforce Innovation and Opportunity Act formula grants at their 2017 Enacted levels. In addition, however, the Budget takes steps to reform Federal workforce development programs, which number more than 40 and are spread across 14 agencies. This fragmentation makes it challenging for States and localities to meet the comprehensive needs of Americans seeking workforce-related services. The Departments of Education and Labor are in the process of developing a reorganization proposal to consolidate and reorganize workforce development programs, reducing duplication and improving the quality of services workers and job-seekers receive.

Sen. Harris

In March 2014, the CFPB produced a study which found that over 80% of payday loans in this country are renewed within 14 days. This means that borrowers are pushing off paying back their loans because they are unable to pay them off. When they do so, they are charged fees that can often end up costing them more than the value of the original loan. In response to this, CFPB created the Payday Lending Rule, a common-sense idea which requires short-term lenders to verify the ability of a borrower to repay their loan before issuing it to them. <u>Do you agree that it makes sense for a lender to verify that there is a reasonable expectation that borrowers should be able to pay back their loans? Will you commit to completing the Payday Lending Rule?</u>

The "Payday, Vehicle Title, and Certain High-Cost Installment Loans" rule is complete and became effective on January 16, 2018. As written, most provisions of the rule do not require compliance until August 19, 2019. As you may be aware, on January 16, 2018 the Bureau of Consumer Financial Protection (Bureau) announced its intention to engage in a rulemaking process so that the Bureau may reconsider, as appropriate, its final rule governing payday, vehicle title, and certain high-cost installment loans. The Bureau will not pre-judge the outcome of that process.

However, in evaluating any further rulemaking, the Bureau will be mindful of the variety of regulatory approaches taken by various States. As you may know, some State laws prohibit payday lending while others allow such lending under a variety of criteria.

Sen. Harris

The budget proposal calls for "individuals to shoulder more of their housing costs and provide an incentive to increase their earnings," or in simpler terms, institute work requirements. A 2016 report from the Center on Budget and Policy Priorities found that 85% of households that receive federal housing assistance are seniors, people with disabilities, and employed persons.[1] So when we talk about imposing these work requirements, only about 15% of the recipient population will be impacted. A recent proposal for instituting work requirements in Medicaid has drawn criticism from stakeholders who have raised the fact that the administrative costs of instituting these requirements will be burdensome. <u>Why is it worth engaging in the burdensome process of verifying recipients' employment, when we already know that they won't apply to an overwhelming majority or 85% of recipients?</u>

[1]"Work Requirements Would Undercut Effectiveness of Rental Assistance Programs" June 14, 2016, Will Fischer, Center on Budget and Policy Priorities

The Administration supports the Medicaid work and community engagement provision included in the Graham-Cassidy-Heller-Johnson (GCHJ) legislation and recently announced support to provide States the flexibility to implement community engagement initiatives through other Medicaid authority for able-bodied adults. Seniors, individuals who qualify for Medicaid on basis of a disability, and pregnant women would be exempt from such requirements. This policy can lead to increased employment, wages, and access to employer sponsored insurance for able-bodied adults, resulting in more economic independence, and may improve the overall health of individuals.

Sen. Harris

The budget proposal calls for an 18.3% decrease in the budget of the Department of Housing and Urban Development (HUD), which would constitute an $8.8 billion cut to HUD. This includes an 11.2% cut to HUD's rental assistance programs that help low-income families find stable housing and a complete elimination of the Community Development Block Grant, which gives states and cities resources to spur economic development in communities. One of HUD's core missions is to make sure that low-income, elderly, and disabled people are able to find housing. Without a home, everything else, including finding work, becomes much harder. Does the Administration think that a top priority should be helping people find stable housing? If so, how do you reconcile that goal with a budget that would cut or eliminate funding for programs that are designed to achieve that goal?

The Administration's Budget balances the Department of Housing and Urban Development's (HUD) mission to promote decent, safe and affordable housing for Americans with the President's commitment to fiscal responsibility and reforms to encourage work and self-sufficiency. The Budget also recognizes a greater role for State and local governments and the private sector to provide funding for community and economic development needs.

The Budget strategically invests $41.2 billion in programs to support HUD's core functions, including providing secure and healthy housing for families to establish economic security, improve their quality of life, and form strong communities. Within this total, the Budget provides $35.8 billion for HUD rental assistance programs to continue serving 4.7 million low-income families and $2.4 billion for Homeless Assistance Grants to support local communities implementing evidence-based strategies to reduce homelessness.

At the same time, the Budget proposes legislative reforms to HUD rental assistance programs to place them on a more sustainable fiscal path, encourage work among work-able individuals and simplify program administration. Proposed reforms include reducing the frequency of income re-certifications and increasing tenant rent contributions, with hardship exemptions for tenants who truly cannot pay more and protections for elderly and/or disabled households. The Administration will submit rent reform legislation to Congress in March.

The Budget also eliminates programs that are duplicative or have failed to demonstrate effectiveness, such as the Community Development Block Grant (CDBG), and devolves responsibility for community and economic development to State and local governments that are better equipped to respond to local conditions.

Sen. Harris

Homelessness is increasing in California and across the country. According to HUD's own estimate from December, it has increased nationwide by 1% and has increased by 13.7% in California. In Nevada, homelessness increased by 5.9% and in Texas by 1.8%. Yet in the President's Budget, Homeless Assistance Grants are equal to the 2017 enacted levels. How does the Administration suggest that we combat the growing problem of homelessness if funding for the programs designed to address it is not increasing?

The Budget requests $2.4 billion for HUD Homeless Assistance Grants, equal to the 2017 enacted level. However, the 2017 enacted level is a misleading comparison, as it included several large increases to expand certain services which do not require renewal in 2019, such as an additional $40 million for rapid rehousing through Emergency Solutions Grants for certain communities, $43 million for new homeless youth demonstration grants, and $5 million for competitive grants to Continuums of Care to improve their Homeless Management Information Systems.

The Budget request is sufficient not only to maintain existing services for over 1.1 million people experiencing homelessness, but also to accommodate $40 million in new rapid-rehousing interventions to counter a rise in unsheltered homelessness. As noted, certain areas – especially high-cost cities along the West Coast – have experienced large increases in homelessness over the past year. Complex market dynamics, including stagnant incomes and local regulations that create barriers to housing development, all contribute to reduced housing affordability overall in these areas. These challenges cannot be solved by Federal investments alone, and require Federal, State, local, and private partnerships to ease the pressures that are forcing too many people into shelters and onto streets. To support this broader goal, HUD will also provide extensive technical assistance to support comprehensive local strategies to address homelessness.

Sen. Merkley

On January 16, 2018, the CFPB issued a statement on the rule entitled "Payday, Vehicle Title, and Certain High-Cost Installment Loans" ("Payday Rule") stating that it "intends to engage in a rulemaking process so that the Bureau may reconsider the Payday Rule." However, no specific reasons or concerns were listed for why the rule needed to be reconsidered. What are the reasons the CFPB has chosen to engage in another rulemaking process after the carefully vetted Payday Rule was already finalized?

As the new leader of the Bureau of Consumer Financial Protection (Bureau), it is my duty and responsibility to examine all of the Bureau's actions to ensure that they align with the Bureau's statutory mandate and advance its goals to facilitate consumer choice. This effort extends to the Bureau's work on small-dollar lending. For that reason, the Bureau announced that it intends to engage in a rulemaking process to reconsider the "Payday, Vehicle Title, and Certain High-Cost Installment Loans" rule.

Sen. Merkley

Since you began your role at the CFPB, have you ever personally met with a Chief Executive Officer (CEO) or high-ranking executive of any payday loan and/or small dollar firm? If yes, please list out all of the specific details of each meeting, including who attended, where it took place, and the date on which the meeting occurred.

I have not had any formal meetings of the type described above during my time as the Director of the Office of Management and Budget or as Acting Director of the Bureau. I was once approached at a social event by someone who identified himself as an owner of such an entity, which was in litigation with the Bureau, but I did not engage in any substantive discussion of the pending matter and I referred him to the Enforcement team. I do not consider such an encounter to be a "meeting."

Sen. Merkley

Have you ever met with a CEO or high-ranking executive of a payday loan and/or small dollar firm that the CFPB has pending litigation against at the time of the meeting? If yes, please list out all of the specific details of each meeting, including who attended, where it took place, and the date on which the meeting occurred.

I have not had any formal meetings of the type described above during my time as the Director of the Office of Management and Budget or as Acting Director of the Bureau. I was once approached at a social event by someone who identified himself as an owner of such an entity, which was in litigation with the Bureau, but I did not engage in any substantive discussion of the pending matter and I referred him to the Enforcement team. I do not consider such an encounter to be a "meeting."

Sen. Murray

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 again eliminate funding for the Puget Sound even after these investments were restored on a bipartisan nature in FY17.

Director Mulvaney, have you worked with EPA to assess the long term impact of eliminating this and other geographic programs?

The EPA Budget for 2019 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 and protection of the Puget Sound basin and provide national support for the protection of human health and the environment.

Sen. Murray

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 again eliminate funding for PCSRF.

Director Mulvaney, have you analyzed the economic and health impacts of eliminating funding for PCSRF? What input was sought from NOAA Fisheries? What steps did you undertake to ensure these actions would not impact tribal treaty obligations?

OMB, DOC, and NOAA worked collaboratively to develop a 2019 Budget that allows NOAA to target resources to core mission and services. As such, the Budget proposes to eliminate funding for several lower priority, unauthorized grant and education programs, including the Pacific Coastal Salmon Recovery Fund (PCSRF). NOAA will continue to support tribal treaty rights within its base programs through activities such as technical assistance and salmon hatcheries operations and maintenance.

Sen. Murray

Over the past 35 years, the population of native peoples living in urban cities has steadily increased, with the 2010 census finding that approximately 70 percent of the 5.2 million Americans self-identifying as American Indian or Alaska Native (either alone or in part) living in cities. Since its creation in 1979, funding for the Indian Health Service's urban Indian health mission has consistently represented just under one percent of overall IHS appropriations. There are thirty-four Urban Indian Health Centers across the country, including one in Washington state. These centers provide culturally appropriate primary care and other health services to many Native Americans. The entire system presently is in need of repairs, renovations, and other resources.

Director Mulvaney, what tribal consultation did OMB employ before cutting funding for the Urban Indian Health Program? What health impact assessments were made prior to deciding to reduce funding for the program?

The Federal Government has a unique government-to-government relationship with American-Indian and Alaska Native tribal governments and, thus, is committed to respecting tribal sovereignty and self-determination through regular consultation with Tribes. The Indian Health Service (IHS) carries out this responsibility consistent with Executive Order 13175 and Presidential Memoranda issued in 1994, 2004, and 2009. The President's Budget incorporates recommendations from the Tribal Budget Formulation Workgroup, which meets annually as part of the Department of Health and Human Services Tribal Budget Consultation to develop recommendations for IHS. For more information on IHS's tribal consultation policy, please see IHS Circular No. 2006-01. The Budget requests $46 million for the Urban Indian Health Program and prioritizes fully funding the staffing and operations of six newly constructed facilities and providing access to services for three new federally recognized Tribes.

Sen. Murray

In the Senate HELP Committee we have started bipartisan conversations on reauthorizing the Higher Education Act. Chairman Alexander and I share an important principle as we work to update this law: in a time of skyrocketing student loan debt that has now reached $1.5 trillion, we cannot cut financial aid. Cuts to financial aid are exactly why I am so concerned about the Administration's FY 2019 budget proposal for higher education. The Administration's proposal for changes to the student loan programs would increase student debt by at least $200 billion dollars over the next decade—and likely even more after accumulating interest is taken into account. These increases in student debt would fall particularly hard on working families. If the Administration is concerned about the cost of financial aid for college students, why is it—in the very same budget—proposing to send more taxpayer dollars to predatory for-profit colleges and to ineffective student debt collectors?

The Administration believes income-driven repayment (IDR), which allows borrowers to make affordable monthly payments and receive loan forgiveness after several years of repayment, is an important tool for helping borrowers manage student debt. 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. Under the proposed IDR plan, working families with debt – or any undergraduate or graduate borrower – would never have to make monthly payments in excess of 12.5 percent of discretionary income. The plan also significantly helps undergraduate borrowers by providing loan forgiveness after 15 years of affordable payments, instead of 20 years under current law. Students with graduate student debt would receive forgiveness after 30 years of affordable payments.

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. These reforms will reduce inefficiencies in the student loan program and focus assistance on needy undergraduate student borrowers instead of high-income, high-balance graduate borrowers. Furthermore, the Administration looks forward to working with Congress to require colleges and universities to have shared accountability for repayment of Federal student loans. A better system would require postsecondary institutions accepting taxpayer funds to share a portion of the financial risk associated with student loans, in consideration of the actual loan repayment rate to ensure that the substantial taxpayer investment in higher education continues to provide strong value for students and the economy.

Sen. Murray

The Administration's FY 2019 budget "proposes to streamline the Department of Education's ability to verify applicants' income data held by the Internal Revenue Service (IRS)" for the purposes of income-driven repayment (IDR). As you know, on January 17, 2017, under the Obama Administration, the U.S. Departments of Treasury and Education announced a Memorandum of Understanding establishing a framework regarding the requirements for electronically sharing tax data over multiple years for federal student loan borrowers participating in IDR plans. However, it has been more than a year and we have not received any updates on the implementation of this Memorandum of Understanding. Does the Administration intended to use a portion of the funds requested for Student Aid Administration at the U.S. Department of Education to implement the data-sharing arrangement with the Internal Revenue Service for streamlining IDR plan recertification?

Part of the overall increase in the Student Aid Administration request is for $17.8 million to support the recent agreement between FSA and IRS. FSA and IRS collaborate on a data retrieval tool, publicly known as the IRS Data Retrieval Tool or DRT, which retrieves specific tax return information for authenticated users of ED's online FAFSA form (FAFSA.gov) and the Income Driven Repayment plans (IDR) online applications. As you know, the tool provides users a convenient option to securely transfer encrypted tax return information to the online FAFSA form and or IDR applications. Information is shared with FSA, based on user authentication and consent via the online FAFSA form and IDR applications, and is specifically used for determining student eligibility for federal student aid and loan repayment options. Via a Memorandum of Understanding (MOU), FSA pays IRS for operations and management of the data retrieval tool for FAFSA and IDR applications, as well as for required IRS notices issued to users who successfully authenticate in the data retrieval tool and IRS customer service related to those notices. Costs for this tool are largely driven by the IRS notices and customer service (rather than the operations and management). It is estimated that FAFSA usage will account for approximately 60 percent of the required notices, and IDR applications usage will account for 40 percent. In addition, FSA and the IRS are working together to explore and implement alternate, more cost-effective ways of fulfilling the IRS notice requirements while maintaining consistency with NIST standards. The Budget also proposes statutory changes to streamline the Department of Education's ability to verify applicants' income data which could reduce these notification costs among other improved cost efficiencies.

Sen. Murray

The Administration's FY 2019 budget proposes to expand Pell Grant eligibility to "high-quality short-term programs that provide students with a credential, certification, or license in an in-demand field, with sufficient guardrails in place to balance students' needs with protecting taxpayers ' interests." What specific guardrails does the Administration propose to protect taxpayers' interests and promote high-quality outcomes for students?

The Budget included this initial proposal as an indication of the Administration's desire to ensure Federal student aid helps low-income individuals access training programs that provide them with the skills needed to secure well-paying jobs in high-demand fields. The Budget did not transmit legislative language with specifics of the proposals; instead we expect to engage with Congress to determine those details. Congress has already put forward some examples of guardrails for short-term programs that may be considered, such as those in the JOBS Act. Through the HEA reauthorization process, we hope to work with Congress to address issues such as how to define and identify high-quality programs, accreditor quality assurance, and reporting on outcomes.

Sen. Murray

The Administration proposed eliminating the Strengthening Institutions Program that is dedicated to assisting under-resourced colleges serving needy students. Many community colleges benefit from this program. The Administration's proposal states that this program is duplicative of programs in Title III and V of HEA. Those programs, however, are dedicated to specific types of minority-serving institutions. How would eliminating the Strengthening Institutions Program address the capacity-building needs of under-resourced colleges serving needy students — that are not eligible for programs dedicated to minority-serving institutions — like community colleges?

The Strengthening Institutions Program is proposed for elimination in both the 2018 and 2019 Budgets because it is duplicative of activities that are identical to those authorized under most of the other Title III and V programs. The Budget protects funding for Title III and V programs that support Historically Black Colleges and Universities (HBCUs) and Minority Serving Institutions (MSIs) that specifically serve large numbers of minority students. Two-year schools (including community colleges) receive a large amount of Federal student aid every year, including approximately $11 billion in Pell Grants. The 2019 Budget increases support for two-year schools and other under-resourced colleges serving needy students through expanded funding under several of the Administration's other higher education proposals. For example, the Administration is proposing to expand Pell eligibility to institutions, including community colleges, that offer high-quality, short term programs that provide students with a credential, certification, or license in a high-demand field. Likewise, community colleges that participate in the Perkins CTE program would benefit from the Administration's Perkins reauthorization proposals and, in partnership with participating secondary schools, would be eligible to apply for the $20 million STEM CTE competition proposed in the 2019 Budget. Finally, the Administration proposes to reform the Federal Work Study allocation formula, which currently goes disproportionately to 4-year schools, to focus scarce funds on institutions enrolling high numbers of Pell Grant recipients.

Sen. Murray

The Developing Hispanic-Serving Institutions program is extremely competitive, in part because there are over 450 institutions that are considered Hispanic-serving. The Administration's proposal notes that discretionary funding would only be available to support approximately 160 continuation awards. Is the Administration comfortable with supporting only one-third of eligible HSIs — or funding these institutions with much smaller grant awards through its consolidation proposal?

The proposed consolidated institutional formula for the Developing Hispanic-Serving Institutions (DHSI) program would be phased in over time to allow current grantees, including the approximately 160 grantees with continuations in fiscal year 2019, to continue receiving continuation awards. Any funds that are available after covering grantee continuation costs would be distributed through the proposed formula. Currently, the DHSI program only supports awards for a minority of the universe of institutions that are considered Hispanic-serving. One of the benefits of the Administration's proposal is that more HSIs would actually receive, and benefit from, awards under the program. Depending on the criteria used in the formula, the Administration's proposal could provide larger grant awards to certain HSIs. The Administration looks forward to working on these details with Congress.

Sen. Murray

Your senior leadership at Consumer Financial Protection Bureau (CFPB) has told the public that all decisions related to pending enforcement actions will be made by career staff in the CFPB's enforcement division. I appreciated hearing that news. However, in light of your recent decision to freeze the investigation into Equifax, there is a growing concern about the direction of the CFPB's current work related to student loans. Navient, one of the nation's largest student loan companies, has been alleged to have harmed millions of student loan borrowers, including thousands of disabled veterans. Can you commit to vigorously pursuing and continuing the CFPB's existing litigation with the student loan industry, including Navient?

As a point of clarification, all decisions related to pending enforcement actions are made by or in consultation with career staff in the Bureau of Consumer Financial Protection (Bureau) Office of Enforcement.

There has been no change in the position from previous leadership of the Bureau regarding Equifax. Additionally, I intend to vigorously enforce Federal consumer financial law and am reviewing all of the Bureau's enforcement matters to ensure that the ongoing work adheres to the proper interpretation of Federal consumer financial law. The Bureau does not normally comment on ongoing enforcement matters.

Sen. Murray

In a recent response to a letter I co-signed to you regarding the CFPB's historical work on college debit card and bank account agreements, you stated with respect to *the Credit Card Accountability, Responsibility, and Disclosure Act* that "the statute does not refer to debit card or bank account agreements." However, the CFPB is governed by several other applicable statutes that make it clear that the agency's role is to protect consumers who may be abused by financial products or services. Additionally, your proposed FY 2018-2022 five-year strategic plan states that the CFPB will "address needs for inclusion and financial security of servicemembers, older Americans, traditionally underserved consumers and communities, and *students.*" Do you believe the CFPB has responsibility to protect and inform students about college debt and bank account agreements that pose a risk to them as consumers?

I am committed to fulfilling the Bureau's statutory responsibilities. If Congress would like to expand these responsibilities, it is free to do so.

Sen. Murray

For decades, banking regulators, including the Office of the Comptroller of the Currency, Securities and Exchange Commission, the Federal Deposit Insurance Corporation, the U.S. Department of Justice, and various state agencies have taken action to oversee federal student loans as part of the their reporting requirements, regulation, and oversight responsibilities. Similarly, will you commit that under your watch, the CFPB will continue to administer the law in overseeing federal student loans?

I am committed to fulfilling the Bureau's statutory responsibilities. If Congress would like to expand these responsibilities, it is free to do so.

Sen. Murray

The CFPB is an independent agency tasked by Congress with the duty to administer federal consumer financial laws. This includes supervision of the largest student loan servicers and debt collectors, and enforcement of these laws as they apply to the entire student loan market. As you know, the Department of Education relies on Navient and other very large private-sector loan companies as it primary loan servicing and debt collection contractors and spends hundreds of millions of taxpayer dollars to this end.

• What steps are you taking to ensure that CFPB can independently and responsibly administer the federal consumer financial laws with respect to the entire student loan servicing market?

• Specifically, in what ways, if any, does CFPB's approach to oversight of the Education Department's loan servicing contractors differ from its oversight of companies that are not federal contractors?

• Specifically, what procedures have you put in place to ensure that your duty as OMB Director to protect taxpayers' investment in federal loan servicing contractors does not compromise your obligation as CFPB Acting Director to fairly and independently administer federal consumer financial laws with respect to these companies?

• What steps are you taking to ensure that CFPB can independently and responsibly administer the federal consumer financial laws with respect to the entire debt collection market?

• Specifically, in what ways, if any, does CFPB's approach to oversight of the Education Department's debt collection contractors differ from its oversight of companies that are not federal contractors?

• Specifically, what procedures have you put in place to ensure that your duty as OMB Director to protect taxpayers' investment in federal debt collection contractors does not compromise your obligation as CFPB Acting Director to fairly and independently administer federal consumer financial laws with respect to these companies?

I am committed to fulfilling the Bureau's statutory responsibilities. As the new leader of the Bureau, it is my duty and responsibility to examine all of the Bureau's actions to ensure that they align with the Bureau's statutory mandate and advance its goals to facilitate consumer choice. This effort extends to all aspects of the Bureau's work.

Sen. Murray

In 2017, the U.S. Department of Education revoked two memoranda of understanding between the Department and the CFPB. These information-sharing agreements covered the sharing of confidential information related to the Bureau's oversight of certain Education Department contractors.

• Under your leadership, has CFPB shared confidential findings from examinations or investigations with the U.S. Department of Education?

• If so, what steps are you taking to ensure that the sharing of information is consistent with your obligations under applicable federal information security and privacy laws?

The Bureau's memorandum of understanding with the Department of Education (Department) covering the sharing of confidential information relating to the Bureau's supervision of federal student loan servicers was terminated on September 30, 2017. Since that time, the Bureau has shared certain confidential information with the Department pursuant to existing regulations and in conformity with applicable law.

Sen. Murray

Director Mulvaney, the ten-year projection of receipts in the President's budget falls by $231 billion from the FY2018 Proposal to the FY2019 Proposal. This decline occurs despite the FY201919 Proposal projecting higher GDP growth over the ten-year window.

• OMB's projections of declining receipts amid high GDP growth seemingly indicates that recently-enacted changes to the tax code will not "pay for themselves" through economic feedback effects; does OMB agree with that conclusion? If not, please offer an explanation for this dynamic.

The change in receipts from last year to this year is not an indication of the dynamic effects of the tax cuts, because the receipt estimates last year already reflected the assumed increase in economic growth due to tax reform. Instead, the change in receipts is due to the combination of the "static" effects of the tax bill, the assumed extension of the tax bill's expiring individual and estate tax provisions after 2025, and unrelated revisions in Treasury's receipt estimates due to economic and technical factors, such as lower estimates of calendar year 2016 tax liability as evidenced by lower collections experienced in FY 2017.

Sen. Murray

By 2030, there is a projected primary care shortfall that ranges from 7,300 and 43,100 physicians alone. How does the Administration's proposal to reduce $744 million from HRSA workforce programs, including entirely eliminating primary care medicine training programs, equip the country to meet this shortfall?

The Budget invests in activities, such as health centers and loan repayment and scholarships for nurses, that are effective in placing health care providers in communities experiencing a shortage of physicians. The Budget also seeks to improve the health care workforce by consolidating Federal GME spending in Medicare, Medicaid, and the Children's Hospital GME Payment Program into a new grant program targeted to address medically underserved communities and health professional shortages. The Budget saves funding by eliminating health professions and nursing training programs that do not have a significant impact on improving the nation's workforce. These health professions and nursing training programs, which have been in existence for decades, lack evidence of significant impact on our country's health workforce. Program data has found that less than 50 percent of students who completed a primary care training supported by these programs work in areas experiencing shortages.

Sen. Murray

National data shows that racial and ethnic minorities have poorer health outcomes from diseases that are preventable and treatable, such as cardiovascular disease and cancer. Improving racial, ethnic, and cultural diversity in the health care workforce has been viewed as a strategy for addressing certain health disparities among minority populations. For example, language and cultural barriers can deter patients from seeking needed care or compromise the quality of care they do receive.

- **Is improving the diversity of the health care workforce a priority for this Administration?**

- **How does the Administration anticipate the proposed elimination of workforce diversity training programs within HRSA to impact health disparities and affect the health care workforce?**

Greater racial and ethnic diversity of the health care workforce is important for increasing access to culturally competent care for all members of our nation's communities. Historically and currently, many racial and ethnic and minority groups are underrepresented nationally within the major health professions. The Budget invests in the National Health Service Corps which is effective in placing racial and ethnic minorities in underserved areas. In FY 2016, Black or African American physicians represented 17.2 percent of the Corps physicians, exceeding their 4.1 percent share in the national physician workforce. Hispanic or Latino physicians represented 18.2 percent of the Corps physicians, exceeding their 4.4 percent share in the national physician workforce. The Budget saves funding by eliminating health professions and nursing training programs that do not have a significant impact on improving the nation's workforce.

Sen. Murray

Director Mulvaney, I remain dismayed by your decision not to approve a $1.526 million Fiscal Year 2017 reprogramming sought by the U.S. Army Corps of Engineers (Army Corps) to complete The Dalles Dam Tribal Housing Village Development Plan. Native Americans, including ancestors of four Columbia River Treaty Tribes (Nez Perce Tribe, Confederated Tribes of the Umatilla Indian Reservation, Confederated Tribes of the Warm Springs Reservation, and Confederated Tribes and Bands of the Yakama Nation), have waited for decades for the federal government to right a wrong. The Army Corps has worked diligently the past few years to comply with existing Jaw, mitigate the construction of The Dalles Dam, fulfill a federal responsibility, and meet tribal trust responsibilities.

• Director Mulvaney, do you agree with the Army Corps' legal review that the legislation authorizing construction of The Dalles Dam (P.L. 81-516) provided for the construction of a "new Indian village" and that the Army Corps never used this authority?

• I understand tribal members from the Columbia River Treaty Tribes recently met with your staff and asked for your reconsideration. I join my constituents in requesting that you fulfill the previously un-met obligation of "a new Indian village," uphold tribal treaty rights, and allow the Army Corps to complete The Dalles Dam Tribal Village Development Plan.

I appreciate your continued interest in this issue. I understand that Department of the Army Counsel has reviewed the legal question you raise, and believe that they can most appropriately address the issue. My understanding is that The Flood Control Act of 1950 authorized construction of the Dalles Dam project. Army Counsel determined that an Indian tribal village may also be constructed under section 204 of the Flood Control Act of 1950, relying on the specific recommendations contained in the supporting plans and recommendations for the Dalles Dam project. I understand that Army Counsel did not rely on a requirement for mitigation as the basis for authorization to construct this village. The Corps recent reprogramming request sought to fund a study for a potential tribal Indian village at this site based on this permissive (not mandatory) authority, sixty-one years after completion of the dam (spanning multiple Administrations.)

Sen. Murray

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 Department of Energy (DOE) 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. In 1989 the State of Washington, Environmental Protection Agency, and DOE entered into an agreement, known as the Tri-Party Agreement, which governs nuclear waste cleanup and environmental remediation work at Hanford and provides for legal milestones to keep cleanup on track. Furthermore, 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 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 Fiscal Year 2019 budget request cuts approximately $58 million in cleanup activities from the Richland Operations budget when compared to the Fiscal Year 2018 budget request. Further, the Fiscal Year 2019 budget request cuts $65 million from the Office of River Protection when compared to the Fiscal Year 2018 budget request.

• Director Mulvaney, can you explain how the Administration intends to meet the federal government's legal requirements under the Tri-Party Agreement and the Consent Decree with a $123 million cut in funding for Hanford?

The 2019 Budget proposes $2.2 billion (-$119 million below the 2018 Budget level), which reflects the progress on major cleanup activities such as demolition of the Plutonium Finishing Plant, K-Basin sludge removal, and 618-10 burial ground remediation at the Hanford site. 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.

Budget

(BA in millions)

	2017 Enacted	2018 Budget	2019 Budget
Environmental Management	6,419	6,508	6,601
Hanford Total (non-add)	2,416	2,305	2,186
Richland Office (non-add)	*916*	*800*	*747*
Office of River Protection (non-add)	*1,500*	*1,504*	*1,439*

Sen. Murray

Director Mulvaney, last year provided a harsh reminder of the radioactive and toxic hazards that remain at the Hanford site and the risks these hazards pose to workers, the public, and the environment. First, there was the May 2017 partial collapse of Tunnel 1 adjacent to the Plutonium-Uranium Extraction Plant (PUREX). Then in June 2017 and again in December 2017, there were several incidents that led to the spread of radiological contamination during the demolition of the Plutonium Finishing Plant. The proposed $58 million cut to cleanup activities from the Richland Operations (RL) budget, when compared to the Fiscal Year 2018 budget request, is extremely disappointing in the wake of these recent events.

In addition, I remain 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, events in 2017 highlight the need for strong and predictable funding to reduce risks, long-term costs, and meet Tri-Party Agreement milestones. How does the Fiscal Year 2019 budget request address the long list of cleanup projects on the Central Plateau that are within RL's mission?

• Will you provide an outline of the Central Plateau cleanup plans covering at least the next five years and the funding needed to advance this work?

The $2.2 billion 2019 Budget proposal for the Hanford site includes $563 million (-$81 million below the 2018 Budget level) for Central Plateau cleanup activities. The reduction primarily reflects progress on major cleanup activities such as demolition of the Plutonium Finishing Plant, K-Basin sludge removal, and 618-10 burial ground remediation at the Hanford site. The Budget provides resources to advance cleanup such as continued planning of dry storage options for the cesium and strontium capsules as well as activities supporting waste management and single-shell tank closure. We are committed to aligning resources and planning over the coming years 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.

Budget

(BA in millions)

	2017 Enacted	2018 Budget	2019 Budget
Environmental Management	6,419	6,508	6,601
Hanford Total (non-add)	2,416	2,305	2,186
Richland Office (non-add)	*916*	*800*	*747*
Office of River Protection (non-add)	*1,500*	*1,504*	*1,439*

Sen. Murray

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 revised in a March 2016 ruling.

• Director Mulvaney, how does the Fiscal Year 2019 budget request ensure the DOE's work remains on track to begin treating low-activity waste by the Consent Decree deadline of December 2023?

• Further, will the Fiscal Year 2019 budget request support the completion, commissioning, and operation of the Waste Treatment Plant (WTP) and meet the Consent Decree deadline to achieve initial plant operations of WTP by December 2036?

The $2.2 billion 2019 Budget proposal for the Hanford site includes $1.4 billion (-$66 million below the 2018 Budget level) for the Office of River Protection. The reduction primarily reflects evolution in the Department's approach to begin treating low-activity waste by the Consent Decree deadline of December 2023 to ensure cleanup activities proceed in a cost-effective manner. The Budget also continues efforts to complete the remaining the Waste Treatment Plant (WTP) facilities and address ongoing project management challenges to meet the Consent Decree deadline to achieve initial plant operations of WTP by December 2036.

Budget

(BA in millions)

	2017 Enacted	2018 Budget	2019 Budget
Environmental Management	6,419	6,508	6,601
Hanford Total (non-add)	2,416	2,305	2,186
Richland Office (non-add)	*916*	*800*	*747*
Office of River Protection (non-add)	*1,500*	*1,504*	*1,439*

Sen. Murray

The Office of Electricity Delivery and Energy Reliability has led an effort, in coordination with the national laboratories, to address the technical challenges of grid modernization. In many cases, these assets are privately owned with little resources for research and development. Therefore, the Department of Energy (DOE) has provided critical support in research, testing and validation, and deployment of technologies for the grid. The Fiscal Year 2019 budget request would split this office into two offices, one focused on cybersecurity and energy security and one focused on electricity delivery.

• Director Mulvaney, can you explain why these accounts were separated and whether both would be led by an Assistant Secretary?

• Will you commit to continued support for the DOE Grid Modernization Initiative and the Grid Modernization Laboratory Consortium (GMLC)? These projects have brought together technical expertise from national laboratories to address specific challenges facing the grid from cybersecurity to energy storage. This crosscutting initiative has been a success, and it is important that DOE continue to lead this program.

The Budget proposes to split the Electricity Delivery and Energy Reliability (OE) account, which totals $157M, into two accounts to increase focus on grid reliability (Electricity Delivery) and cybersecurity (CESER). Specifically, the Budget proposes the realignment of DOE program offices to elevate cybersecurity and energy security as priorities within the Department, with the goal of ensuring the security of the American people. Both OE and CESER will be led by Assistant Secretaries.

• $61M for Electricity Delivery (OE), $89M below the comparable FY 2017 level, to improve the resilience and reliability of the nation's electricity system; invest in our transmission system to support resource adequacy and generation diversity; move forward with new architecture approaches for the transmission and distribution system to enhance security and resilience; and advance energy storage.

• $96M to protect energy infrastructure security by establishing the new Cybersecurity, Energy Security, and Emergency Response (CESER) account, $17M above the comparable FY 2017 level. This account funds increases in Cybersecurity for Energy Delivery Systems to improve grid and energy sector cybersecurity and in Infrastructure Security and Energy Restoration to support a more robust response capability to effectively address the needs of affected areas after storms or other incidents.

The Budget continues to support the DOE Grid Modernization Initiative, a joint effort funded by the Office of Electricity Delivery, the Office of Energy Efficiency and Renewable Energy, and the new Office of Cybersecurity, Energy Security, and Emergency Response. The initiative aims to maintain progress on innovative technologies and operational approaches for achieving a more reliable, resilient, and secure electricity delivery system integrated with energy storage, renewable generation, smart buildings, and electric vehicles.

Sen. Murray

Energy innovation is an integral part of our economy and global competitiveness. Unfortunately, the cuts to the Office of Energy Efficiency and Renewable Energy (EERE) in the Fiscal Year 2019 budget request ignore the critical role the Department of Energy plays in our nation's clean energy research and development activities. National laboratories have played a significant role in developing new technologies and working with industry to get them to market. In many circumstances, these public-private partnerships help a company cross the "valley of death" by providing the research infrastructure and technical expertise needed to move transformative energy technologies from lab into the real world. The "valley of death" appears throughout the development process, often times in the applied research phase where a company must address additional technical challenges prior to commercialization. Studies have shown an annual return on these investments as high as 20 percent in economic benefits to the U.S. economy.

• Director Mulvaney, what are you seeking to achieve with these draconian cuts to EERE? How would these proposed cuts not hurt our economy in the long run?

The Budget reasserts the proper role of government by focusing Federal funding on early-stage research and development (R&D) and increasing the reliance on the private sector to fund later-stage R&D, demonstration, commercialization, and deployment of energy technologies. The private sector is better positioned and motivated to evaluate the commercial potential of advancements in energy technologies relative to the risks of R&D investment.

Sen. Murray

The Building Technologies Office is leading efforts to improve energy efficiency codes and standards; perform research in lighting, transactive controls, and home and commercial building efficiency; and support a more flexible and resilient grid. Energy codes are important for both residential and commercial buildings. A Department of Energy (DOE) study has shown that for every $1 in federal investment there is a $400 annual cost savings for consumers. DOE's energy codes work provides assistance to all 50 states and city governments. Of the 50 states, 42 have adopted one or more building energy codes, including your home state of South Carolina.

• Director Mulvaney, reducing energy costs is something we can all agree on. Why would you cut funding for the Building Technologies Office when improvements in state and local building energy codes have resulted in more than $170 billion in savings on energy bills?

The Budget reasserts the proper role of government by focusing Federal funding on early-stage research and development (R&D). As such, within the Building Technologies Office, the Budget prioritizes early-stage R&D of innovative building energy technologies such as lighting, space conditioning and refrigeration, windows and envelope and their effective integration into smart, efficient, resilient, grid-connected, and secure building systems. The responsibility for developing building codes falls to state and local jurisdictions. The Budget funds DOE work with industry and stakeholders to meet requirements for statutorily-mandated building energy codes determinations.

Sen. Murray

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.

I am disappointed but not surprised, that the Fiscal Year 2019 budget request includes two proposals to dictate how BPA should manage the transmission and distribution of power. First, like last year's budget, you propose to raise revenues by selling off BPA's transmission system. Second, you propose to require BPA to change the way it sets power rates from the current practice of cost-based rates, which is based on the cost of generating power, to market-based rates, which would reflect rates charged by for-profit investor-owned utilities. Both proposals have previously been soundly rejected by Congress in bipartisan fashion as they could result in increasing costs for ratepayers, decreasing the reliability of BPA's closely integrated power marketing operation and transmission system, and creating winners and losers.

• Director Mulvaney, are you aware that the Fiscal Year 2019 budget request violates the Urgent Supplemental Appropriations Act, 1986 (P.L. 99-349) which prevents the use of any federal funding by the executive branch to solicit proposals, prepare or review studies, or draft proposals designed to "transfer out of federal ownership, management or control in whole or in part the facilities and functions of the federal power marketing administrations located within the contiguous 48 States, and the Tennessee Valley Authority" unless explicitly authorized by an Act of Congress?

• Can you detail how much federal funding was used by the Office of Management and Budget (OMB) and the Department of Energy (DOE) to draft the proposal to divest the transmission assets of BPA, Southwestern Power Administration, and Western Area Power Administration?

• Will you direct the OMB and DOE to immediately comply with existing federal law, and stop drafting proposals which run contractor to the Urgent Supplemental Appropriations Act?

• Regarding the proposal to require BPA to change how it sets rates, do you agree that under federal law BPA must set rates to recover all of the costs associated with the generation and delivery of power and at the "lowest possible cost consistent with sound business principles?"

• The Fiscal Year 2019 budget request claims that market based rates would encourage a more efficient allocation of economic resources and mitigate risks to taxpayers. After more than 30 years of cost-based rates, what risks to taxpayers do you believe you are mitigating?

• BPA's current power contracts extend until 2028 and explicitly include cost-based rates. Have you considered a claim against the federal government if you implement this initiative?

• Director Mulvaney, are you aware that the Fiscal Year 2019 budget request violates the Urgent Supplemental Appropriations Act, 1986 (P.L. 99-349) which prevents the use of any federal funding by the executive branch to solicit proposals, prepare or review studies, or draft proposals designed to " transfer out of federal ownership, management or control in whole or in part the facilities and functions of the federal power marketing administrations located within the contiguous 48 States, and the Tennessee Valley Authority" unless explicitly authorized by an Act of Congress?

Drafting a proposal to sell the power marketing administration (PMA)'s transmission assets is consistent with applicable law. The 1986 prohibition is no longer in effect. As a general matter, the Administration has the responsibility to make these types of proposals to ensure the Federal Government is operating as effectively as possible.

• Can you detail how much federal funding was used by the Office of Management and Budget (OMB) and the Department of Energy (DOE) to draft the proposal to divest the transmission assets of BPA, Southwestern Power Administration, and Western Area Power Administration?

We do not track such level of detail, but federal funding used would include staff time devoted to developing, drafting, and reviewing the proposal.

• Will you direct the OMB and DOE to immediately comply with existing federal law, and stop drafting proposals which run contractor to the Urgent Supplemental Appropriations Act?

The Administration is and has been in compliance with existing federal law. Drafting this proposal is consistent with applicable law. As a general matter, the Administration has the responsibility to make these types of proposals to ensure the Federal Government is operating as effectively as possible.

• Regarding the proposal to require BPA to change how it sets rates, do you agree that under federal law BPA must set rates to recover all of the costs associated with the generation and delivery of power and at the "lowest possible cost consistent with sound business principles?"

Yes, current Federal law requires that BPA must recover all of the costs associated with generation and delivery of power and at the "lowest possible cost consistent with sound business principles." The Budget proposal to allow the Power Marketing Administrations to consider appropriate market incentives in setting their rates would require a change in the current statutory requirement.

• The Fiscal Year 2019 budget request claims that market based rates would encourage a more efficient allocation of economic resources and mitigate risks to taxpayers. After more than 30 years of cost-based rates, what risks to taxpayers do you believe you are mitigating?

Taxpayers incur risks based on the taxpayer's capital investments in assets owned by the Power Marketing Administrations, and the deferred repayment of these capital investments. As of September 30, 2017, BPA had over $15 billion in debt outstanding, which includes borrowings from Treasury, federal appropriations, and non-federal debt serviced by payments from BPA. Allowing the PMAs to charge rates that are comparable to those charged by investor-owned utilities could result in the faster repayment of the taxpayer investment, and a reduction in the risks associated with that debt.

• BPA's current power contracts extend until 2028 and explicitly include cost-based rates. Have you considered a claim against the federal government if you implement this initiative?

We would expect that BPA would honor its current power contracts until they expire in 2028, and any changes to its rate structure would begin after the current contracts expire.

Sen. Murray

I was disappointed, but not surprised, with the elimination of the TIGER program in the Fiscal Year 2019 budget request. TIGER leverages private, state, and local investments to solve transportation challenges. For every federal dollar invested, an average of two non-federal dollars go into a TIGER project.

- **Director Mulvaney, as you have seen over the past year 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 Administration will execute the laws enacted by the Congress. The Budget proposes eliminating the TIGER discretionary grant program because it substantially duplicates other surface transportation grant and loan programs, including highway and transit formula funds. Projects receiving TIGER assistance have tended to be small and have localized benefits. For example, TIGER grants have been used for sidewalks, street furniture, tree planting, shared use paths, and on-street parking spaces. In contrast, DOT's Infrastructure for Rebuilding America competitive grant program provides much larger awards to projects that can demonstrate national or regional significance. In addition, the President's Infrastructure Initiative provides funding to incentivize states and localities to increase infrastructure investment. Those entities will be able to finance TIGER eligible projects using the new revenue they generate and the grant funds awarded via the Infrastructure Initiative.

Sen. Murray

Strong and safe transit systems are critical to our nation's transportation network. Transit systems improve efficiency, increase economic stability and growth, and provide alternatives to commuters experiencing ever increasing congestion. The single largest cut in the Department of Transportation's (DOT) Fiscal Year 2019 budget request is a $1.4 billion cut to the Capital Investment Grant (CIG) program.

I remain deeply troubled the Administration's proposal to wind down the CIG program by limiting funding to projects that already have a singed grant agreement and walking away from transit projects already in the CIG pipeline. Local governments and transit agencies in Washington state and across the nation have been working with DOT for years on transit projects

• 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.

• How can President Trump claim to support infrastructure investment, unveiling the "Rebuilding Infrastructure in America" initiative on the same day as the Administration singled out major transit investments for the largest cut in DOT's Fiscal Year 2019 budget request?

• The Administration's infrastructure initiative provides critical funding for a new Rural Infrastructure Program, while the Fiscal Year 2019 budget request proposes drastic cuts to transit programs on the grounds that these are local projects that should be entirely funded at the local level. Director Mulvaney, how are the infrastructure needs of our rural communities any different than the infrastructure needs of our urban communities?

• Further, the Administration's infrastructure initiative seeks to reward states and communities that take on greater amounts of the financial burden to build and maintain infrastructure through the Infrastructure Incentives Program. The CIG program is a perfect example of this "self-help." Federal support through the CIG program provides only 45 percent of the costs of the average project. For some transit projects in Washington state this figure is even less with local taxpayers proposing to fund 60 percent of the Lynnwood Link extension project and 75 percent of the Federal Way extension project. Director Mulvaney, how can you justify eliminating CIG funding when these critical infrastructure projects are doing exactly what President Trump's infrastructure initiative is asking of local communities?

While the Budget is proposing to wind down the Capital Investment Grants (CIG) program, states and localities can continue to advance their transit projects with their own funds. Those localities are better equipped to understand and prioritize their transportation infrastructure needs.

The President's Infrastructure Initiative is designed to incentivize states and localities to raise new revenue and funding dedicated for infrastructure investment, via competitive Federal grant awards and other incentives. Regions that raise substantial, dedicated funding or revenue for infrastructure will be rewarded, and those regions can use those funds for transit projects. The Federal government would continue to be a partner in advancing large, regionally- or nationally-significant projects via expanded Federal credit support.

The Infrastructure Initiative includes $50 billion to address the significant need for investment in rural infrastructure, including broadband internet service. Federal funding would be made available to States via formula distribution, along with a bonus competition based on State performance in achieving goals outlined in State-developed rural infrastructure plans. Within this amount, funding is set aside for federally recognized Tribes and U.S. Territories.

Sen. Murray

In mid-January, the Centers for Disease Control and Prevention (CDC) announced plans to scale back its work in the global health security agenda (GHSA) initiative from 49 countries to 10 due to projected budget cuts. The FY2019 President's Budget, however, proclaimed its support for the GHSA and designated $59 million at the Center for Global Health at CDC specifically for GHSA programs.

- **In how many countries will $59 million support GHSA operations?**

- **If there is a cut to the number of countries currently supported by the GHSA, what is the potential impact on global and domestic health and safety and how is the Administration planning to prevent negative health outcomes?**

The President's Budget request of $59 million would allow CDC to continue commitments to the 17 Phase 1 GHSA countries as planned through the end of FY 2019 and does not envision a reduction to the number of countries supported through the GHSA. To date, CDC's GHSA activities have been supported by supplemental funding provided by Congress in FY 2015 that is set to expire at the end of FY 2019. These new resources will provide bridge funding for CDC to continue work towards the goals of GHSA and help transition funding for these activities from supplemental to base appropriations.

The Administration has affirmed its commitment to the GHSA through 2024. The U.S. Government is engaged in a deliberative, cross-agency policy process regarding support for the next phase of GHSA and no final decisions on scope beyond FY 2019 have been made. The FY 2020 President's Budget will address the next phase of GHSA.

Sen. Murray

I am concerned about the proposal in the President's budget to uproot the Strategic National Stockpile (SNS) from the Centers for Disease Control and Prevention, transferring management of this critical public health program to the Assistant Secretary for Preparedness and Response (ASPR) — a move that I understand the Administration intends to complete by October 1st of this year. This move is being made without any input from Congress, despite the fact that we are currently in the process of reauthorizing the statute that authorizes the SNS; thus far, in a break from past reauthorizations, the Administration has declined to make any recommendations regarding that reauthorization. Furthermore, current law makes clear that Congress intended CDC to play a key role in leading the SNS. We have yet to see proof this large-scale public health program with complex state, local and federal partnerships would be better served at ASPR than at CDC, where there is deep relevant expertise, strong ongoing relationships with state and local contacts, and where the progran may be better protected from politicization and therefore better able to be scientifically driven.• What are the driving factors behind this proposed move?

• What problems has HHS identified with the SNS that would require the move to ASPR?

• Could changes to funding or process improvements effectively address any needed improvements?

The Budget proposes to transfer the Strategic National Stockpile to HHS' Assistant Secretary for Preparedness and Response (ASPR) from the Centers for Disease Control and Prevention (CDC) to enhance national preparedness by integrating the Stockpile with HHS' other preparedness and response capabilities. HHS has two major procurement authorities for medical countermeasures: the Strategic National Stockpile (SNS) in CDC and BioShield in ASPR. The Budget proposal moves the SNS from CDC to ASPR to consolidate strategic decision making around the development and procurement of medical countermeasures. Moving the SNS will also streamline operational decisions during responses to public health and other emergencies and improve responsiveness. The Budget will continue to support training for responders nationwide to sustain state and local capabilities to receive and use stockpiled medical countermeasures when deployed.

Sen. Murray

The FY2019 budget includes language stating that 'certain abortion providers' will be excluded from participating in HHS programs, such as Medicaid and Title X.

• Are there 'certain abortion providers' you plan to exclude from Medicaid and what basis is there for preventing them from providing care, given the "any willing provider" and "freedom of choice" protections in the Medicaid law?

• My understanding is that Planned Parenthood is actually the only provider that meets the criteria in the budget proposal. Is this correct?

The Budget includes provisions prohibiting certain abortion providers from receiving Federal funds from HHS, including those that received funding under the Title X Family Planning program and Medicaid, among other HHS programs. All providers that do not meet the proposed statutory criteria would be impacted.

Sen. Murray

I am very disappointed to see that international family planning and reproductive health has been cut by over 50% in the president's budget "with an emphasis on evidence-based methods, including fertility awareness."

• What is the rate of unintended pregnancies for this form of birth control and how does it compare to other methods?

• There are also significant cuts to funding for Global Funds for AIDS, TB, and Malaria (from $1.35B to $925M) and cuts to PEPFAR. The president's budget says the cuts will still maintain enough funding for current treatment levels, but does not mention critical prevention or care programming. HHS is responsible for administering a significant amount of global HIV/AIDS funding. How do you plan to address HIV/AIDS prevention with these proposed cuts?

With the *Protecting Life in Global Health Assistance* plan in place, the FY 2019 President's Budget requests $302 million for family planning programs. The restoration of these programs reflects the Administration's commitment to family planning as a critical tool to saving lives and empowering women and families. In a constrained Budget environment, the Administration will work to maximize the impact of our family planning investments.

USAID is committed to providing a broad range of effective contraceptive options in its family planning programs, from fertility-awareness based methods to short-acting and long-acting reversible methods to voluntary permanent contraception. My understanding is that while pregnancy rates vary depending on the method, all of the options under consideration will result in substantial reductions in unplanned pregnancies.

The 2019 President's Budget requests $4.8 billion for PEPFAR and the Global Fund. The Budget's $925 million request for the Global Fund to Fight AIDS, Tuberculosis and Malaria fully funds our pledge to match $1 for every $2 contributed by other donors, while also respecting the statutory 33 percent cap. This level is below the enacted FY 2017 level because other donors did not make sufficient contributions to maximize our matching pledge. The Budget includes $3.85 billion for PEPFAR bilateral and regional programs, which will allow PEPFAR to advance its Strategy for Accelerating HIV/AIDS Epidemic Control (2017-2020). In addition to maintaining all patients currently on treatment, the FY 2019 Budget focuses U.S. resources on advancing epidemic control in 13 high HIV burden countries where the United States will support the full range of PEPFAR programs, including the provision of critical prevention and care. Global challenges such as the HIV/AIDS pandemic should not depend as heavily on contributions from the United States; at the Budget level, the U.S. will remain the single largest contributor to global HIV/AIDS efforts. The FY 2019 request anticipates that other donor countries will contribute a greater share. In FY 2019, as with previous years, the Budget anticipates that HHS will remain a critical U.S. government partner in the PEPFAR program and to advancing our global goal to end the HIV/AIDS pandemic.

Sen. Sanders

The President's Budget calls for passing the Graham-Cassidy health care legislation to "repeal and replace" the Affordable Care Act (ACA) as soon as possible. Please describe in detail the policies that would be included in this legislation and answer the following questions:

a. Would this legislation repeal ACA tax credits that help small businesses purchase health insurance for their employees?

b. Would this legislation repeal ACA premium tax credits and cost-sharing reductions that help individuals and families afford health insurance?

c. Would this legislation repeal the ACA requirement that employers provide comprehensive health benefits to their employees?

d. Would this legislation repeal the ACA Medicaid expansion, through which (as of September 2016) more than 15 million Americans in 32 states are covered?

e. Would this legislation allow states to impose work requirements on Medicaid enrollees, including new mothers just 60 days after giving birth?

f. Would this legislation impose an aggressive per capita cap on Medicaid, a program which covers two-thirds of all nursing home residents, 60 percent of children with disabilities, and nearly 1 in 10 veterans ages 19 to 64?

g. Would this legislation defund Planned Parenthood, robbing women of the right to choose their own health care providers?

h. Would this legislation permit states to increase premiums for older working Americans or reduce coverage for individuals with pre-existing conditions?

Obamacare has wreaked havoc on the individual insurance market. Average premiums increased 105 percent from 2013 to 2017 while the number of insurers on the exchanges has dwindled.

The Budget supports a two-part approach to repealing and replacing Obamacare, starting with enactment of legislation modeled closely after the Graham-Cassidy-Heller-Johnson bill, as soon as possible, followed by enactment of additional reforms to help set government health care spending on a sustainable fiscal path. The Administration urges Congress to take these actions as soon as possible.

The GCHJ bill includes the following major provisions.

• Effective January 1, 2020, replaces Obamacare's coverage expansion (premium tax credit, cost-sharing reduction, Medicaid expansion, and basic health program) with a new market-based health care grant to states, with new flexibilities for States in how they provide coverage to their citizens, including a new pathway for States to be relieved of many of

• Obamacare's insurance market reforms. This grant includes two years of short-term reinsurance funding in 2018 and 2019.

• Repeals Obamacare's employer mandate and small business tax credit.

• Prohibits for one year Federal Medicaid funding to certain providers that perform abortions.

• Reforms Medicaid financing by providing States a choice of either a per capita cap or block grant beginning in FY2020.

• Provides States more flexibility in how they operate their Medicaid programs, including allowing work and community engagement requirements for able-bodied adults and more frequent eligibility determinations.

• Reforms health savings accounts to provide more access and choice, including allowing individuals to use their HSAs for insurance premiums and expanding contribution limits.

• Repeals many of Obamacare's taxes, including those on Medical devices and over-the-counter-medications.

The Market-Based Health Care Grant Program would provide more equitable and sustainable funding to States to develop affordable healthcare options. The block grant program will promote structural reforms to improve the health care market through greater choice and competition, with States and consumers in charge rather than the Washington bureaucracy.

Medicaid financing reform will empower States to design individual, State-based solutions that prioritize Medicaid dollars for the most vulnerable and support innovations.

Sen. Sanders

During the this morning's hearing on the President's Budget, you said that under the current Administration, the average Medicare Part D premium has decreased for the first time since 2012. According to a September 2017 press release from the Centers for Medicare and Medicare Services (CMS), the average basic premium for a Medicare prescription drug plan in 2018 was projected to be about $1.20 below the average premium in 2017.

However, other sources indicate that this $1.20 decrease in Part D premiums was offset by a $5 increase to the maximum Part D deductible ($405 in 2018). Seniors in America continue to struggle with the skyrocketing price of prescription drugs.

At a time when one in five Americans cannot afford their prescription, it is not sufficient to lower premiums or copayments while increasing deductibles, or to provide beneficiaries with coupons while keeping the true cost of prescription drugs sky-high.

Please describe the policy proposals in the President's Budget that would lower the true cost of prescription drugs, in addition to the proposals that would lower Medicare beneficiaries' out-of-pocket spending on prescriptions.

The Budget proposes several new strategies to address high drug prices and increase access to lifesaving medicines by rationalizing the current payment incentive structures in Medicare Part D and Part B and fostering greater competition.

The Budget would improve the Part D drug benefit, leveraging the knowledge gained over 12 years since its implementation in 2006. The Budget would provide true catastrophic coverage for all beneficiaries through a newly established out-of-pocket maximum. In addition, the Budget eliminates cost sharing for generic drugs for low-income seniors to encourage the use of higher value products, requires plans to share a substantial portion of savings from negotiated rebates with beneficiaries at the pharmacy counter, and enables tougher Part D plan price negotiations with drug manufacturers through increased plan formulary flexibilities. The Budget would also permanently authorize a Medicare Part D demonstration that provides retroactive and point-of-sale (POS) coverage to certain low-income beneficiaries through a single plan. Working through one plan for retroactive coverage establishes a single point of contact for beneficiaries to resolve coverage issues, eliminates incentives that impede reimbursement of retroactive claims, and has proven to be less disruptive to beneficiaries.

Generally, Medicare reimburses Part B drugs provided in doctors' offices or hospitals based on the drugs average sales price (ASP) plus six percent; however, there is no limit to how much Medicare's payment rate for a drug can increase over time, allowing for dramatic price increases. The Medicare Payment Advisory Commission (MedPAC) found evidence that the ASP grows faster than inflation for many high expenditure drugs. Additionally, the Center for Medicare and Medicaid Services relies on manufacturers to submit sales data to calculate ASPs for Part B drugs, but currently not all manufacturers are required to report this data. When payment rates are based on incomplete ASP data, Medicare's payment rate does not accurately reflect price concessions and other factors that would ensure accurate payment. These inaccuracies then flow through to beneficiary cost-sharing, which is 20 percent of Medicare's payment rate. To address these issues, the Budget would require all Part B drug manufacturers to report ASP data and provide the Secretary with the authority to apply penalties to manufacturers who do not report required data. The Budget would place a limit on increases in Medicare's ASP-based payment for a drug based on inflation as measured by the consumer price index. Additionally, the Budget proposes to modify hospitals' payment for drugs acquired through the 340B drug discount program to reward them based on the charity care they provide and to reduce payment if they provide little to no charity care. Finally, the Budget would provide the Secretary of Health and Human Services with authority to consolidate certain drugs currently covered under Part B into Part D where there are savings to be gained through increased price competition.

When ASP data are not available, Medicare largely reimburses new, single-source Part B drugs at 106 percent of wholesale acquisition cost (WAC). Unlike an ASP, a drug's WAC does not incorporate prompt-pay or other discounts benefitting the manufacturer. If discounts are available on these new Part B drugs, Medicare is paying more than it otherwise would under the ASP-based formula. MedPAC found evidence that Medicare payments do not reflect discounts available when drugs were priced based on WAC. To reduce excessive payments, the Budget would reduce the payment rate for drugs currently paid at 106 percent of WAC to 103 percent of WAC.

Sen. Sanders

In addition to cutting Medicaid — a program which covers two-thirds of nursing home residents and helps one out of five Medicare beneficiaries afford their premiums and copayments — the President's Budget harms senior citizens by cutting $554 billion from Medicare over ten years. During the February 13th hearing, you said that Medicare services would not be part of these cuts. However, your budget cuts more than $260 billion from Medicare payments to health care providers such as hospitals, home health agencies, long-term care hospitals, and skilled nursing facilities.

President Trump promised during his campaign that he would not cut Medicare, Medicaid, or Social Security. When the cuts to Medicare are so high in your budget, do you stand by your statement that Medicare beneficiaries will not be hurt by these very large cuts?

In keeping with the President's promise, this budget proposes reasonable reforms to the operations of the Medicare program without a reduction in the coverage or benefits for beneficiaries. The $236 billion in Medicare savings are achieved by eliminating wasteful and inefficient spending in Medicare that increases costs for both beneficiaries and the Government, strengthening activities to address fraud and abuse in Medicare, and by addressing high prescription drug pricing and improving prescription drug payments. The additional $318 billion comes from moving spending out of the Medicare trust fund that is not related to coverage of medical items and services for Medicare beneficiaries, such as uncompensated care for non-Medicare beneficiaries and for graduate medical education, and from other proposals that produce savings across multiple programs. These proposals extend Medicare's solvency by roughly eight years and support the President's promise to protect the program.

Sen. Sanders

The President's Budget makes savage cuts to the Medicaid Program. As part of the Trump Administration's plan to "repeal and replace" the Affordable Care Act, the budget cuts $1.4 trillion from the Medicaid program by repealing the Medicaid expansion, imposing a per capita cap on the traditional Medicaid population, and implementing other harmful reforms.

And, this is not the full extent of the Trump budget cuts to Medicaid. On top of "repealing and replacing" the Affordable Care Act, the President's Budget proposes tens of billions of cuts by increasing Medicaid means-testing, raising Medicaid copayments for emergency rooms, and making it more difficult for enrollees to prove their eligibility for Medicaid.

Medicaid covers 1 in 5 Americans, including low-income infants, children, pregnant women, parents, seniors, people with disabilities, and working adults.

Medicaid pays for nearly half of all births in the United States.

Medicaid covers about one in ten nonelderly veterans.

Medicaid covers two-thirds of nursing home residents.

Medicaid covers 75 percent of children living in poverty.

Medicaid covers 30 percent of adults with disabilities.

Medicaid covers 3 in 10 people struggling with opioid addiction.

Medicaid covers more than half of all American Indian and Alaska Native children.

Will you acknowledge that your budget makes serious cuts to Medicaid, putting the health care of millions of Americans from all walks of life in jeopardy?

Current growth in Medicaid spending is unsustainable and the Obamacare Medicaid expansion has exacerbated this problem. The Budget proposes to simplify the financing structure of Medicaid and align future growth in Medicaid spending with sustainable levels while ensuring the program can continue to provide care to those who are most vulnerable. In addition, the Budget supports a repeal and replace approach that will help individuals, including those formerly covered through the Medicaid expansion, obtain coverage through the new Market-Based Health Care Grant. Total funding to states for health care will increase significantly, and the Budget will transfer control back to States so they can innovate and develop State-based solutions tailored for their populations.

Sen. Sanders

The President's Budget proposes cutting $744 million from health workforce training programs operated by the Health Resources & Services Administration, including training programs for diversity, primary care medicine, oral health, preventive medicine, and nursing workforce. The Budget also consolidates and caps spending for the Medicare, Medicaid, and Children's Graduate Medical Education programs which help fund training for health providers in hospitals. The Budget claims that it will offset these cuts by prioritizing funding for high-value health work force programs in medically underserved areas. However, for the few health workforce program that are not cut- community health centers, the National Health Service Corps, and teaching health centers - the Budget only proposes two years of flat *discretionary* funding.

Please describe in detail where the $744 million cut from health workforce programs will be redirected, as well as your plans for re-alloeating Graduate Medical Education funds.

The Budget proposes a better way to target Federal investments in the healthcare workforce to address provider shortages. To better target Federal spending on graduate medical education (GME) and increase transparency and accountability, the Budget consolidates GME spending in Medicare, Medicaid, and the Children's Hospital GME Payment Program into a new mandatory GME capped grant program. Funding would be distributed to hospitals that are committed to building a strong medical workforce, and would be targeted to address medically underserved communities and health professional shortages. The Budget saves over $450 million by eliminating health professions training programs that lack evidence of significantly improving the Nation's health. The Budget continues to fund high value health workforce activities that provide scholarships and loan repayments in exchange for service in areas of the United States where there is a shortage of health professionals.

Sen. Sanders

The President's Budget proposes requiring state Medicaid programs to cover all Food and Drug Administration-approved Medicated Assisted Treatments (MAT) for opioid use disorder. OMB estimates that this up-front investment in MAT, which would allow Medicaid enrollees to receive approved medications such as methadone in combination with counseling and behavioral therapies, will save the Medicaid program $865 million over 10 years as more enrollees recover from addiction. (HHS, FY 2019 Budget in Brief, p.84).

In your opinion, could the federal government save money by investing in increasing access to other important health care services such as primary health care services, mental health services, dental care, and treatments for chronic conditions?

Drug addiction and opioid abuse are ravaging America. Hundreds of thousands of Americans have lost their lives to drug abuse. President Trump is fighting back. In its first year, the Trump Administration has moved quickly to answer this growing threat, and the President's 2019 Budget continues this urgent effort by calling for changes across the government to reduce opioid abuse, such as expanding access to MAT in Medicaid.

The Budget includes a number of other initiatives that help drive more efficient resource use. For example, the Budget includes funding for the Health Centers Program that supports low cost primary health care services, mental health services, dental care, and treatments for chronic conditions. Studies have found that health centers promote quality and cost-effective care, and improve patient outcomes, including reducing use of expensive emergency department care.

Sen. Sanders

Despite the repeated insistence that the President's Budget honors President Trump's promise not to cut Social Security, this budget cuts more than $10 billion from Social Security Disability Insurance (SSDI). Furthermore, during today's Budget Committee hearing, you said that this reform to SSDI "does not deal with core Social Security" programs. SSDI is funded from the same exact trust fund as Social Sccurity retirement, and since its conception, SSDI has relied on the same exact fundamentals of social insurance that served almost 60 million elderly, retired Americans in December 2017: to support the working class in the event of lost income due to the worker's retirement, disability, or death.

To cut this amount of money from the program, the President proposes reducing retroactive benefits from 12 months to 6 months; this 12-month rule is designed to offer support to workers who became disabled, as close as possible to the onset of disability. Hardworking Americans are not looking to be disabled, and in fact, the process in which an individual comes to terms with the inability to work and meet substantial gainful activity, is quite difficult when dealing with common disabilities such as osteoarthritis, degenerative disc disease, cancer, or heart failure, to name just a few.

Please describe in detail the rationale for cutting a program that is fundamentally a part of Social Security and why the President continues to promulgate the myth that SSDI is separate from Social Security.

The President's Budget does not cut core Social Security benefits. The Budget proposes long overdue and much needed reforms to the disability programs. The main goal of the Budget's reforms is to help people with disabilities remain attached to the workforce, be self-sufficient, and ensure individuals with temporary work disabilities return-to-work. The demonstration projects are focused on promoting work, rehabilitation, and job training, and anyone who is disabled and unable to do substantial work will continue to receive full payments according to current law. The Budget proposal referenced to reduce retroactivity for disabled workers is the same policy already in effect for individuals receiving retirement benefits and is more generous than other federal disability programs. Additionally, the Budget proposes a series of program integrity efforts that are aimed at addressing inequities in the system and detecting and preventing fraud.

Sen. Sanders

Over 10 years, the Trump Budget cuts Supplemental Security Income (SSI) by $9.6 billion. This equates to around 110,000 low-income individuals who will not receive disability benefits in each of the next 10 years. The President's Budget, includes a number of reforms that seeks to kick children with disabilities off of SSI, especially when 1 out of 5 SSI recipients are children.

Director Mulvaney, how would you explain this proposal to the parents of children with disabilities who would not able to pay for medical, educational, or disability related expenses without this program?

The Budget proposes new reforms to the Supplemental Security Income (SSI) program, building on the 2018 Budget efforts to reform disability insurance programs to promote greater labor force participation and to reduce inefficiency in government programs. One of the proposals identifies medical and functional improvements at the earliest point to position children for long-term workforce success and enhance program integrity. These reforms will promote work and rehabilitation, and anyone with a disability who meets the existing criteria for eligibility will continue to receive benefits. Additionally, we propose a series of SSI program integrity efforts that are aimed at addressing inequities in the system, detecting and preventing fraud, and removing unnecessary administrative burdens.

Sen. Sanders

Your budget cuts Housing Choice Vouchers (Section 8) by more than $47 billion over 10 years, resulting in approximately 200,000 families having their vouchers taken away.

a. Can explain how eliminating vouchers for 200,000 families is supposed to lift them out of poverty?

b. Are you aware that there are 8.3 million very low income families who don't receive any assistance because there is not enough funding to meet that need?

c. Those 8.3 million families pay more than 50 percent of their income on rent. How can those very low income families get out of poverty when they are spending over 50 percent of their income on rent?

The 2019 Budget provides $20.5 billion for the Housing Choice Voucher (HCV) program, which maintains assistance to all current households. This funding level does not eliminate 200,000 assisted families from the program.

Fundamental changes are needed to reform HUD's rental assistance programs, including the HCV program, to place them on a more sustainable fiscal path. The Administration's forthcoming legislative package on rent reform would reduce costs, simplify administration and create the right incentives for work-able families to improve their earnings and economic standing. An increase in self-sufficiency among currently assisted families would allow them to exit assisted housing programs under positive circumstances, and would allow new eligible families, including some of the 8.3 million unassisted very low-income households, to access the programs.

The affordable housing shortage in this country continues to present difficult choices to families. The Administration believes that HUD programs must be part of the solution, but that the solution must also empower and leverage partners in state and local governments, as well as the private sector, to address affordable housing needs.

Sen. Sanders

This fall, the United States was hit by a disastrous hurricane season. Hurricanes Harvey, Irma, and Maria devastated Texas, Florida, Puerto Rico, and the U.S. Virgin Islands. Wildfires ripped through California and the Pacific Northwest lasting weeks longer than in the past. Hundreds of Americans have died in these natural disasters, and scientists have told us that these storms and wildfires were more destructive because of human-caused climate change.

Given that virtually all scientists agree that burning fossil fuels leads to climate change, can you explain why the administration has proposed to increase in investment fossil fuel extraction on federal lands while dramatically cutting renewable energy programs?

The Budget supports the Administration's energy strategy to advance our economic and security objectives by tapping domestic energy supplies in order to reduce our dependence on other nations for energy. The Budget seeks to facilitate private sector development of our domestic energy resources on Federal lands and offshore areas by making those resources available for leasing and future production. The Budget requests additional funds to support planning, permitting and oversight of fossil energy development on Federal lands. While funding for renewable energy leasing and permitting is reduced, the requested resources are expected to be sufficient to sustain the current pace of renewable energy development on Federal lands.

Sen. Sanders

The Environmental Protection Agency's primary objective listed in the Administrations Fiscal Year 2019 budget is to "Improve Air Quality." Please explain how cutting 41 percent from clean air programs throughout the agency will ensure the Agency addresses that goal.

The President's Budget for FY 2019 addresses the ongoing need for core clean air work with a request of $410 million. This funding level helps EPA achieve important clean air goals, such as reducing the number of non-attainment areas for criteria air pollutants to 138 from a baseline of 166 by the end of FY 2019. The Budget also proposes saving taxpayers money by administering the Energy Star program through the collection of user fees. This would save taxpayers $43 million dollars while helping consumers and businesses save money and help protect the environment by purchasing energy efficient products.

Sen. Sanders

About 145,000 people rely on Lake Champlain for clean drinking water. The lake provides millions of dollars in economic activity every year to the region. In fact, recent research from the University of Vermont shows that a loss in water clarity alone could result in a $16.8 million loss in economic activity during the summer months. The Lake Champlain Basin Program promotes water quality, strong fisheries, and recreation opportunities in the region. The President has said he cares about clean water and rural economic development. How will eliminating funding for the Lake Champlain Basin program achieve the goals of providing clean water and rural economic development?

The EPA Budget for FY 2019 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 and protection of the Lake Champlain basin and provide national support for the protection of human health and the environment.

Sen. Sanders

Payday lender World Acceptance Corporation issued loans that were found to be "deceptively expensive and often trapped borrowers in a cycle of debt." This lender has been discovered to have packaged its loans with "nearly useless insurance products" to bypass state interest rate caps. However, under your direction, the Consumer Financial Protection Bureau has dropped its investigation of World Acceptance Corporation.

a. World Acceptance Corporation has given you at least $4,500 in campaign donations. Last month, CFPB dropped its investigation into World Acceptance Corporation. Have those donations influenced your decision as to whether to drop the investigation?

b. You have received over $57,000 in campaign contributions from the payday lending industry over the course of your political career. How does that money influence your decision to kill CFPB's rule that would have curbed abuses by payday lenders?

c. Under your direction, CFPB dropped a lawsuit against Golden Valley Lending, a payday lender that was charging consumers 950 percent interest rates. Do you believe in the concept of usury?

As a general policy, the Bureau of Consumer Financial Protection (Bureau) does not confirm the existence of an investigation or its disposition, but is aware of the recent public statement made by World Acceptance Corporation. Decisions to complete Bureau investigations in the normal course are made by career Enforcement staff, as was done in this case.

As you may be aware, on January 16, 2018 the Bureau announced its intention to engage in a rulemaking process so that the Bureau may reconsider, as appropriate, its final rule governing payday, vehicle title, and certain high-cost installment loans. The Bureau will not pre-judge the outcome of that process. The "Payday, Vehicle Title, and Certain High-Cost Installment Loans" rule is complete and became effective on January 16, 2018. As written, most provisions of the rule do not require compliance until August 19, 2019.

Regarding your question about usury, yes, usury is generally defined at the State level. Section 1027(o) of the Dodd-Frank Wall Street Reform and Consumer Protection Act limits the Bureau's authority to impose usury limits.

Sen. Sanders

The Equifax breach last year compromised the personal identification information of more than 145 million Americas. There been numerous reports that the CFPB has stopped investigating this massive breach. Is that correct?

There has been no change in the position from previous leadership of the Bureau of Consumer Financial Protection (Bureau) regarding Equifax. As a general matter, the Bureau does not comment on open investigations, however, it is a matter of public record that the Bureau is looking into Equifax's data breach and response. Reports to the contrary are incorrect. At this time, I do not intend to comment further on the details or status of this investigation.

Sen. Sanders

You recently moved the Office of Fair Lending and Equal Opportunity so that it is now under your control as Acting Director of the Consumer Financial Protection Bureau — a move that consumer advocates say will "threaten effective enforcement of civil rights laws."

Will you acknowledge that, at the very least, this move has the appearance of CFPB deprioritizing enforcement of equal lending laws?

No, the Bureau of Consumer Financial Protection Office of Fair Lending and Equal Opportunity's (OFLEO) current structure places primary emphasis on oversight and enforcement of fair lending laws. The result has been a focus on corrective measures, rather than promotion of education about, and coordination of, fair lending efforts. In addition, maintaining supervision and enforcement functions and processes that are separate from the Offices of Enforcement, Supervision Policy, and Supervision Examinations, has created unnecessary duplication. To address this, I intend to undertake the following two changes: 1) transfer OFLEO's supervision and enforcement functions to the other offices charged with those functions; and 2) elevate OFLEO's remaining functions to the Director's Office to become part of an Office of Equal Opportunity and Fairness with a focus on fair lending advocacy, coordination, and education.

The proposed reorganization will not hamper the Bureau's fair lending enforcement and supervisory activity. Indeed, career staff with fair lending supervision and enforcement responsibility will continue, with some exceptions, to perform those functions after the reorganization is complete. The proposed changes are intended to eliminate unnecessary duplication in the Bureau's supervision and enforcement functions, and allow OFLEO to better promote fair lending compliance through education and outreach. These changes should improve the Bureau's operations and our interactions with consumers and industry, in fulfillment of our mission.

Sen. Sanders

The Treasury Department's Budget in Brief for Fiscal Year 2019 document, on page 69, states that the IRS Criminal Investigations division has "experienced a steady decrease in the number of special agents available to work cases (due to attrition and limited hiring) as well as a continued focus on existing judicial process inventory and traditional tax case programs, which tend to have a higher cycle time than identity-theft/refund fraud cases that contributed to prior year completions."

a. What does this budget do to increase recruitment and retention of IRS CI staff?

b. How has the audit rate of the IRS changed with a reduction in enforcement staff? Specifically, how has the rate of examinations of individuals with positive income of more than $1 million and corporations with assets of more than $10 million changed over previous fiscal years?

c. More generally, how will the proposed IRS budget improve the so-called "tax gap" (i.e. the difference between revenue owed and revenue collected)? Does this budget assume that the tax gap will increase or decrease in nominal and GDP terms over the next ten years, and what specifically drives this assumption?

a. The 2019 Budget provides $578.9 million for the IRS criminal investigations program, a $2.1 million increase over the 2018 Annualized CR level. These resources will be used to fund and retain CI staff.

In addition, the Budget includes a $362 million program integrity cap adjustment proposal for 2019 to fund new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS's overall tax enforcement program including additional resources to hire additional CI staff and increase audit and collection coverage.

b. For information on specific audit rates by fiscal year and by income level, I would direct you to the Internal Revenue Service's annual data book and the Department of the Treasury.

c. Investing additional resources in tax enforcement, as included in the Budget's program integrity proposal, will generate additional revenues and help reduce the tax gap. These resources will also help improve voluntary compliance, a key component of our Nation's tax system.

The IRS program integrity cap adjustment proposal includes targeted investments to increase audit and collection coverage, prevent identity theft and reduce improper payments, improve tax preparer compliance, expand investigative activities, and enhance the IRS's ability to detect, resolve, and prevent criminal fraud and civil tax non-compliance. These investments are estimated to generate roughly $44 billion in additional enforcement revenue over 10 years and will cost about $15 billion for an estimated net savings of $29 billion.

Sen. Sanders

Page 73 of the Analytical Perspectives volume of the President's Budget states that the Administration is calling for "a pay freeze for Federal civilian employees for 2019."

a. Does a pay freeze make it easier or harder to recruit and retain top talent into the civilian federal workforce?

b. Accounting for inflation, is a pay freeze, where an employee makes the same nominal dollar amount across multiple years, a reduction in real take home pay?

c. Approximately how many federal workers who would be impacted by this pay freeze make less than $75,000 a year? Less than $50,000? Less than $40,000?

d. In your opinion, does a pay freeze increase or decrease employee morale in the federal civilian workforce?

e. In your opinion, does a pay freeze increase or decrease employee productivity?

a. I do not expect that forgoing a Federal civilian employee pay increase will impact the Federal Government's ability to recruit and retain top talent. The Federal Government, as an employer, still offers generous pay and benefits compared to the private sector. Also, many individuals seek to work for the United States out of a sense of patriotism, not financial gain.

b. Even after forgoing a pay increase in 2019, Federal civilian employees are on average still compensated at higher levels compared to their peers in the private sector, especially when it comes to benefits.

What the Administration is focused on is ensuring that the Federal government is best able to leverage the tools it needs to recruit and retain top talent. Across the board pay increases do not address the problem identified by the Congressional Budget Office in which many types of Federal workers are significantly overpaid or underpaid relative to labor market wages.

We want to reform pay and compensation to encourage strategic workforce management. To that end, we will work with agencies to ensure that instead of an across the board pay increase, we reward top performers, Federal employees with critical skillsets and the talent that we need to bring our Federal workforce into the 21st century.

This is, further, why the Budget proposes a new interagency Workforce Fund to encourage innovations and pilot projects aimed at recruiting, retaining, and reskilling the Federal workforce.

c. According to the latest data available in the U.S. Office of Personnel Management (OPM) FedScope database, as of September 2017 (the most recent data available), there are 189,283 Federal civilian employees who have a salary of less than $40,000 per year, 436,272 Federal civilian employees who have a salary of less than $50,000 per year, and 896,763 Federal civilian employees who have a salary of less than $70,000 per year. The categorizations used by OPM's FedScope database are in $10,000 increments. As such, no data is available on Federal civilian employees who earn between $70,000 and $74,999 per year.

d. I do not know whether forgoing an across the board Federal civilian pay increase with a more targeted approach to compensation will have a significant impact on employee morale.

e. I do not believe suspending the across the board pay adjustment will have any significant impact on employee productivity or morale. An across the board pay increase, where everyone's pay is detached from his or her performance or skills, does not increase productivity. If anything, it sends the message to the Federal Government's best employees that we don't value the extra step they are taking, the extra effort they are making, and the extra value they are providing to the Federal Government when others who contribute less receive the same pay raise.

Sen. Sanders

Page 69 of the Analytical Perspectives volume states: "Federal Employees with professional degrees are actually undercompensated relative to private sector peers, in CBO's analysis."

a. Does a one year pay freeze increase or decrease the gap in compensation between private and public sector workers with professional degrees?

b. Does reducing retirement benefits increase or decrease the gap in compensation between private and public sector workers with professional degrees?

a. and b. The Administration is committed to reforming pay and compensation to encourage strategic workforce management. The FY 2019 Budget forgoes a Federal civilian employee pay increase in calendar year 2019; the Administration is exploring broad alternatives that better target pay increases and incentives for recruitment and retention of top performing employees that have critical skill sets. As such, the Administration is proposing a series of Federal employee benefits and compensation proposals that would move Federal pay and benefits to be more in line with the private sector and that would further the Administration's commitment to recruiting, retraining, and retaining high-priority skill sets and rewarding high-performing employees, while also reigning in Federal Government spending.

Sen. Stabenow

Your budget proposal doubles down on cuts to the Farm Bill and calls for nearly $30 billion MORE cuts than last year's budget. Farmers and families in Michigan and across the country rely on the certainty of a 5-year Farm Bill particularly given the downturn in the rural economy for the fifth straight year. Senator Roberts and I are working together to write bipartisan Farm Bill and this proposal is clearly out of touch with the priorities of farmers, families, and rural communities. How do you justify this budget proposal which has been rejected on a bipartisan basis, including by the Chairs of both the Senate and House Agriculture Committee, and in particular the cuts to crop insurance, which is farmers' top priority?

The Budget proposes to maintain a strong safety-net for farmers while achieving savings by eliminating subsidies to farmers with an AGI greater than $500,000, reducing overly generous crop insurance subsidies, and ending poorly designed programs that arbitrarily single out select commodities or provide assistance that could be covered by crop insurance. We believe that the Budget will continue to provide a high quality crop insurance program at a more reasonable cost, providing an average premium subsidy of 48 percent down from an average of 62 percent – a level more justifiable to taxpayers. We are also proposing to eliminate double payments to peanut producers and loopholes that allow large farms to receive more payments by adding "managers."

Sen. Stabenow

Your budget proposed to cut $213 billion from the Supplemental Nutrition Assistance Program through major programmatic changes. One of these changes would convert a large portion of food assistance from a market-based system to food boxes. Your budget asserts that this saves money through "efficiencies" in bulk purchasing. Your own estimates indicate this modification will spend $25 billion more in administrative costs over 10 years- a 50% increase over the current retail based system.

A) Why is the administration proposing to cut spending on actual food for families by 25% wbile increasing administrative spending by 50% over current levels?

B) Have you evaluated the economic impact of this proposal?

C) Please describe in detail how the distribution of food boxes would be more effective in delivering healthy food in an efficient manner, especially since your budget also eliminates nutrition education.

The America's Harvest Box proposal would provide SNAP households currently receiving $90 per month or more in SNAP benefits with a package of nutritious, 100 percent domestically grown and produced food in lieu of a portion of their electronic benefits used in authorized retail stores. Due to the economies of scale in USDA's large volume purchasing, the food provided in an America's Harvest Box would cost USDA about half of the retail cost based on similar models currently used to distribute USDA Foods to other nutrition assistance programs. The overall cost savings in the program would not reduce the amount of wholesome food that SNAP households receive. The proposal also includes $2.5 billion per year for additional administrative funding to support the program.

Providing SNAP benefits in the form of domestically-sourced and produced food, known as USDA Foods, will increase the percentage of SNAP resources supporting 100 percent U.S. grown and produced food. This will strengthen USDA's support for American farmers and the domestic agricultural market. Although participating SNAP retailers will see an overall reduction in the dollar value of SNAP benefit redemptions, new and existing USDA Foods vendors will benefit from the increased demand for domestically grown and produced foods needed for the program.

The Harvest Box packages would be designed to provide a well-balanced variety of nutritious staple foods. Specifications for USDA Foods are often lower in sodium and fat content than what is typically purchased commercially. For example, all canned vegetables are low sodium or no salt added and canned fruit is packed in extra light syrup. The Department would ensure that Harvest Boxes are designed to support a healthful diet.

Sen. Stabenow

You assert that your goal of the SNAP food boxes is to support American products, yet your budget completely eliminates funding for key programs that help SNAP recipients to purchase American-grown products like the Food Insecurity Nutrition Incentives, Farmers Market and Local Food Promotion Program and the Healthy Food Financing Initiative. You also eliminate Buy American provisions in parts of your infrastructure package. As a champion for Buy American and American-grown and made products, I am surprised by this. Do you support funding for programs that support American-made products or do you believe they should be eliminated as your budget indicates?

As expressed in Executive Order 13788, the Administration is committed, through the terms and conditions of Federal financial assistance awards, to maximizing the use of goods, products, and materials produced in the United States. In accordance with the E.O., OMB has been working closely with the Department of Commerce to identify opportunities to strengthen Buy American requirements in federally funded financial assistance projects. In addition to strengthening Buy American requirements under current funding levels, the President's 2019 Budget continues to fund programs that use American-made products, like the America's Harvest Box proposal. But the Budget also reflects our efforts to restore fiscal discipline and make the hard decisions to avoid burying our children and grandchildren under mountains of debt. In some cases, this means that programs are eliminated or reduced. But in other cases – like America's Harvest box – the result is more efficient spending that still invests in American-grown products.

Finally, the infrastructure initiative recognizes that the vast majority of our nation's infrastructure is funded, operated, and maintained by states, localities, and the private sector, rather than the Federal government. The initiative proposes that if a project is overwhelming funded by non-Federal dollars, it should be considered a non-Federal project. However, the Federal government would continue to be a partner on large nationally- and regionally-significant projects via expanded Federal credit programs, which are subject to traditional Federal requirements like Buy America.

Sen. Van Hollen

During the February 13 hearing, you acknowledged that you were part of the decision to drop the Golden Valley case but then you said the investigation is ongoing. If the investigation is ongoing then why did you decide to drop the current case against Golden Valley?

Did you get an opinion from the CFPB's legal department regarding dropping the Golden Valley case? If so, did you follow their legal opinion? Please provide any opinions from the legal department that were made to you or your staff on this matter. Did you consult with any outside parties regarding your decision to drop the Golden Valley Case? If so please disclose the names of those parties and any correspondence.

Dismissal of a case, which is one legal theory based on one set of facts, does not mean other legal theories based on different facts cannot be pursued. The investigation is on-going to collect additional facts that might support filing a new complaint.

The decision to dismiss the case without prejudice was made by me. I will not comment on the Bureau of Consumer Financial Protection's (Bureau's) internal deliberations, but I will note that I did not consult with any outside parties.

Sen. Van Hollen

In your budget you recommend zeroing out the CFPB. As the Acting Director of the CFPB, how would you continue to fulfill all of the requirements in statute if you do not have any money to do so? Did you consult with CFPB professional staff when you came up with this proposal? Please provide any opinions or memoranda you or your advisory staff received from CFPB professional staff.

The President's Fiscal Year 2019 Budget Proposal does not recommend zeroing out the funding for the Bureau of Consumer Financial Protection. The Budget proposes limiting the Bureau's mandatory funding in FY 2019 and replacing the mandatory funding with discretionary appropriations beginning in FY 2020. Consistent with prior years and with my authorization, the staff from the Bureau's Chief Financial Officer's office provided budget estimates to staff at the Office of Management and Budget (OMB) via the OMB MAX system.

Sen. Warner

The Government Accountability Office (GAO) recently added our nation's security clearance process to its High Risk list, and a recent GAO study highlighted some of the ways in which the security clearance process is broken. From 2014 to 2017, the investigation backlog grew from 190,000 cases to more than 709,000. It also found that in FY2016, only 10 percent of executive branch agencies reported meeting investigation and adjudication timeliness objectives for initial top secret clearances. In a recent hearing before the Senate Select Committee on Intelligence, Director of National Intelligence Dan Coats called our clearance system "broken," and urged for "revolutionary change." How does the budget address the growing challenges of our security clearance process, and support necessary transformation?

The Budget includes adequate funding for both the National Background Investigations Bureau (NBIB) at the Office of Personnel Management (OPM), and partner offices in the Department of Defense (DOD) and Intelligence Community. This funding consists primarily of fees assessed to partner agencies, currently managed through OPM's NBIB Revolving Fund. In addition to fees paid into OPM's Revolving Fund, the Budget includes $157 million for the Defense Information Systems Agency (DISA) to develop secure, modernized background investigations IT systems for storing and processing security clearance data. Development of this system will also include significant business process reengineering, to support a more streamlined background investigations process. OPM, DOD, and the Security, Suitability, and Credentialing Performance Accountability Council (PAC) are working together to shift background investigation activities from NBIB to DOD, as required in the National Defense Authorization Act. This shift will be paced and sequenced carefully, to mitigate operational risks and to ensure adequate service levels and to control costs to agencies.

Sen. Wyden

Please answer each of these six questions individually. In Summary Table S-3 of the President's Budget, OMB estimates that, using a "pre-policy" baseline, federal receipts for 2019 to 2028 will total to $44,781 billion. Based on this figure, Table 11-12 of the Analytic Perspectives then calculates receipts using the Balanced Budget and Emergency Deficit Control Act (BBEDCA) baseline, which reflects the cost of certain tax policy extensions. In Table 11-12, OMB estimates that receipts for 2019 to 2028 will be $46,083 billion.

1. Is the additional $1.302 trillion in projected federal receipts in OMB's BBEDCA baseline relative to its pre-policy baseline attributable to the Administration's assumption of roughly 3 percent GDP growth in every year of the budget window (as in Table 2-1 in the Analytic Perspectives)?

From this $46,083 billion, Table 11-2 nets out the cost of permanent extensions of the temporary tax provisions in the Republican tax law. These extensions are estimated to cost $541.6 billion. After accounting for outlay increases of $27.3 billion, the BBEDCA baseline receipts figure of $45,520 billion is used in Summary Table S-1. However, Table S-2, which is built upon the deficit estimates in Table S-1, contains a mysterious $813 billion in deficit reduction from the "effect of post-policy boost on economic growth."

2. Given that the budgetary impact of the 3% economic growth assumption of the Administration was already accounted for in Table 11-2, why is this line item characterized as a "boost to economic growth" - which it by definition cannot be?

3. Given that the budgetary impact of the 3% economic growth assumption of the Administration was already accounted for in Table 11-2, where it resulted in the $1.302 trillion increase in receipts, which policies are responsible for this additional $813 in "post-policy" deficit reduction?

4. Is the Administration claiming that the mandatory and discretionary spending cuts in Table S-2 will somehow lead to additional deficit reduction over and above these cuts? If so, how much of the $813 billion in "post-policy" deficit reduction is attributable to the impact of deficit reduction through policy - i.e., spending cuts?

5. Is the Administration claiming that permanently extending the temporary provisions of the Republican tax law will lead to "post-policy" deficit reduction? If so, how much of the $813 billion in "post-policy" deficit reduction is attributable to the tax policy extensions in Table 11-2?

6. Is it correct that, in total, the Administration is assuming $2.115 trillion in deficit reduction through so-called "economic growth" - $1.302 trillion in table 11-2 due to the 3% growth assumption, and then an additional $813 in Table S-2 that, though it cannot be due to economic

growth based on how the budget is constructed, is labeled as the effect of "boost to economic growth"?

1. The attached table shows the relationship of the baseline and policy estimates of receipts in Analytical Perspective Table 11-2 and Summary Tables S-3 and S-4. The $1.302 trillion difference between the 10-year receipt totals in the BBEDCA baseline ($46,083 billion) and in the pre-policy adjusted baseline ($44,781 billion) consists of (a) $542 billion lower receipts due to the assumed extension of the expiring individual income and estate tax provisions of the Tax Cuts and Jobs Act; and (b) $760 billion loss in receipts due to the lower economic growth that would be expected without enactment of the Administration's budget proposals.

2. The $813 billion economic growth line is shown in Table S-2 because Table S-2 starts with a deficit on the basis of pre-policy economic assumptions, in order to better illustrate the deficit path absent the Administration's proposals. From that starting point, Table S-2 shows the direct effects of the Budget's deficit reduction proposals and also shows the indirect effect of those proposals in boosting economic growth. As shown in the attached table, Table S-2 starts with lower, pre-policy receipt levels than in AP Table 11-2, so it is appropriate that Table S-2 builds back this economic boost to receipts in deriving its ending point of the policy deficit path.

3. The $813 billion line is Table S-2 is the overall result of the Budget's proposals as a whole, including proposals for infrastructure investment, deregulation, repeal and replacement of Obamacare, and disability reform. These proposals will improve productivity and boost labor force participation, leading to higher GDP growth and consequently higher receipts. Note that this economic growth effect does not include the increase to economic growth from tax reform. The boost to growth from tax reform is already built into the pre-policy baseline for the 2019 Budget because tax reform is current law and no longer a budget proposal.

4. The economic growth line in Table S-2 is related to the Budget's infrastructure, deregulatory, and other proposals that will increase economic growth. The Budget does not provide separate estimates of the growth effect of individual proposals.

5. The economic growth line in Table S-2 does not include any effects from extending the provisions of the Tax Cuts and Jobs Act. As previously stated, this line is based on the assumed economic growth from those Budget proposals that have not yet been enacted, such as the infrastructure initiative.

6. The $2.115 trillion figure is not correct. That figure double-counts the economic growth effect and erroneously includes the receipt effect of extending the expiring TJCA provisions. As shown in the attached table, the economic growth effect is $760 billion in higher receipts. Including outlay effects, largely debt service savings, the total deficit reduction from the economic growth effect is $813 billion, as shown on Table S-2.

2019 Budget Baseline and Policy Receipt Estimates
(In billions of dollars)

	Total 2019-28	Crosswalk to Budget Tables
BBEDCA baseline receipts, post-policy............	46,083	AP Table 11-2
Reflect extension of expiring individual and estate tax provisions..........................	-542	AP Table 11-2
Adjusted baseline receipts, post-policy.............	45,541	AP Table 11-2 and body of Summary Table S-3
Shift to pre-policy economic growth...............	-760	Receipt portion of $813B growth effect in Table S-2
Adjusted baseline receipts, pre-policy	44,781	Memo bank of Table S-3; consistent with starting deficit line in Table S-2
Shift back to post-policy economic growth.....	760	Receipt portion of $813B growth effect in Table S-2
Reflect 2019 Budget receipts proposals........	-21	Included in "changes to mandatory spending and receipts" in Table S-2
2019 Budget policy receipts..............................	45,520	S-4; consistent with ending deficit line in Table S-2

Sen. Wyden

The Trump administration has made it clear that one of their top priorities is denying citizenship to hundreds of thousands of Americans, including DREAMERs and countless other undocumented youth. Additionally, the most recent immigration proposal from the White House seriously limits legal immigration and increases significantly increases immigration enforcement personnel, while at the same time proposing to spend $25 billion dollars on a border wall. In its analysis[1] of President Obama's 2017 budget, the Congressional Budget Office found that the President's immigration reform proposals would do more to boost the economy than anything else in the budget.

1. Please outline the steps OMB has taken to incorporate the economic impact of the president's immigration proposals into its budget.

[1] Congressional Budget Office, June 2016. "A Macroeconomic Analysis of the President's 2017 Budget."

The Administration's Budget proposals would enhance the integrity of our Nation's immigration system by strengthening the security of our Nation's borders, enforcing its immigration laws, and reforming the legal immigration system. At the same time, the proposals recognize the importance of immigrants to our Nation's economy.

The Budget supports switching to a merit-based immigration system that would increase the skill level of immigrants and promote immigration from those who can contribute most to economic growth. As the cited CBO report[1] notes, high skilled immigrants are particularly important for developing technological advancements, thereby increasing total factor productivity and output.

The Administration's economic assumptions assume the full implementation of its policy proposals, including the recently enacted *Tax Cuts and Jobs Act*, as well as its proposed deregulatory agenda, infrastructure initiative, health care reform, and removal of impediments to domestic energy production. These proposals are expected to significantly increase economic growth.

[1] Congressional Budget Office, June 2016. "A Macroeconomic Analysis of the President's 2017 Budget."

Sen. Wyden

There are several hundred tribal members living in some of the worst third-world conditions imaginable along the Columbia River in Oregon and Washington. This is because the federal government has failed to live up to its end of the bargain when it dammed the river over 50 years ago. Recently, OMB denied the Army Corps of Engineers' request to reallocate its own funds to finish a nearly-completed village development plan for families that lost their homes due to the construction of the Dalles Dam on the Columbia River.

1. Why has OMB refused to approve this request?

This specific proposal would have reprogrammed funds within the Corps' Construction account for a study of a potential tribal housing village. My understanding is that The Flood Control Act of 1950 authorized construction of the Dalles Dam project. Army Counsel determined that an Indian tribal village may also be constructed under section 204 of the Flood Control Act of 1950, relying on the specific recommendations contained in the supporting plans and recommendations for the Dalles Dam project. I understand that Army Counsel did not rely on a requirement for mitigation as the basis for authorization to construct this village. The Corps recent reprogramming request sought to fund a study for a potential tribal Indian village at this site based on this permissive (not mandatory) authority, sixty-one years after completion of the dam (spanning multiple Administrations.)

The Corps has a large backlog of high priority construction projects that the Corps needs to finish before new projects are added to the construction pipeline. Accordingly, the Corps Budget doesn't propose any construction "new starts". The Dalles housing plan is a study and thus most appropriately should "compete" for funding against other study opportunities within the Investigations account, not the Construction account. Housing is not a primary mission area of the Corps Civil Works program. The source of the reprogramming funds, the Lower Columbia Ecosystem Restoration program, supports work to meet legal requirements under a Biological Opinion. Potential excess funds should be used on the highest priority work within the Corps primary mission areas. These considerations informed OMB's decision to not approve the Corps' request for these purposes.

Sen. Wyden

Please answer the two questions below individually.

Forest fires are costing the federal government billions of dollars every year. The length of the fire season is growing, number of large fires is growing, and things have changed in the forest over the last decade. And yet year after year fire suppression is underfunded.

1. Does OMB believe that Congress should permanently fix wildfire budgeting so the Forest Service is not forced to steal funds from fire prevention to pay for fire suppression?

2. Does OMB agree that these wildfires are emergencies?

1. This Administration is committed to ensuring adequate resources are available to fight wildfires and to manage our forests and public lands responsibly. To resolve concerns about the sufficiency of wildfire suppression funding, the Budget fully funds anticipated wildfire suppression costs at the ten-year average, and proposes a separate wildfire cap adjustment if program costs exceed that average in a given year. The cap adjustment proposal for wildfire suppression ensures that adequate resources are available to fight wildfires during a severe wildfire season and minimizes the risk of detrimental fire transfers or "fire borrowing". In addition, we believe that meaningful forest management reforms to strengthen our ability to restore the Nation's forests and improve their resilience to destructive wildfire should be a part of any permanent solution to this issue.

2. We believe there should be a reliable funding mechanism to handle the unpredictable costs of wildfire similar to how other natural disasters area treated.

Sen. Wyden

I just had town meetings on the Oregon coast, and Oregonians are well aware of the threat that earthquakes and tsunami pose. Surely you agree that one of the federal government's most basic responsibilities is to ensure the safety and security of the American people, and yet OMB's budget makes no mention of the West coast earthquake early warning system.

1. If this budget is enacted, what current and future earthquake early warning capabilities will suffer?

The President's Budget continues support for the monitoring of earthquakes across the United States with the Advanced National Seismic System. It also continues funding for USGS to provide 24x7 reporting on domestic and global earthquakes through the National Earthquake Information Center and real-time earthquake data to NOAA to inform tsunami monitoring in the Pacific and Caribbean. In contrast to these national programs, the earthquake early warning system benefits only one region, so funding was not included given current fiscal constraints.

Sen. Wyden

This budget proposes cutting the Bureau of Indian Affairs by almost $450 million.

1. What Indian tribes did OMB consult with in proposing these cuts?

The Office of Management and Budget relies on agencies to consult with federally recognized Indian tribes and present those views during the formulation of the President's Budget. The Department of the Interior (DOI) engages with tribes through the Tribal-Interior Budget Council, which provides a forum and process for tribes and Federal officials to work together in developing annual budget requests for Indian programs in DOI.

Sen. Wyden

Please answer each of the four questions below individually.

The President's budget proposal recommends moving the High Intensity Drug Trafficking Area (HIDTA) program from the Office of National Drug Control Policy (ONDCP), where Congress most recently placed it as part of the ONDCP Reauthorization Act of 2006, to the Department of Justice (DOJ) and the Drug Enforcement Administration (DEA). This program is critical to the state of Oregon because it allows federal, state and local law enforcement to coordinate efforts and 'share information in the battle against drug trafficking organizations. I have heard from law enforcement officials across Oregon that this move is unwarranted and that it would significantly detract from the mission of HIDTA, and set us back in our battle with the dangerous opioid crisis that is gripping our nation.

1. Under this proposal, would HIDTA be a separate entity within DEA, or would HIDTA be consolidated with some other program or programs?

2. If such a move were to be approved, what assurances would there be that the program would exist after FY 2019?

Each HIDTA is governed and run by equally allocated Executive Boards consisting of state, local, tribal and Federal law enforcement leaders from each HIDTA region. These Boards make resource and strategy decisions based upon local drug threats.

3. If HIDTA is moved to DEA, would the Executive Board governance structure be maintained or would priorities and resource and strategy decisions be made by DEA leadership and passed down to each HIDTA?

4. How would moving HIDTA from ONDCP to DEA advance state, local and tribal law enforcement cooperation and information sharing beyond where it is under its current structure?

1. Yes, HIDTA would operate as a separate entity within the DEA. The proposal mirrors the current structure with HIDTA as a separate entity within ONDCP. HIDTA would not be consolidated with another program.

2. HIDTA would continue to receive an appropriation separate from the agency that manages the program. So long as the appropriation from Congress provides for HIDTA as a standalone program, it can not be consolidated with another program.

3. It is our intention that the HIDTA program would continue to operate under the DEA as it currently operates under ONDCP.

4. Under the current structure, unless HIDTA-funded officers are actively coordinating with DEA Agents in the field, ONDCP receives HIDTA's critical, on-the-ground information on emerging drug threats before the DEA. Placing HIDTA at the DEA will ensure that the DEA is deployed

based on the best information available to help stop emerging drug threats before they become drug epidemics. Further, by transferring the HIDTA program to the DEA, we providing funding to connect state, local, and tribal law enforcement officers with federal drug enforcement agents in the field, not bureaucrats in Washington.

Sen. Wyden

Please answer each of the twenty questions below individually.

In October 2017, press reports surfaced that a number of Donald Trump's nominees were performing the jobs for which they were nominated, but had not yet been confirmed by the Senate, in possible violation of the Federal Vacancies Reform Act of 1998 (FVRA). One of these nominees is Trump's nominee for Deputy Director of the Office of Management and Budget, Russ Vought. One article states:

"Vought has not been approved by the Senate, but he is working on several issues that would be in his purview if he is confirmed. A Trump administration official and a person who has dealt directly with OMB told POLITICO Vought is operating like the office's de facto deputy.

An OMB official said Vought is one of five senior advisers to Mulvaney. The official added that Vought's "role is limited" and he advises Mulvaney on "budget matters and helps to prepare materials that will go to the Director."

The official said Vought does not have authority over several issues that would be part of the job description as OMB deputy, including reviewing staff performance, making personnel decisions and sending agency-wide communications."[2]

I have a number of questions about Mr. Vought's operations and responsibilities at OMB and how OMB is operating in the absence of a Senate-confirmed Deputy Director.

5 U.S. Code§ 3346 sets time limits for how long acting Acting Deputy Director Thomas M. Reilly may serve in this position absent Senate confirmation of a permanent Deputy Director. This limit is either 210 or 365 days, depending on Acting Deputy Reilly's permanent position.

1. On what day may Acting Deputy Reilly no longer serve in this position under § 3346?

The questions below pertain to press reports that Vought is "is operating like the [OMB] office's de facto deputy" and "is working on several issues that would be in his purview if he is confirmed."

2. What official OMB guidance has Mr. Vought been issued in order to ensure his compliance with the FVRA? In other words, what duties may Mr. Vought not perform until he is confirmed?? ·

3. Please outline the steps OMB has taken to ensure that Mr. Vought has not engaged in any activity that would violate the FVRA.

4. Which specific functions and duties are currently within Mr. Vought's purview that would also be within the purview of a Senate-confirmed Deputy Director?

5. Which specific functions and duties are not currently within Mr. Vought's purview that would also be within the purview of a Senate-confirmed Deputy Director?

6. Has Mr. Vought at any time engaged in formal or informal staff performance reviews?

7. Has Mr. Vought at any time formally or informally made or contributed to personnel decisions?

8. Has Mr. Vought at any time sent any agency-wide communications?

9. What are Mr. Vought's day-to-day functions and duties?

10. How do Mr. Vought's functions and duties at OMB differ from those of Acting Deputy Reilly? Which functions and duties is Acting Deputy Reilly authorized to assume that Mr. Vought is not?

11. When Director Mulvaney is absent from the office for official business, performing his other job as CFPB director or personal leave, how are his specific duties and functions delegated to OMB employees? Which of these duties and functions have at any time been assumed by Mr. Vought?

The Vacancies Act prevents acting officials from performing "non-delegable" acts and permits the distribution of "delegable" acts to agency employees.

12. Specifically, which functions and duties of the Deputy Director are non-delegable?

13. Which of these functions and duties have gone unperformed because they are non-delegable?

14. Which delegable functions and duties of the Deputy Director have been distributed, and to which employees?

15. Which delegable functions and duties of the Deputy Director have been distributed to Mr. Vought?

This week, OMB released the President's Budget request. I have a number of questions regarding Russ Vought's role in preparing this Budget.

16. What responsibilities would the Senate-confirmed Deputy Director of the OMB assume in the preparation of the President's Budget proposal?

17. Which of these responsibilities did Acting Deputy Reilly assume in the preparation of the President's Budget request?

18. Which of these responsibilities did Russ Vought assume in the preparation of the President's Budget request?

19. Which of these responsibilities went underperformed or unperformed due to OMB having no Senate-confirmed Deputy Director?

The Vacancies Reform Act requires federal agencies to put a succession plan into place.

20. What is the succession plan of the OMB?

[2] **Politico, October 20, 2017, "Trump nominees show up for work without waiting for Senate approval." Andrew Restuccia and Nahal Toosi.**

A1: Thomas Reilly is not serving, and has never served, as the Acting Deputy Director under § 3346. Rather, the duties of the Deputy Director were delegated to Mr. Reilly by the OMB Director at the end of the last Administration. The FVRA does not place limitations on the amount of time that a person may perform delegated duties. It has been common in past Administrations for individuals to perform delegated duties (including delegated duties of the Deputy Director) when the FVRA did not permit an individual to serve in an Acting capacity.

A2: 31 U.S.C. 502(b) lists all of the statutory duties of the Deputy Director, and states that the Deputy Director: "(1) shall carry out the duties and powers prescribed by the Director; and (2) acts as the Director when the Director is absent or unable to serve or when the office of Director is vacant." There are no specific statutory functions or duties that are solely within the purview of a Senate-confirmed Deputy Director other than these two.

Until he is confirmed, Mr. Vought is not performing any duties under the authority of the Deputy Director. He is serving as a senior advisor to the Director.

A3: See answer to #2.

A4: See answer to #2.

A5: See answer to #2.

A6: No.

A7: On occasion, Mr. Vought has participated in personnel interviews and provided advice to the Director, who has made all personnel decisions.

A8: No.

A9: Mr. Vought serves as a senior advisor to the Director on budget policy matters.

A10: See answer to #2. Additionally, Mr. Reilly performs some of the supervisory and personnel functions that are traditionally (though not statutorily) performed by the Deputy Director.

A11: As an officer appointed by the President with the advice and consent of the Senate, Director Mulvaney does not accrue or take personal leave. While he is engaged in personal or other professional activities, he continues to fulfill the role of the OMB Director, and therefore there are no duties to be delegated. As such, none have been assumed by Mr. Vought.

A12: There are no non-delegable duties of the Deputy Director.

A13: There are no non-delegable duties of the Deputy Director.

A14: The duties of the Deputy Director have been delegated to Mr. Reilly.

A15: None.

A16: See answer to #2. Traditionally, but not statutorily, the Deputy Director oversees the budget formulation process.

A17: Mr. Reilly continued in his role as Deputy Associate Director (DAD) of OMB's Health Division. In that role, he advises on strategic, management and policy decisions that guide the budget formulation process in that area, in addition to overseeing Health policy development. He also advises on budget formulation and process issues more broadly.

A18: In his capacity as senior advisor to the Director, Mr. Vought provided advice to the Director on budget policy, and advice to OMB career staff on how to manage the budget formulation process to prepare decisions for the Director. As both a traditional and statutory matter, neither of these responsibilities is exclusively within the purview of the Deputy Director.

A19: None.

A20: OMB's succession plan is available at:
https://www.gpo.gov/fdsys/pkg/FR-2012-05-24/pdf/2012-12889.pdf#page=1

Sen. Wyden

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 in need. But, the President's budget eliminates the Community Development Block Grant Program, which 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 are specifically tailored to address homelessness and housing.

The budget offers a main justifications for eliminating CDBG, claiming that the program has "failed to demonstrate effectiveness."

1. How is it that CDBG has "failed to demonstrate effectiveness," when Meals on Wheels alone has served over 2.5 million meals to nearly 46,000 Oregon seniors in need?

2. Please provide greater detail on what economic evidence OMB used and what program evaluations OMB performed in reaching the conclusion that CDBG has "failed to demonstrate effectiveness."

There have been inaccurate press reports that equated the elimination of the Community Development Block Grant (CDBG) with eliminating support for Meals on Wheels. The vast majority of federal funding for Meals on Wheels comes from three Older Americans Act senior nutrition programs, which the Budget funds at $838 million, equal to the FY17 enacted level. While the specific amount that CDBG contributes to Meals on Wheels is not tracked, less than 1.5 percent of CDBG funding goes toward the spending categories that would include such programs.

Research has struggled to conclusively link positive impacts directly to the CDBG program. Its flexible program design and presence throughout all large cities and States preclude many forms of rigorous evaluation. Available evaluations, such as a 2012 GAO Report found that "Information on the overall effectiveness (or impact) of the CDBG and HOME programs is limited." The two studies identified by GAO that attempted to evaluate the overall impact of the CDBG program both encountered evaluation challenges due to CDBG's design.

Any impact of CDBG is further diluted due to the population threshold to qualify for funds; as cities have grown, the increasing number of localities qualifying for CDBG allocations combined with the decreasing appropriations has reduced the size of the individual grants over time. Studies have also shown that many other aspects of the formula are outdated and not targeted to the most distressed communities. For example, the age of a city's housing stock features prominently in the formula, regardless of its condition, providing more dollars for older, wealthier cities with historic homes than fast-growing cities with similar community development needs. And finally, a 2006 Congressional Report on improving the CDBG program and a subsequent HUD Inspector General Report in 2008 suggested that CDBG funds may sometimes be used to supplant local revenues.

Sen. Wyden

The Social Security Administration (SSA) released its Informational Technology (IT) Modernization Plan in October 2017, which details the agency's multi-year initiative to modernize Social Security's systems and cyber infrastructure. SSA official recently reported that OMB released a technical amendment to Social Security Administration's Fiscal Year 2019 Budget request allocating $280 million for IT modernization activities. Please provide details on whether this funding is designated for any specific IT modernization project and how it will further the goals of SSA's IT Modernization Plan.

Last summer SSA presented to Congress its full IT Modernization Plan. The President's Budget invests $89.4 million in FY 2018 and $132 million in FY 2019 to support SSA's IT modernization efforts. In addition, the Budget proposes an additional $280 million in FY 2018 to help achieve SSA's multi-year IT Modernization Plan. This proposal would ensure a steady stream of funding now for a large portion of SSA's IT modernization large scale projects to convert its systems from COBOL, make software development faster and more responsive, move more services online, and enable us to perform advanced analytics that support evidence-based decision-making, efficiencies in development efforts, and a greatly expanded means of detecting fraud and improper payments. SSA wants their Internet options to become the option of choice for most people.

Sen. Wyden

My office has been briefed about discussions among several federal agencies to develop an inter-agency data exchange system that would use internal government data for identity authentication and verification purposes rather than rely on external providers. Please provide details on the status of this inter-agency initiative.

Many strides have been made to modernize Federal Government identity management and make it more modular from a policy standpoint, as well as a digital tooling standpoint. There are no plans to OMB's knowledge to create "an inter-agency data exchange system that would use internal government data for identity authentication and verification purposes rather than rely on external providers." The following related initiatives may provide further explanation or be of interest:

• To date, the Federal Identity, Credential, and Access Management (ICAM) community has had inter-agency discussions focused on the identification of requirements and use cases needed to consider an enterprise-wide perspective for government-wide identity management guidance development (in addition to NIST's SP 800-63 Digital Identity Guidelines).

• In 2017, General Services Administration launched Login.gov, a nascent identity management shared service that allows the public to log in to various agency digital services through a shared interface. This "front door" interface leverages public and private sector data sources. More information on the Login.gov initiative (including a Privacy Impact Assessment) can be found on https://login.gov. Agencies can choose to utilize this shared service as one option in the identity management marketplace.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

April 12, 2018

The Honorable Mike Enzi
Chairman
Senate Committee on the Budget
624 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

I am writing to update my February 26, 2018, response (attached) to the Committee's questions for the record (QFR), dated February 13, 2018.

Subsequent to submission of my answers to the Committee's QFR, Mr. Russell Vought recalled that while he was a Senior Advisor at OMB, he provided a memo to the Executive Review Board in support of a career staff official who was applying for a position in the Senior Executive Service. Therefore, I am submitting updated responses to questions 6 and 7 on page 93:

6. **Has Mr. Vought at any time engaged in formal or informal staff performance reviews?**

A6: **In July 2017, Mr. Vought provided a memo to the Executive Review Board in support of a senior OMB career staff official who was applying for a position in the Senior Executive Service.**

7. **Has Mr. Vought at any time formally or informally made or contributed to personnel decisions?**

A7: **In addition to providing the memo discussed in A6, Mr. Vought, on occasion, participated in personnel interviews and provided advice to the Director, who made all personnel decisions.**

I do not believe that these actions are inconsistent with the Federal Vacancies Reform Act. As I have stated before, there are no specific statutory functions or duties that are solely within the purview of a Senate-confirmed Deputy Director other than those listed in 31 U.S.C. 502(b).

I hope this letter addresses any concerns you may have about the issue. If you or your staff have any further questions, please contact the OMB Office of Legislative Affairs at LegislativeAffairs@omb.eop.gov.

Sincerely,

Mick Mulvaney
Director

Identical Letter Sent to The Honorable Bernie Sanders

DEPARTMENT OF DEFENSE AUDIT AND BUSINESS OPERATIONS REFORM AT THE PENTAGON

WEDNESDAY, MARCH 7, 2018

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, Crapo, Corker, Perdue, Gardner, Kennedy, Boozman, Cotton, Sanders, Wyden, Stabenow, Whitehouse, Kaine, Van Hollen, and Harris.

Staff present: Elizabeth McDonnell, Republican Staff Director; and Warren Gunnels, Minority Staff Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. Good morning. I will call this hearing to order. Welcome to the Senate Budget Committee hearing on the ongoing Department of Defense audit and Pentagon business operations reform.

Our Nation faces grave threats abroad and a challenging fiscal situation at home. Given these dual pressures, rebuilding the military and reforming the way the Pentagon does business must go hand in hand.

As Defense Secretary James Mattis said, the heart of our competitive edge is reforming the Department and gaining full value from every taxpayer dollar. So I commend the Secretary for launching a bold reform effort.

After almost 30 years, the Pentagon has finally begun its own Department-wide consolidated audit. I will reemphasize that the Pentagon began it, the Department-wide consolidated audit. This is good news. The bad news is that we have all followed the recently publicized Defense Logistics Agency audit finding of nearly $1 billion in inaccuracies. As the Department-wide audit continues, there will surely be some more painful findings, but this should not deter our efforts. That is the purpose of an audit—to find things that need to be corrected and to save money by correcting them.

We know a successful Pentagon audit will take time. It will also require sustained congressional oversight and a renewed commitment to accountability at the Department. Checking the box by completing the audit is not enough. The goal must be improved financial management and business operations. The audit will empower managers to make better decisions with more accurate financial reporting systems and data.

For our troops, it will be better decision making, and that will mean more money for critical equipment and training.

For our part, Congress needs to step up its oversight of the consolidated audit and support its findings, but we need the Department's help to better understand the process. Many of my colleagues on the Senate Armed Services Committee share my view. Several of them also serve on the Budget Committee. And members of this Committee know that cost matters, too. The Defense Department audit will cost almost $1 billion this fiscal year alone.

Now, I did ask some questions and I want to thank the Department, and particularly Mr. Norquist, for a speedy response. We are not used to that, but really appreciate it. And I was interested even in the costs of the audit and noticed in the explanation that of the $918 million that are being spent on it, $368 million is for remediation. So that is for solving the problems that are in it. There is also $135 million for financial system fixes and another $48 million for internal control, which is all important. So, actually, in my opinion, the audit is $367 million. The rest is benefits that we get out of it by doing the fixes that are necessary. But that is why Congress needed a full breakdown of the projected audit costs.

The Department also should provide an explanation of how it is ensuring the independence of its contracted auditors, and we need to know how the Department plans to remedy any problems they find. Gaining insight into which problems the Pentagon is fixing and why will motivate Congress to continue supporting the audit. There may also be instances in which additional funding up front can avoid increased costs later on, and we need to plan accordingly.

Ultimately, reforming the Pentagon requires more than an audit. Defense spending is now higher than at the height of Ronald Reagan's Presidency. But we are not seeing the same value for each defense dollar spent today. Ineffective business processes may be a big reason.

The Pentagon will never operate like a business, but it still must reform its business operations. The Department's management culture, which has taken hold over the course of several decades, frustrates everyone, including its employees and many of its senior leaders. Notably, the Department has yet to implement a modern work force management system, and I share my colleague Senator John McCain's ongoing concern over the Department's inability to tell us how many contractors work there. Even more troubling, the Department does not possess adequate reporting systems to measure the impact of ongoing reforms from work force changes to the adoption of shared services and cloud-based IT systems.

I am pleased, however, that the Deputy Secretary of Defense has built a reform management group to oversee the development of such issues. Mr. Gibson, as the Department's first Chief Management Officer, will have the unique opportunity to lead in this area. It is my hope that we can build a mutually beneficial working relationship to help you achieve your goals. Managing the Pentagon is a difficult task, but it is crucial to our Nation's defense and to ensuring that we spend America's tax dollars wisely.

Mr. Gibson and Mr. Norquist, thank you for joining us today and for your service. I look forward to continuing the discussion.

Senator Sanders.

OPENING STATEMENT OF SENATOR SANDERS

Senator SANDERS. Thank you very much, Mr. Chairman, and we thank our guests for being with us.

The Chairman and I do not agree on a whole lot of issues, but I think on this one we probably do. The Department of Defense receives far more money from the taxpayers than any other governmental agency. We now as a Nation, as you know, spend about—we spend more money than the next 12 nations in the world combined. And the Congress, against my vote, decided to add another $165 billion to the Pentagon over the next 2 years. And yet alone among all agencies of Government, the Pentagon has not been able to perform an agency-wide audit.

Interestingly enough, Mr. Chairman, you may recall this, that the day before 9/11—the day before 9/11—in 2001, Secretary of Defense Donald Rumsfeld remarked that the Pentagon could not properly account for some $2.3 trillion in transactions. Needless to say, his remarks did not get a lot of attention given what happened the following day. But that was back in 2001, Rumsfeld talking about $2.3 trillion in transactions that could not be properly accounted for.

We have seen some recent audits that tell us interesting things. The Commission on Wartime Contracting in Iraq and Afghanistan concluded in 2011 that $31 to $60 billion spent in those two wars had been lost to fraud and waste. Similarly, in 2015, the Special Inspector General for Afghanistan Reconstruction reported that the Pentagon could not account for $45 billion in funding for reconstruction projects. And, more recently, an audit conducted by Ernst & Young for the Defense Logistics Agency found that it could not properly account for some $800 million in construction projects.

I want to thank Chairman Enzi for your letter to Secretary Mattis last month when you said, and I quote, "Taxpayers must have trust and confidence that their hard-earned dollars are being spent wisely. If such trust and confidence cannot be built and justified, it will be incredibly difficult to achieve the 3 to 5 percent real growth in defense spending you have identified as necessary to meet mission requirements."

And I agree with the Chairman that it is essential that the Pentagon demonstrates that it is trustworthy and accountable with taxpayer dollars, and that has not been the case. And that is why I was disappointed to read that the Pentagon buried a Defense Business Board report from 2015 which recommended ways to eliminate some $125 billion in bureaucratic waste. I do not think there is any debate among anybody here that we want to be able to defend our country, that we want to make sure that the men and women in the armed forces have all of the equipment they need to protect their lives. But I would hope that nobody here believes that just because this is the Department of Defense, we will defend an enormous amount of bureaucratic waste.

As I think the Chairman touched on, one-half of the Pentagon's budget goes directly into the hands of contractors. And of that amount, one-third, or about $100 billion, goes to the top five defense contractors in the United States, all of which, by the way, have been convicted or settled lawsuits relating to fraud or misconduct against the Federal Government. So, we are dealing with huge defense contractors who have been involved in fraud against the Federal Government.

Also, I might add—and later on I am going to have to——

I apologize, I am going to have to run out, but I will come back. I would like to get a response from our guests today about the fact that the CEOs of the top five defense contractors in the United States made a cumulative $96 million in compensation. Five CEOs whose agencies are significantly funded by the Federal Government, the CEOs of those defense companies made $96 million in compensation.

Back in 2011, I requested a report from the Pentagon which detailed how the Department paid $573 billion over 10 years to more than 300 contractors involved in civil fraud causes against the Federal Government.

There are a lot of issues here, and your job is not easy. The size of the Pentagon and the complexity of the budget is enormous, and nobody here thinks you are going to solve the problem immediately. But your job is to tell the American people how our tax dollars are being spent, to tell us, in fact, where the money is going—I am not quite sure that we know where the money is going—to tell us why it is that we continue to do business with defense contractors who give us cost overrun, cost overrun, cost overrun. Are we negotiating effectively, or are defense contractors simply coming in and saying, "We will do it for X," and it ends up being 3X, and nobody particularly cares?

So there is an enormous amount of work, and I look forward to the question period, but at this moment I have to run out. But thank you very much for being here.

Chairman ENZI. Thank you, Senator Sanders. I will now introduce the witnesses.

Our first witness this morning is David Norquist, the Department of Defense Comptroller and Chief Financial Officer. Under Secretary Norquist has been in office since May 2017 and leads the Department's efforts on budget and audit matters. Mr. Norquist has spent his career in budget—related national security positions, including leading the budget and audit process at DHS in the George W. Bush administration.

Our second witness this morning is Mr. John Gibson, the Department of Defense Chief Management Officer, who was reconfirmed as Chief Management Officer only weeks ago after serving as Deputy Chief Management Officer since last November. Prior to his service at the Department of Defense, Mr. Gibson led several aerospace companies and previously served in a management reform position at the Pentagon during the George W. Bush Administration.

For the information of our colleagues, each of the witnesses will take up to 5 minutes to consolidate his opening remarks, all of which will be a part of the record, followed by questions.

We look forward to receiving your testimony. Mr. Norquist, you can begin first.

STATEMENT OF THE HONORABLE DAVID L. NORQUIST, UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF DEFENSE

Mr. NORQUIST. Thank you, Mr. Chairman.

Chairman Enzi, Ranking Member Sanders, and members of the Committee, thank you for the opportunity to provide an overview of the Department's financial statement audit progress and plans.

Before I begin, I would like to take a moment to thank you and the rest of the Congress for the Bipartisan Budget Agreement of 2018. The agreement raised the caps for fiscal years 2018 and 2019 on defense spending to a level that will support the National Defense Strategy and allow us to restore and rebuild our military. The agreement is a 2-year deal, so we will need Congress' support again, or sequestration will return in fiscal year 2020.

When Secretary Mattis released the National Defense Strategy, he detailed three distinct lines of effort: building a more lethal, resilient, agile, and ready Joint Force; strengthening alliances as we attract new partners; and reforming the defense business practices for greater performance and accountability.

The third line of effort relates directly to the audit. It is an important component in the improvement of our business operations.

We anticipate auditor findings in many areas. That is why we are doing these audits—to find the problems and fix the root causes.

I appreciate your interest in the audit of the Department of Defense. It is a long-term, meaningful, and necessary undertaking that encompasses the whole of the Department, and its success depends on sustained congressional support. The personal interest Chairman Enzi and others on this Committee have shown in this issue are part of the reason DoD has, at long last, begun the audit.

Although audits are not new to the Department of Defense, this is the first time the Department has undergone a full financial statement audit. A financial statement audit is comprehensive. It occurs annually, and it covers more than financial management. Financial statement audits include verifying count, location, and condition of our military equipment, real property, and inventory. It involves testing security vulnerabilities in our business systems. It tests system compliance with accounting standards, and it validates the accuracy of our personnel records and actions such as promotions and separations.

The Department anticipates having approximately 1,200 financial statement auditors assessing whether our books and records present a true and accurate picture of our financial condition and results of our operations in accordance with accounting standards.

Based on my experience at the Department of Homeland Security, it will take time to implement the changes necessary to pass the audit. It took Homeland Security, a relatively new and much smaller enterprise, about 10 years to get to its first clean opinion. However, we will not have to wait for a clean opinion to derive benefits from the audit. The financial statement audit helps drive enterprise-wide improvements to standardize our business processes and improve the quality of our data.

DoD owes accountability to the American people. Transparency, accountability, and business process reform are some of the benefits from the financial statement audit.

Regarding transparency, the audit improves the quality of our financial statements and underlying data available to the public, including a reliable picture of our assets, liabilities, and spending.

The audit will highlight areas where we need to improve our accountability over assets and resources. By fixing property records, we can demonstrate full accountability of our assets. The combination of better data resulting from audit remediation and the use of modern data analytics directly supports DoD's effort to bring business reform to its operations. Audit is an enabler that will drive more opportunities for reform.

The DoD consolidated audit is likely to be the largest audit ever undertaken and comprises more than 24 stand-alone audits and an overarching consolidated audit.

During an audit, auditors will select line items on financial statements based on materiality and risk and will ask for a listing of items or transactions that make up the total amount on the financial statements. To put the scope of this task in perspective, the Army has over 15 billion transactions that the auditors will select from.

The auditors will then pick samples from the listing for testing, which can include physically verifying that the property exists and is accurately recorded.

Once the auditors have completed the testing, they will evaluate the results and report any problems they find and will re-evaluate the status of the corrective actions each year.

Going forward, we measure and report progress toward achieving a positive opinion on the audit using the number of audit findings resolved.

In closing, I want to thank this Committee for its interest in and focus on the Department of Defense's audit. I anticipate the audit process will uncover many problems, some of which will be frustratingly difficult to fix. But the alternative is to operate in ignorance of these problems and miss the opportunity to reform. We are committed to the audit and to implementing the necessary reforms to be good stewards of the taxpayers' dollars, and I appreciate your support.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Norquist follows:]

Embargoed until release by the
Senate Budget Committee

Testimony

Before the
Senate Budget Committee

The Audit of the Department of Defense

By
Mr. David Norquist,
Under Secretary of Defense (Comptroller) and Chief Financial Officer
Department of Defense

March 7, 2018

Testimony of the Honorable David Norquist on the Audit of the Department of Defense to the Senate Budget Committee, March 7, 2018

Introduction

Chairman Enzi, Ranking Member Sanders, and members of the Committee, thank you for the opportunity to provide an overview of the Department's financial statement audit progress and plans.

Before I begin, I want to take a moment to thank you and the rest of the Congress for the Bipartisan Budget Agreement of 2018. The Agreement raised the caps for Fiscal Years (FYs) 2018 and 2019 on defense spending to a level that will support the National Defense Strategy and allow us to restore and rebuild our military. It is a sign of how deep the hole is that we are in that an increase of $85 billion in FY 2019 will just bring defense spending back to where it was in 2011 plus inflation. The agreement is a two-year deal, so we will need Congress' support again or sequestration will return in 2020.

When Secretary Mattis released the National Defense Strategy (NDS), he detailed three distinct lines of effort:

1. Build a more lethal, resilient, agile and ready Joint Force;
2. Strengthening alliances as we attract new partners; and
3. Reforming the Department's business practices for greater performance and affordability

This third line of effort relates directly to the audit. It is an important component in the improvement of our business operations.

The NDS section on reforming the Department states clearly that "The Department will continue its plan to achieve full auditability of all its operations, improving its financial processes, systems, and tool to understand, manage, and improve cost." **We anticipate auditor findings in many areas that is why we are doing these audits to find the problems and fix the root cause.**

I appreciate the Senate Budget Committee's interest in the audit of the Department of Defense: It is a long term, meaningful, and necessary undertaking that encompasses the whole of the Department and its success depends on sustained congressional support. The personal interest Chairman Enzi and Senator Grassley and others on this Committee have shown in this issue are part of the reason DoD has, at long last, **begun the audit**.

How We Got Here

The financial statement audit requirement was initially established in 1990 when Congress passed the Chief Financial Officer Act, which, as amended, required the 24 largest federal agencies to complete independent annual financial statement audits. Until this year, DoD was the only large federal agency not under full financial statement audit. The size and complexity of the enterprise, combined with the pace of military operations, made meeting this requirement challenging.

To reinforce the importance of this requirement, the National Defense Authorization Act for Fiscal Year (FY) 2014 mandated that DoD begin the audit in Fiscal Year 2018. Consistent with this requirement, in September 2017, we notified Congress that the Department was starting a full financial statement audit for FY 2018. Consequently, the DoD OIG announced the start of the FY 2018 financial statement audit in December 2017.

What Does a Full Financial Statement Audit of DoD Entail?

Audits are not new to the Department of Defense. Numerous audits covering program performance and contract costs are completed each year by the Government Accountability Office (GAO), the Defense Contract Audit Agency (DCAA), the Department of Defense Office of the Inspector General (DoD OIG), and the services' audit agencies. For example, the DCAA employs over 4,000 auditors to perform contract audits that are focused on identifying inappropriate charges by contractors to the Government. However, this is the first time that the Department is undergoing a full financial statement audit. A **financial statement audit is comprehensive. It occurs annually and it covers more than financial management.** For example, financial statement audits include:

- Verifying count, location and condition of our military equipment, real property and inventory
- Testing security vulnerabilities in our business systems
- Testing system compliance with accounting standards and data interface deficiencies
- Validating accuracy of personnel records and actions such as promotions and separations

The DoD anticipates having approximately **1,200 financial statement auditors** assessing whether our books and records present a true and accurate picture of our financial condition and results of our operations in accordance with accounting standards. These financial statement audits complement, but are distinct from, audits of program performance or contract costs.

Based on my experience at the Department of Homeland Security, it will take time to implement all the process and system changes necessary to pass the audit. It took the Department of Homeland Security, a relatively new and much smaller enterprise, about ten years to get to its first clean opinion. However, **we won't have to wait for a clean opinion to derive benefits from the audit**. The financial statement audit helps drive enterprise-wide improvements to standardize our business processes and improve the quality of our data.

Why DoD Must Be Audited and What That Means

Just like private sector companies and other federal agencies, the DoD prepares financial statements every year to report its assets, liabilities, revenues, and expenses. Though not a corporation, **DoD owes accountability to the American people**. Taxpayers deserve a high level of confidence that DoD's financial statements present a true and accurate picture of its financial condition and operations. Transparency, accountability and business process reform are some of the benefits from the financial statement audit:

1) Transparency: the audit improves the quality of our financial statements and underlying data available to the public, including a reliable picture of our assets, liabilities, and spending. DoD's progress toward a positive audit opinion will also directly contribute to an audit opinion on the entire federal government's assets and liabilities.
2) Accountability: the audit will highlight areas where we need to improve our accountability over assets and resources. For example, during an initial audit of the Army, auditors found 39 Blackhawk helicopters that had not been recorded in the property system. Also, the Air Force identified 478 buildings and structures at twelve installations that were not in its real property system. By fixing the property records, we can demonstrate full accountability of our assets. In other cases, as the Department invests in new business systems, we will be able to obtain independent auditor feedback on the system's compliance so we can better hold vendors accountable for their IT solutions.

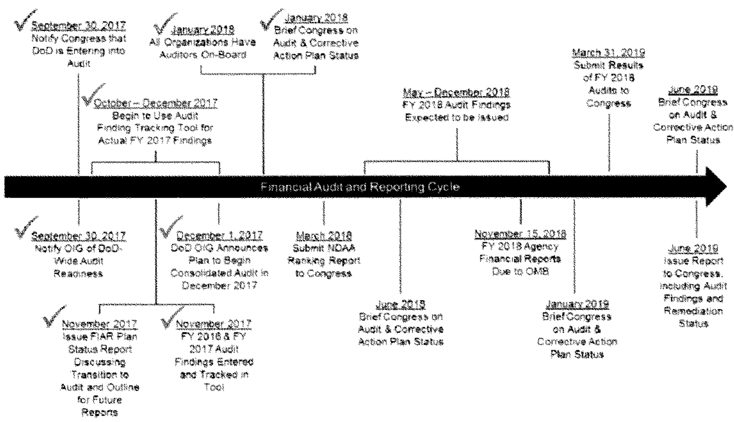
3) Business Process Reform: the combination of better data resulting from audit remediation, retirement of legacy systems, business process reengineering and the use of modern data analytics directly supports Congress' vision of the Chief Management Officer position and DoD's efforts to bring business reform to its operations. I view audit as an enabler that will drive more opportunities for Reform. These reforms will lead to business operations savings that can be reinvested in lethality.

The cost of performing the audit will be $367 million in FY 2018. This amount covers audit fees to the Independent Public Accounting (IPA) firms ($181 million) and infrastructure to support the audits ($186 million). The $181 million in audit contract costs is approximately 1/30th of 1% of DoD's budget and, as a percentage of revenue, is equal to or less than what Fortune 100 companies such as General Electric, Proctor & Gamble, and International Business Machines Corp. (IBM) pay their auditors. In addition, we anticipate spending about $551 million in FY 2018 fixing problems identified by the auditors. These fixes include updating our records to reflect accurate count, condition and value of our real property, military equipment and supplies. It also includes fixing our systems' configurations for how they record accounting transactions. The remediation funding is spread across multiple organizations and business processes. For example, the Navy is spending approximately $26 million this year to improve its valuation and accountability for $369 billion in military equipment, supplies, and parts, to include ordnance, vessels, and aircraft. While $26 million is a big dollar amount, the $369 billion scope of this enterprise is enormous.

How the Audit Will be Conducted

The DoD consolidated audit is likely to be the largest audit ever undertaken and comprises more than 24 stand-alone audits and an overarching consolidated audit. DoD is currently sustaining clean opinions for nine stand-alone audits. All audits are now underway and being conducted by the IPA firms. The DoD OIG is performing the consolidated audit. Auditors are close to completing their planning. Soon, they will begin familiarizing themselves with agency internal controls, and conducting statistical sampling. In some agencies they have already conducted site visits.

Fiscal Year 2018-2019 Timeline



Over the next 18 months, DoD will provide regular communication to Congress on the status of the audit and related remediation efforts

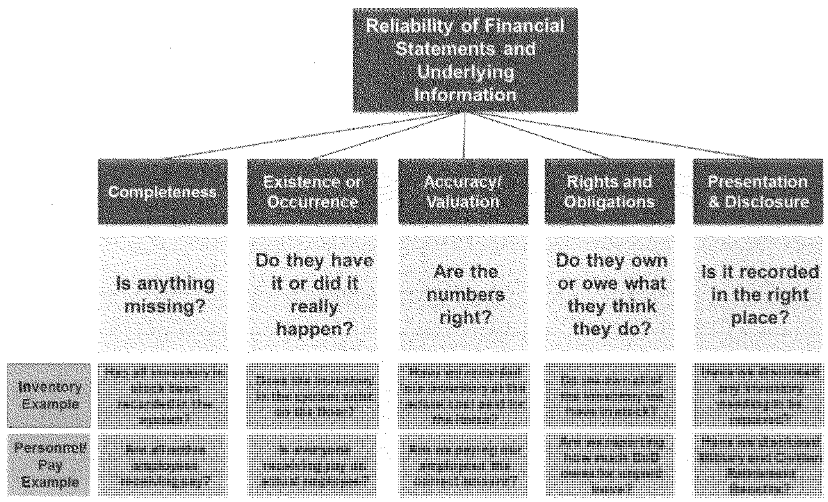
During an audit, auditors will select line items on financial statements based on materiality and risk, and will ask for a listing of items or transactions that make up the total amount on the financial statements. To put the scope of this task in perspective, the Army has over 15 billion transactions that the auditors will select from. With property, for example, the listing should have all the buildings, equipment, and software that equal the total value of property line on the financial statement.

The auditors will then pick samples from the listing for testing. For property, testing will include physically verifying that the property exists and is accurately recorded in the property system including the date acquired, working condition and depreciated value.

Once the auditors have completed testing, they will evaluate the results to determine if the financial statements are presented fairly in all material respects in accordance with accounting standards. The auditors will report any problems they find at the end of the audit cycle and will reevaluate the status of corrective actions annually.

The pictorial below depicts the focus areas for financial statement auditors.

What Is a Financial Auditor Looking For?

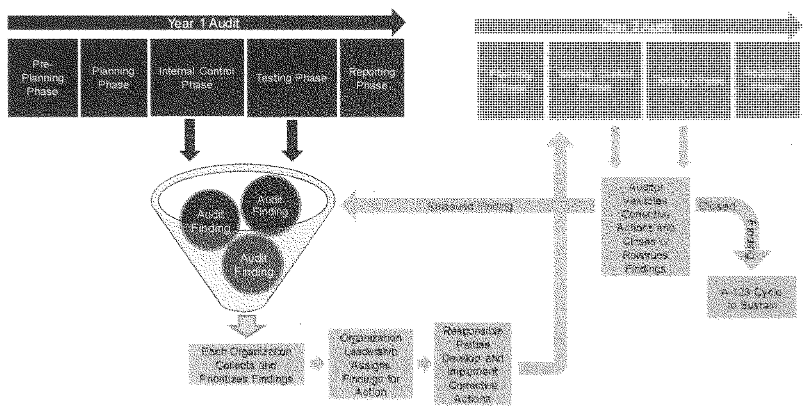


Measuring Progress

For years, the Department received a disclaimer of opinion on DoD-wide financial statements from the DoD OIG. This means the Department could not adequately support the accuracy of our financial information or fully account for our assets, spare parts and other inventory items. These disclaimers were based on management's assertions; they were not based on independent audit testing. Beginning this year, audit opinions will be based on comprehensive auditor testing and will result in actionable feedback. We expect to receive our first audit results in November 2018 and that will provide us with a baseline to track progress. We have an ongoing dialogue with GAO and as required by the NDAA, will be providing Congress with semi-annual feedback to update our progress.

The Department has established a tool and a process to capture, prioritize, assign responsibility for, and develop corrective actions to address audit findings. Each year, auditors will assess and report on whether the Department has successfully addressed the findings. **Going forward, we will measure and report progress toward achieving a positive audit opinion using the number of audit findings resolved.**

DoD Audit Feedback Cycle



DoD is implementing an audit feedback cycle to respond to and maximize auditor feedback

Accurately Communicating Results

Some of the initial feedback we have received can be grouped into three main categories. The first category includes deficiencies in our basic accounting practices such as when transactions are incorrectly recorded or coded in the system due to systems capabilities or process weakness. For example, a recent Defense Logistics Agency (DLA) audit report identified $465 million of construction projects misrepresented as "in progress". These projects were, in fact, completed but miscoded in the system. This doesn't mean DLA lost these construction funds or the real property assets. It means we need to improve our controls to ensure records are updated timely in the system and system configurations are fixed to correctly record and account for business events.

The second category reflects weaknesses in our business operations. By improving these business processes through standardization and more disciplined execution, the result should be improved timeliness and accuracy of our information along with increased asset visibility supporting better resource allocation decisions. For example, one audit finding indicated a problem with

Chairman ENZI. Thank you for that and for overseeing it.
Mr. GIBSON.

STATEMENT OF THE HONORABLE JOHN H. GIBSON, II, CHIEF MANAGEMENT OFFICER, U.S. DEPARTMENT OF DEFENSE

Mr. GIBSON. Thank you, Chairman Enzi and other members of this Committee for the opportunity to testify today regarding the aggressive work we are doing to bring greater efficiencies to the business operations of the Department of Defense.

Any organization which receives capital for its business has a fundamental responsibility to execute in the most effectual manner. Given the American taxpayer has provided the capital to fulfill our mission, we have the highest level of fiduciary responsibility to continuously execute our operations in the most effective and efficient manner.

The 2-year budget deal this Committee worked hard to establish is great support to a predictable funding stream and very helpful with all our work in the reform area. Thank you for the Committee's hard work to establish this deal.

Secretary Mattis has outlined three main lines of effort for the Department of Defense: build a more lethal force, strengthen traditional allies while building new partnerships, and reform the Department's business practices for performance and affordability.

It is the responsibility of the Chief Management Officer of the Department of Defense to execute the third line of effort: reforming business operations for solvency and security, gaining full benefit from every dollar spent.

Looking forward, the Department is not anticipating funding above the out-year levels in the fiscal year 2019 budget, and in order to fund incremental resources, the military needs to achieve its mission requirements. We must lower our cost of operations to yield these resources. The global challenges to our military remain significant, and to best equip our men and women in uniform to meet their mission, we must consider significant reforms in the Department.

Foundational to our vision of success in this area is the establishment of a culture of performance and productivity on an enduring, institutionalized basis. The work we are all doing today becomes a benefit for the next generations of leadership and warfighters to come.

We are generating additional resources through efficiencies by focusing on three main areas: shared or common services, enterprise-wide data and cost information, and the efficient and effective alignment of the enterprise.

We have begun the effort in shared services by forming integrated, subject-specific teams to identify, vet, and implement immediate efficiency opportunities in their respective areas. Knowing the challenges to any significant reforms, we are constantly fostering a sense of urgency, maintaining leadership alignment at all levels, communicating a consistent message, proactively removing obstacles, driving immediate wins, and working to anchor all of this in long-term behavior and culture.

As we implement the reform efforts, we are comfortable incorporating the "fly, test, fly" operational tempo to allow us to pilot, learn, and scale in each of these areas. Fundamental to institutionalizing this effort is governance and management. We have formed the Reform Management Group to guide these multiple efforts. This integrated, cross-functional group leads dedicated teams and fosters ongoing working relationships, aligning all the stakeholders involved in the reform efforts. As our processes mature, we will form an integrated management board. This board will utilize relevant, standard measures and goals, coupled with the authorities to manage, enforce, and institutionalize a culture of performance and productivity, all with the goal of continuous improvement in our business operations.

The reward process is essential to success and the primary incentive to change behavior. Typically, in the Department efficiency efforts are stimulated by a need to backfill budget cuts. Our current approach is to drive and incentivize performance and operating financial efficiencies by measuring, tracking, and reporting performance and outcomes. We will then return the savings generated to the military departments to reinvest in higher priorities and hold those people and organizations accountable. We will need your input and assistance in refining, implementing, and executing as we further define the mechanics of the reward process.

Quality data is essential to good decision making, and we are working to improve the infrastructure to host and make available timely, accurate, and relevant data across the enterprise. Additionally, we are constructing a consistent framework that reflects cost data and analytical tools to support efficiency-driven decisions throughout the Department. In both efforts, we are working closely with the Under Secretary of Defense and Comptroller to achieve success.

The financial audit the Department is undertaking is a tremendous tool and serves as an invaluable piece of our reform efforts. The audit process will improve the quality of our organizational and financial data, which is essential to good business decision making. The audit will also reveal business systems and processes which need to be reformed and can be incorporated into our ongoing reform efforts. By improving these business processes, we drive improved operational measures such as timeliness, productivity, and simplification. Many of these processes will have direct, positive impacts on lethality.

The third line of effort is alignment of the Department. Many of the defense agencies and field activities have been in place for decades, and we have the opportunity to look at the end-to-end processes in major areas of operation and align all of the participants in the most efficient manner. We intend to include and leverage leadership from the military departments and the major mission areas such as Acquisition, Information Technology, Intel, Personnel and Readiness, Financial Management, Research, and Policy all as part of this process.

A basis for evaluation for all our projects is establishing benchmarked private sector measures, setting goals, tracking, and reporting.

In addressing any of our reform projects, we are also looking outside of the Department for further economies by incorporating the whole-of-government.

As our efforts progress, we will be looking to Congress as a source of support. Just as with any board of directors, we believe Congress is our partner, understanding the shared risk in this incredibly robust and aggressive work. We intend to keep an ongoing dialog with you on our plans and progress and will be seeking your input, feedback, and assistance as some of our objectives will require mutual actions to achieve our goals.

As the Chief Management Officer of the Department of Defense, I consider Congress to be my board of directors. Therefore, I welcome the opportunity to begin our dialog on the substantial efficiency efforts we are making in the Department.

Thank you.

[The prepared statement of Mr. Gibson follows:]

TESTIMONY OF HON. JOHN H. GIBSON, II, CHIEF MANAGEMENT OFFICER BEFORE THE SENATE BUDGET COMMITTEE

HEARING ON DEPARTMENT OF DEFENSE REFORM

MARCH 7, 2018

Thank you Chairman Enzi, Ranking Member Sanders, and other members of this committee for the opportunity to testify today regarding the aggressive work we are doing to bring greater efficiencies to the business operations of the Department of Defense.

Any organization which receives capital for its business has a fundamental responsibility to execute in the most effectual manner. Given the American taxpayer has provided the capital to fulfill our mission, we have the highest level of fiduciary responsibility to continuously execute our operations in the most efficient and effective manner. Thank you for the Committee's hard work to establish the 2-year budget deal.

Secretary Mattis has outlined the three main lines of effort for the Department of Defense. Build a more lethal force, strengthen traditional alliances while building new partnerships, and reform the Department's business practices for performance and affordability.

It is the responsibility of the Chief Management Officer of the Department of Defense to execute the third line of effort: reforming business operations for solvency and security, gaining full benefit from every dollar spent.

Looking forward, the Department is not anticipating funding above the outyear levels in the fiscal year budget and in order to fund incremental resources the military needs to achieve its mission requirements, we must lower our cost of operations to yield these resources. The global challenges to our military remain significant and to best equip our men and women in uniform to meet their mission we must consider significant reforms in the Department.

Foundational to our vision of success in this area is the establishment of a culture of performance and productivity on an enduring, institutionalized basis. This work we are all doing today becomes a benefit for the next generations of leadership and warfighters to come.

We are generating additional resources through efficiencies by focusing on three main areas: shared or common services; enterprise-wide data and cost information; and the efficient and effective alignment of the enterprise.

We have begun the effort in shared services by forming integrated, subject-specific teams to identify, vet, and implement immediate efficiency opportunities in their respective areas. Knowing the challenges to any significant reforms, we are consistently fostering a sense of urgency, maintaining leadership alignment at all levels, communicating a consistent message, proactively removing obstacles, driving immediate wins, and working to anchor all of this in long-term behavior and culture.

As we implement the reform efforts, we are comfortable incorporating the "fly, test, fly" operational tempo to allow us to pilot, learn, and scale in each of these areas.

Fundamental to institutionalizing this effort is governance and management. We have formed the Reform Management Group to guide these multiple efforts. This integrated, cross-functional group leads dedicated teams and fosters ongoing working relationships, aligning all the stakeholders involved in the reform efforts. As our processes mature, we will form an integrated management board. This board will utilize relevant, standard measures and goals, coupled with the authorities to manage, enforce, and institutionalize a culture of performance and productivity with the goal of continuous improvement in our business operations.

The reward process is essential to success and the primary incentive to change behavior. Typically, in the Department efficiency efforts are stimulated by need to backfill budget cuts. Our current approach is to drive and incentivize operating and financial efficiencies by measuring, tracking, and reporting performance and outcomes. We will then return the savings generated to the military departments to reinvest in higher priorities, and hold those people and organizations accountable. We will need your input and assistance in refining, implementing and executing as we further develop the mechanics of the reward process.

Quality data is essential to good decision making and we are working to improve the infrastructure to host, and make available timely, accurate, and relevant data across the enterprise. Additionally, we are constructing a consistent framework that reflects cost data and analytical tools to support efficiency-driven decisions throughout the Department. In both efforts, we are working closely with the Under Secretary of Defense for Comptroller to achieve success.

The financial audit the Department is undertaking is a tremendous tool and serves as an invaluable piece of our reform efforts. The audit process will improve the quality of our organizational and financial data, which is essential to making good business decisions. The audit will also reveal business systems and processes which need to be reformed and can be incorporated into our ongoing reform efforts. By improving these business processes we drive improved operational measures such as timeliness, productivity, and simplification. Many of these processes will have direct, positive impacts on lethality.

The third line of effort is the efficient alignment of the Department. Many of the Defense agencies and Field Activities have been in place for decades and we have the opportunity to look at the end-to-end processes in major areas of operation and align all of the participants in the most efficient manner. We intend to include and leverage leadership from the military departments and the major mission areas such as Acquisition, Information Technology, Intel, Personnel and Readiness, Financial Management, Research, and Policy as part of this process.

A basis for evaluation to all our projects is establishing benchmarked private sector measures, setting goals, and then tracking and reporting our performance.

In addressing any of our reform projects, we are also looking outside of the Department for further value by incorporating the whole-of-government as a marketplace and seeking to leverage private sector sourcing at an even higher level.

As our efforts progress, we will be looking to Congress as a source of support. Just as with a board of directors, we believe Congress can be our partner, understanding the shared risk in this incredibly robust and aggressive work. We intend to keep an ongoing dialog on our plans and progress and will be seeking your input, feedback and assistance as some of our objectives will require mutual actions to achieve our goals.

As the Chief Management Officer of the Department of Defense, I consider Congress to be my board of Directors. Therefore, I welcome the opportunity to begin our dialog on the substantial efficiencies efforts in the Department, and I welcome your questions.

With me is Comptroller David Norquist, who will speak to the Department of Defense Audit.

Chairman ENZI. Thank you. As an accountant, I cannot tell you how exciting it is for me to have the numbers management team before us. Your testimony is music to my ears. I want to thank you particularly, Mr. Norquist, for your prompt letter. Had I gotten it a week from now, I would have considered it prompt.

[Laughter.]

Chairman ENZI. That is actually when I was expecting it, and I will be sharing that with the members of the Committee because there is a lot of good information in the answers that you gave me.

We will now turn to questions, and I do not think I probably need to explain how the sound of the gavel and alternating back and forth works, but every member will have 5 minutes for questions. I will begin with myself, and then we will begin the alternation process.

I will begin with my first question for Mr. Norquist. The metrics used to measure the Department's readiness for an audit were often very difficult to understand, even for outside experts. Now that the consolidated audit has begun, how will the Department help Congress to understand how much progress is being made? Will the Pentagon provide regular interim updates on both the findings and your remediation efforts?

Mr. NORQUIST. Yes, sir. Mr. Chairman, the way we will measure progress going forward is by looking at the number of NFRs closed. So when the auditor has a finding, they will write it up. We will track the number of findings. We will track who they have been assigned to for fixing them so that rather than simply say the Department of Defense did not pass, or the Army, we will be able to say this materiel command had been assigned to 20 findings of which they have closed 5. This organization has seven of which they closed seven. So you will be able to see at a much deeper level, and part of the interest in the audit is that level of accountability, so you can talk about specific challenges. Is the issue with the systems? Is the issue with fund balance with Treasury?

From our perspective, what we will do is a couple things. One is the auditors will publish their statements on the traditional schedule which starts about November 15th. Those are available to the public. They will look like the same type of financial statement reports that go out for companies. We will twice a year, both in January and June, provide updates to the Committee, summarizing those in easy-to-understand formats as well as providing tracking on the NFRs.

The advantage, I think, of this one is we will not be self-reporting our progress. I will be telling you what the auditors have said. If they do not say we close it, then we did not close it. You know, the issue will be—I think that independence allows you a greater level of confidence in the data you receive on the status of the audit and allows us to track it. This is how we did it at Homeland Security, and it was a very effective way of measuring progress.

Chairman ENZI. Thank you.

Mr. Gibson, I want to ask you about metrics and baselines a little bit. Last year the GAO reported that billions of claimed savings from Department of Defense headquarters reductions were unsupportable. Similarly, the Department of Defense budget request this year claimed further billions in savings from the ongoing and new reforms, but does not provide much specificity.

Can the Department provide a more detailed breakdown of these savings and what baselines are being used to construct them?

Mr. GIBSON. Senator, the way we intended to execute this is we begin at the very working level. We have teams that are subject matter experts in nine particular areas. Out of that, they will then pick specific projects to go out that we find are efficiency projects. Within each of those, there will be an intended outcome, operational and financial goals that will be based on real data. They will have a project schedule. We will be able to track and measure how they are doing on that. We can then compile all of those into groups and report those out.

So we intend this to be very, very specifically driven by data that we are tracking and reporting on, and then all of that will build out to a total of what we can account for reform savings that we will be getting.

Also, I think it is important to mention that, in addition to financial savings, it is very, very important that we discuss that we are going after operational improvements as well. Those will include, it could be, timeliness, productivity, simplification. Those do not always have a financial outcome, but certainly our beneficial outcome to the overall business operations, we will be measuring and tracking and reporting on those as well.

Chairman ENZI. Thank you.

A quick question to Mr. Norquist, because I have read a number of stories lately about how the Pentagon cannot responsibly spend the extra fiscal year 2018 funding from the recent budget deal before the end of the current fiscal year. Marine Corps General Walters said we have a year's worth of money in 2018 and 5 months to spend it. I understand that there are proposals to give more flexibility in spending this money, including changing fiscal year 2018 operations and maintenance funding from funding.

Beyond this current issue, are there other changes in the budget process such as biennial appropriations for certain defense accounts that could result in greater stability and efficiency in military spending?

Mr. Norquist. I think there are two types of challenges that we look at as you look over time, so let me do first the 2018 and then the longer period, and we can come back to this.

In 2018, there is a series of rules designed to encourage people to spend their money earlier in the year and not hold it until the end. One is called the 80/20 rule. You can only spend 20 percent of your money in the last part of the year. When you get the bulk of the money or the increase late in the year, that makes it harder. So some relief from that 80/20 rule is certainly essential because then your deadline is not 1 October. It is 2 months earlier. All of these, though, relate to wanting to spend the money where the highest priority is, and as you get closer to the end of the year, you do not have the time to go out for the contract with the competition and the award with the amount of time that is left; or if you put something into a shipyard for maintenance and the cost of actually fixing it is less than you thought, so they give you the money back, you may be too late in the year to put it against your next highest priority, so you put it against the next one that is available.

We would like to discourage that sort of use-it-or—lose-it view and encourage people to put it on the highest priority and, where necessary, look at what type of flexibilities are required, either being able to move money between accounts with prior notification instead of prior approval. Some of those flexibilities help, and I think that was—and this is true whether you are in a year where there has been a significant increase or not. You just want to make sure people are able to put it against the highest priority.

Chairman ENZI. Thank you. I am sure we will talk a lot more about that. My time has expired. Senator Whitehouse.

Senator WHITEHOUSE. Thank you very much.

Mr. Gibson, GAO has reported that nearly a third of the roughly $1.5 trillion cost of current defense acquisition programs is a product of cost growth over initial estimates, which suggests that the Department has trouble either estimating costs or holding contractors to original estimates.

Now we are looking at a proposal to spend something on the order of $1.7 trillion on nuclear modernization, including the development of new weapons platforms and warheads. There have been warnings issued that if we were to do that, those modernization plans would wipe out other defense programs, so I guess there are two problems that I would ask you to comment on.

One, what is the plan for funding that without cannibalizing other programs? Is it just put it on the credit card? We seem to be getting expert on that around here. And, two, are there additional controls that we should put in place over this nuclear program to make sure that the $1.7 trillion does not have the same fate befall it that befell the other defense acquisition programs of these massive cost overruns?

Mr. GIBSON. Senator, in the area of contracting, the particulars we are focusing on is the common purchase of goods and services and doing that in a more efficient and effective manner. That is an area that I am specifically focusing on. And what this does is this takes a look at contracts from what is called a "clean sheeting," a very common private sector practice to set the requirements and set the terms and conditions and then look across the market to best derive value.

We are also looking at setting requirements in, again common services contracts so that it is the same across——

Senator WHITEHOUSE. I am sorry, but I think what I was trying to get at in my question is: Does a massive oncoming expenditure like $1.7 trillion for this nuclear modernization program give us an occasion to take a look at new and different checks and controls specific to that program to see if we can learn something from it and have it not fall to the same fate as the existing defense acquisitions of massive cost overruns?

Mr. GIBSON. Yes, sir, I believe the opportunity to look across all phases of acquisition, so the area that we are focused on, absolutely. We need to do it. It is good fundamentals and good business. I know——

Senator WHITEHOUSE. And you would not object if we looked forward to this nuclear modernization program and looked at additional ways to try to make sure that the estimation and accounting was done better than it has been through traditional——

Mr. GIBSON. Senator, I think that is foundational to doing things right.

Senator WHITEHOUSE. Okay.

Mr. GIBSON. I think that is how we need to do it, and I know Mr. Norquist——

Senator WHITEHOUSE. Let me ask one last question then.

DoD contract management has been on GAO's high-risk report list for almost 25 years, and there are obvious concerns about the relationship between the Defense Department, the defense contractors, defense contractors' role in Congress. There is kind of a loop that can exist there. And, in addition, there is the revolving door problem between the Department of Defense and these contractors with a view that some of the contracts may not be managed as scrupulously as ideal.

Are there things that we should be doing to improve the revolving door issue between the Department of Defense and these contractors to make sure that that relationship with these contractors remains healthy for the taxpayer?

Mr. GIBSON. Senator, my specific area of expertise is not contracting and acquisitions. However, I will say it is my understanding that between the policies in the FAR and within contracting, as well as our ethics, those are in place. I think it is always our responsibility to follow those to ensure that we truly get to the best place from a contracting standpoint and a conflicts-of-interest standpoint.

Senator WHITEHOUSE. Do you agree that it is vital that the contractors should be serving the Defense Department and not vice versa?

Mr. GIBSON. I think leveraging the private sector is absolutely invaluable to us, and that we are the customer and they are the supplier.

Senator WHITEHOUSE. My time is up.

Chairman ENZI. Thank you.

Senator Corker.

Senator CORKER. Yes, sir, Mr. Chairman. Thanks for having the hearing. And to the two of you, thank you for coming. I do not think any of us could respect our men and women in uniform, more than you, and I know you work on their behalf.

The Department of Defense can kill people remotely in Mosul and other places, with people from far away commanding drones, and it is remarkable that we are able to do things like that. DoD has the capacity to turn entire countries into craters and has all kinds of cyber capabilities. Again, you are here; you are the messengers. We are not speaking necessarily to you at all, but how in the world is it that in 2018, with all the massive capabilities that the Pentagon has, this is the first time the Pentagon is able to conduct an audit? What is going on with the culture at the Pentagon? Mr. Norquist.

Mr. NORQUIST. I share your concern. You know, when this administration came in, we made starting the audit right away critical, and so in the very first year we have begun it. When I was in the——

Senator CORKER. Just what is going on with the culture? How in the world could it be that the biggest, greatest fighting entity in the world cannot audit itself? What is wrong?

Mr. NORQUIST. So I am speaking a little bit for those who came before me, but there is a sense on some of the mission focus is not as focused on the back office as you would see in a private company. I think that there is an essential value to the taxpayer in making sure the rest of these operations go well, and part of the messaging that the Secretary has made internally is to make sure folks understand that this is much broader than just financial management. If you want to make sure that your inventory of spare parts is correct, that your munitions is correct, this is part of what the audit covers. And part of that culture comes from change from two things:

One is leadership at the top. Secretary Mattis and Deputy Secretary Shanahan have made this a top priority, and I think that has helped to turn the ship.

And the other is, quite frankly, the emphasis from Congress. I have found it very helpful in meeting with folks and——

Senator CORKER. That is good, but I don't care about Congress. The fact is we have probably wasted hundreds of billions of dollars at the Pentagon through the years through poor management. Is that correct? That would be a low estimate, would it not?

Mr. NORQUIST. I would not be able to speak to that number, sir.

Senator CORKER. Mr. Gibson, thank you for giving credit to this Committee for passing the increase in the caps. We actually had nothing to do with it. We had four people in a room that bid each other up. This cap deal is going to raise spending over the next 10 years by a minimum of $2 trillion. Two trillion dollars.

What we are likely to see in this omnibus are some of the most God awful taxpayer abuses that we have ever seen. Things are being plussed up so quickly, and on the domestic non-defense side, so much money is being pumped in that there is going to be some of, again, the most God awful taxpayer abuses we have ever seen.

At the Pentagon, we are raising the cap by $80 billion. What the President requested was not good enough—we had to go $30, $35 billion above that. We are doing the same thing on the non-defense side, though not quite to that level. How is it possible with 6 months remaining in the year for the Pentagon to possibly spend the additional cap, the additional amount of money, the $80 billion you are getting, plus, I think, $71 billion in OCO spending? How is it possible to spend that money wisely? Mr. Norquist.

Mr. NORQUIST. I would be happy to answer that, Senator. So when you look at the increase, you will find that the vast majority of that occurs in procurement and R&D, which are 2-and 3-year money. And so when you are talking about buying additional munitions, buying additional planes, buying additional ships, you have time to negotiate the prices with the contractors and make the awards.

The challenge is going to be in the operation and maintenance account, and the difference between had we stayed under sequestration and under the number that the Congress is looking at is on the order of about $13 billion.

Now, some of that increase the President had requests, we had plans for in the budget, and so the amount of adjustment that you are making is more modest than the larger number you are seeing because only the O&M piece has to be executed by year-end.

Senator CORKER. Well, again, we thank you and others for what you are doing. I am happy that in 2018 we are finally going to have an audit. That is good for taxpayers. I cherish the men and women in uniform, like Senator Kaine's son and others who serve. I am distressed that, for all these years, we've known there have been massive amounts of wasted money because you could not complete an audit. And I am glad that you are on a path to do something good about it.

I hope we are going to have a chance, Mr. Chairman, to see this omnibus in advance because I have a feeling taxpayers are going to be shocked at what is in it with the massive increases taking place in 1 year. But thank you so much.

Chairman ENZI. Thank you.

Senator Sanders.

Senator SANDERS. Thanks very much. I agree with Senator Corker. This is an enormously important issue, and the DoD must be run cost-effectively and efficiently.

Let me ask you, to start off with a simple question, about half of the DoD budget goes to defense contractors. Is that roughly right?

Mr. NORQUIST. That sounds about right, yes.

Senator SANDERS. I think at the top of the list is Lockheed Martin.

Mr. NORQUIST. That would be one of the top five, absolutely.

Senator SANDERS. Okay. Answer me this one: As I understand it—I am looking at the revenue, 2016 defense revenues that went to Lockheed Martin, roughly $43 billion. And I am just kind of curious. The CEO of that corporation received—what was it, $20 million? Over $20 million in compensation. And as I understand it, over 90 percent of the business was the Department of Defense. In other words, we are giving this woman roughly an $18 million salary from the taxpayers of this country. Does that sound right to you? Is that something that we might want to look at and say when we give—I do not know what the salary is of the Secretary of Defense. What is it, $150,000, $200,000?

Mr. NORQUIST. Yes.

Senator SANDERS. Does it make sense to you that we pay the Secretary of Defense $200,000 or less and we give a contractor who gets 92 percent of her revenue from the taxpayers of this country $18 million of taxpayer money? Is that something that you might want to look at?

Mr. NORQUIST. Sir, I cannot speak to how the companies compensate their executives. I know there may be rules on those, but they are outside my expertise. The one I can speak to, though, is that we do have—inside the office of the CFO, we have an organization that audits the contractors. So when they send us invoices and payments, we go through those in order to arm the contracting officers to make sure we are not being charged——

Senator SANDERS. But if I am right—I got that. But if I am right, that over 90 percent of the revenue for a company comes from the taxpayers of this country and this woman is making $20 million a year when the Secretary of Defense makes less than $200,000, I think that might be an issue that you might want to raise. All right? Essentially, for all intents and purposes, Lockheed Martin is a Government agency, if you like—private, but a Government agency, virtually fully funded by the United States Government. Is it reasonable to say that they keep their CEO salaries in check? Or should the taxpayers be paying exorbitant salaries?

Mr. NORQUIST. The taxpayers should be paying for the service that we receive, Senator, and if the——

Senator SANDERS. Do you think it is an issue worth looking at?

Mr. NORQUIST. I do not know if the acquisition rules—whether executive salaries falls within that scope.

Senator SANDERS. I think that they might.

Now, let me ask kind of a dumb bunny question, if I might. The truth is everybody supports the Department of Defense. We all support the men and women in the armed forces. But as I mentioned earlier, we are now spending more than the next 12 countries combined in defense. Against my vote, Congress just voted another $165 billion to go to the military. So here is the question: Who is our enemy? Who are we spending—we know that there are threats out there. We are all aware of terrorism. But I think the amount of money that we are spending fighting ISIS, for example, is relatively small. Who are we preparing to go to war against or defend ourselves from?

Mr. NORQUIST. Senator, the Secretary of Defense outlined in the National Defense Strategy the challenges that we face. Part of the emphasis in the strategy was the shift from a focus on terrorism to great power of competition with a particular emphasis on the long-term challenges of China and Russia. It refers to both of those as opportunities for peaceful competition, deterrence, and then the ability to prevail in a conflict, should we have to. The strategy has both a classified and unclassified option, but it lays out and goes through the challenges that we face.

Senator SANDERS. So we are spending hundreds of billions of dollars defending ourselves from China while major corporation after major corporation is shutting down in the United States of America and moving to China. Anything incongruous about that?

Mr. NORQUIST. So I think the White House and the President and others have talked about the competition expanding beyond defense. My expertise is more in the defense side.

Senator SANDERS. Okay. Thank you very much, Mr. Chairman.

Chairman ENZI. Thank you, Senator Sanders.

Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman.

Has the audit begun?

Mr. NORQUIST. Yes, Senator.

Senator KENNEDY. Okay. I want to thank both of you and I want to thank President Trump for doing what the law directs you to do.

Under the 1990 statute, what position—not what person but what position at the Department of Defense was responsible for initiating the audit?

Mr. NORQUIST. The audit, I am not sure how the language is phrased. The audit is conducted by the IG, and then——

Senator KENNEDY. No. Who is responsible at DoD under the 1990 statute for saying, "I have read the law; we are going to start this audit"? What position?

Mr. NORQUIST. My belief would be, since it is called the "CFO Act," it would be the CFO or the Secretary, depending on how the language is written.

Senator KENNEDY. Okay. Would you get me the name of every CFO who has served at the Department of Defense since this statute was passed?

Mr. NORQUIST. I can do that, Senator.

Senator KENNEDY. Okay.

Senator KENNEDY. I do not know where to begin. Senator Corker is kind of the conscience of the Senate on our deficits, and I first heard him speak about the fact that the Department of Defense had never been audited at a meeting and, frankly, I thought he misspoke. I could not believe it.

I cannot explain this to my people back home, every single one of whom supports a strong defense. But when I tell them that every other agency in the Federal Government undergoes an audit but the Department of Defense, and it was required to do it 18 years ago and still has not done it, they think I belong in a straitjacket. I just found this—how did it go on 18 years? Didn't somebody ever call the CFO and say, "Have you started the audit yet?"

Mr. NORQUIST. I will try and attempt to answer the question, though I come from your perspective, which is I viewed the audit as essential, as something we needed to start, and in my prior experience at DHS, that is exactly what we did. We had an audit from the moment DHS was created.

I think the types of answers you will hear is: It is large, it is complex, it will take longer than the tenure of the person there.

In my mind, those are arguments to start, not arguments to wait. There are some mechanical things you had to put in place to make it worth starting the audit. There are things that if you are not even able to answer the sample requirements of the auditor, they cannot even begin, and the Department, having not been set up that way, needed some time to do that.

I say this not to explain it but because I recognize and my perspective is we ought to have started. And I am glad at least that in the transition of administrations, the contracts were set in place that allowed us to begin now rather than waiting, putting out contracts, and not getting the benefit of the audit for a few more years.

Senator KENNEDY. Well, let me put it another way. I have read that the Department of Defense has more Federal contracts than all the other agencies in the United States Federal Government put together. Is that right?

Mr. NORQUIST. I do not know. I do not know if that includes grants or not, but it may be——

Senator KENNEDY. Well, what——

Mr. NORQUIST [continuing]. Discretionary budget.

Senator KENNEDY. If I ask you for a list of all the contracts and the amount, could you give it to me?

Mr. NORQUIST. So that is something that we are building called "the universe of transactions."

Senator KENNEDY. You could not give it to me?

Mr. NORQUIST. Not easily. It was a very long list.

Senator KENNEDY. We do not even know how many contractors we have?

Mr. NORQUIST. Let me back up. There is a requirement that the Congress has put on the Department and others to publish—USAspending.gov—that type of information. And so you will be seeing that is part of the emphasis on the audit, is putting the accuracy of that data out there.

Senator KENNEDY. Let me interrupt you because I have only got a few more minutes. I see where you expect to spend $367 million this year to conduct the audit and an additional $551 million to fix the problems. Now, how do you know it is going to cost $551 million to fix the problems if you do not know what the problems are yet?

Mr. NORQUIST. I do not know how much it will cost to fix the problems. I know how much the services have set aside to start to take the problem on, and so we have been able to break it out according to how much the Army, the Navy, and the others are going to be spending on fixing problems. How long it takes them remains to be seen.

Senator KENNEDY. Well, we have got clearly some people, some hogs who have all four feet and their snout in the trough. And we have got to find out who they are, gentlemen. And we need to pass legislation to require this to be done and say make it criminal, if it is not done somebody goes to jail, or at least somebody is fired. I would appreciate your advice on that. I cannot explain this to my people. I cannot.

I am sorry I went over, Mr. Chairman.

Chairman ENZI. Okay. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair. Thanks to the witnesses. I associate myself with most of the comments that have been made. Senator Corker's sense of what is wrong with the culture, I had the same feeling. I am an Armed Services Committee member. I joined the Committee in January 2013. Senator King joined with me. I think of the other Budget Committee members. I also think Senator Graham was on the Committee at the time. And I am a numbers geek. I was a mayor and Governor and was used to audits and financial statements. And we were stunned to get on the Committee and find, the 1990 statute notwithstanding, that the Pentagon had not made greater progress. They were trying to become audit-ready at the time, but there was not really a meaningful calendar in terms of auditability.

We passed as part of the defense authorizing act that year—it was the 2014 NDAA that we worked on in Committee—the timetable that you are now on to require the audit to be done under this timetable. We should not have had to do it. It should have been done long before. But it is good to see you making the progress that you are making.

I think the written testimony is very helpful. You, Mr. Norquist, talked about the scope of this audit, and it is a beginning audit. It is going to find a lot of things wrong, and it is not as broad as subsequent audits may be. But the 24 audits and then the single sort of consolidated audit, they are all underway right now.

I would encourage—you did not do this in your verbal testimony, it would have been hard, but I would encourage colleagues to look at the chart on page 6 of Mr. Norquist's testimony which sets out the timeline of what is to be expected here over the next few months.

There was one item on the timeline that I did not understand, and I am sure it has probably got a simple explanation, but it is forthcoming. On Page 6, "March 2018, Submit NDAA Ranking Report to Congress." Obviously, on Armed Services we are working on the NDAA right now, so I am assuming it is some report that is coming out of the audit work that could be helpful to us as we are working on—fiscal year 2019 NDAA? Is that what this report is?

Mr. NORQUIST. What the Committee asked us to do was to rank the components by the progress they have made. So of those 24 agencies, 8 of them already have a clean opinion. They went under audit early on and did it, so those would clearly be ranked at the top.

Senator KAINE. I thought it was nine, but it is eight that have——

Mr. NORQUIST. There may be nine total. Then there are some that have modified opinions.

Senator KAINE. Right.

Mr. NORQUIST. Then you have a got a range of them that have been audited for a couple of years, but do not have a clean opinion yet. And then the largest, Army, Navy, and Air Force, this is the year they start. So what we have been asked to do by the Committee is to rank progress, and we will do that every year so you can start to see—and the idea that the Chairman mentioned, an easy-to-see format, who is making the most progress on closing those open findings.

Senator KAINE. And I think that is very, very important. This will be really the first NDAA where we will be able to take in this audit work that is being done functionally and really use them as part of the NDAA that we write, and that will be enormously helpful.

The one point of disagreement I had with my colleague Senator Corker is when he quickly said, "I do not care about Congress. I want to ask about the Pentagon." My sense is we are not here because Congress has not insisted on it. And we have not insisted on it with the Pentagon. You know, the Pentagon every year, under Presidents of both parties, will submit a budget request, and Congress will give them more than they ask for. And I think it is sort of the same phenomenon here. We have insisted upon it with others, but not until the NDAA really put it on the calendar in 2014, which was 24 years after the 1990 act, have we started to insist on it. And I think that is obviously important that we continue to insist, and I think you are hearing a bipartisan agreement around the table that we should.

Just quickly, to conclude—but, again, I think that timeline is very helpful. Your conclusion is important. I anticipate the audit process will uncover many places where our controls or processes are broken. I think that is true. There will be unpleasant surprises. The DLA audit already showed some. Some of these problems may prove frustratingly difficult to fix. I think we have to be prepared for all of that. We are going to get a lot of bad news out of these audits if we do them right.

Mr. NORQUIST. Right.

Senator KAINE. If we do not do them right, maybe it will be nice news. But if we do them right, we are going to get a lot of bad news. But that is important for us to get the bad news so that we can then—you know, your answer to

Senator Kennedy's question, How do you know the fixes will cost $530 million? You do not. You have no idea what the fixes will cost. That is just what is set aside. But there is enormous upside opportunity in here for us. If you spend money on the wrong things, then you may be underfunding the right things. Or you may be, you know, using tax dollars that you should not be using, that should go to some other purpose or to the taxpayer. So this is an important thing.

I do want to close on this. You mentioned it is not just about cost, it is about operations. And if I might, Mr. Chair, just for like 30 seconds, an audit is not going to tell you—an audit is not the same thing as effectiveness. We had a hearing yesterday about air power on the Navy side in the Seapower Subcommittee of Armed Services, and we talked about lessons learned on the F–35. We asked Admiral Grosklags, who is the head of naval air power, "Has it been worth it?" And he said, "Fantastic capacity." But he just groaned. He said, "We should have had it 10 years ago." And we said, "What are the lessons learned?" You know, the cost overrun and delay. And he said part of it was, you know, putting in new technological requirements on the software side of the F–35 has proven very difficult, but the other part is we tried to do something a little creative. Let us build a platform that can be used by the Air Force, Marines, Navy, and Army and take all of their specifications into account. And let us cost-spread by trying to build one that we can sell to NATO allies, too, so there will be interoperability.

But what that ended up doing was create a decision making process that was a complete morass when you are trying to satisfy four service branches and allies as you are in design. It turned it into a decision making nightmare. And so did we get some economies of scale? Maybe. Did we get some interoperability? Yes. But the delay and the cost overrun as a result. The audit will not necessarily answer all of our effectiveness questions, and so we need to have a realistic expectation about what it will show and what it will not show. But it is necessary, and I appreciate it.

Thank you, Mr. Chair.

Chairman ENZI. Thank you.

Senator Perdue.

Senator PERDUE. Thank you, Mr. Chairman. And thank you both for being here.

I echo and support most of what has been discussed today. I am chagrined that it has taken this long to get us to this point. I just have a quick question, Mr. Norquist. How long will it take us to actually get a clean opinion and identify material weaknesses, deficiencies, significant deficiencies, et cetera? When will we get a clean opinion?

Mr. NORQUIST. Senator, I do not know.

Senator PERDUE. What is the range of expectation?

Mr. NORQUIST. So the benchmark I use is the last assignment I had at Department of Homeland Security, it took them 10 years. The numbers of weaknesses came down steadily so you could see the progress, but there were typically one or two at the end that took some time.

Senator PERDUE. But it is your expectation that this year we will have an estimate of the number of material weaknesses, deficiencies, significant deficiencies, et cetera, that the remediation you are talking about could take 10 years. But how long will it take us to determine what work we have to do to remediate?

Mr. NORQUIST. You will know the bulk of that this fall when the auditors finish their first audit, but I would anticipate that, in the second year, they will be able to go deeper and may uncover more things. So I think over the first 2 years we will have seen the vast majority of the findings that they will have.

Senator PERDUE. So I am just a dumb business guy, but the DoD is not that much bigger than our largest public corporations. I just cannot imagine Walmart calling the SEC or the IRS and saying, "I am sorry. The quarterly statements are not going to be in this quarter." Ten years is outrageous. That is too long. We have got to find a way to close that down. There is no public corporation in the world that would be allowed by this Federal Government 10 years to remediate. It is just not—it would not happen. It is not necessary. And I want us to address that in a future conversation, Mr. Chairman.

The second thing is I want to talk about Congress. There is one very easy reason to explain why it has taken 28 years. Congress did not do its job. It passed a law and then did not do anything to enforce it. And all the excuses that were used, from systems inadequacies to no chart of accounts, were just unacceptable and should never have been accepted. But that is water under the bridge. I want to talk about going forward.

What have we learned—Senator Whitehouse talks about $1.7 trillion being spent. The reality is in the last decade, about a third, just a little less than a third of what we have spent as a Federal Government has been borrowed money. That means in the next 10 years the current forecast, if we continue to add debt the way we have added it the last 10 years and the way the current budget says we will over the next decade, about a third of what we spend will be borrowed. That, by definition,—if the first dollar goes to mandatory expenses, which it does, that means that every dollar that we spend in discretionary spending—that is DoD, VA, and about $350 billion of total other discretionary domestic spending—is all borrowed money. That means that every dime we spend at the DoD, we have to go to China and borrow.

So we have these situations around the world, these bilateral agreements, like Taiwan, to defend Taiwan against China, we have to go to China and borrow the money to go to Taiwan and do that. This is how serious this is and home time-sensitive.

My question is: When we talk about procurement—and a lot of these contracting relationships are dealing with procurement—I believe that the procurement process and the CR impact, the CR reality of a broken budget process, adds to that. When you do these audits, are you going to measure the impact of continuing resolutions on the procurement process and the billion dollars of waste that are found there or are to be found there?

Mr. NORQUIST. So the audit itself does not directly do that, but what it allows us to do, because of the type of information we get out of the audit, is to drill down into exactly those types of questions, because you will have the transaction level data that will let you look at the effect. And when you——

Senator PERDUE. Right, I get that. So as I understand it, there is no common chart of account, so that will take a while to develop that as well, and even the system inadequacies that do not allow different parts of the DoD to talk to you is a hindrance. I get that, and that is part of the delay.

We want to know, if you run into those problems or obstacles, we need to know those on the front end.

Mr. NORQUIST. Absolutely.

Senator PERDUE. Because 10 years is just too long to get there.

I want to talk about the sequester and also the fundamental measurement of the effect of not having a capital budget. We do not have a capital budget, Mr. Gibson. I know you answered the question earlier about normal operation procurement. I get that, ongoing replenishment of ammunition and supplies, et cetera, et cetera. But in these big-ticket—we are going to spend $26 billion a year for 10 years to basically recap just the Navy. That is the current estimate. And my concern is, if that $26 billion then goes to 4X or 5X like the past decade did, we are talking about numbers that are unattainable. And so my concern is: Are we in this audit looking at the procurement process and finding the inadequacies in there to recommend changes in the way Congress deals with funding of the Department of Defense? There is no capital budget; therefore, we do it on a cash-flow basis, which nobody else in the world does. And that adds billions and billions and billions of dollars to our procurement process, over and above overdesign and design creep. Those are all real. No question about it, and we have talked about that. But the one thing that I think as a business guy looking at this, I think the bigger contribution is to say we do not deal with this in the capital budget format and the limitations we put on the funding from the Federal Government create this tremendous opportunity to waste money on the procurement process.

Would you respond to that, Mr. Norquist?

Mr. NORQUIST. Sure. Senator, the way the information is currently stored, you do not have what you need for a capital budget. But when you look at what the audit standards require, valuing your assets, depreciating and so forth, that gives you the basis, and so one of the questions for Congress becomes: When you have that type of information, do you want to change the way that you manage the funds? But you would not have that to do today, but over the audit you will buildup exactly that type of information.

Chairman ENZI. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. And welcome to both witnesses. And I want to associate myself with a lot of the comments that have been made by my colleagues.

My question relates to the overseas contingency operations account, OCO. As you know, we have funding in the base defense budget for ongoing operations, which we expect to go on, you know, for the indefinite future. And then we have the overseas contingency operations account, OCO.

There has been great concern on a bipartisan basis that OCO over the years has been used as a slush fund because OCO has not been subject to the budget caps that have been placed on both defense spending and nondefense spending. In fact, when I was in the House of Representatives, I teamed up with Mick Mulvaney, a conservative Member of the House, now the Director of OMB, and we put language into the 2016 defense authorization bill asking the Defense Department to adopt OMB standards at that time for what constitutes OCO funding and what is overseas funding.

Since then, in January 2017, GAO issued a report recommending that the Department of Defense work with OMB to develop criteria. And since then, in 2018, in fact, in the defense authorization bill we passed, the Congress instructed the Department of Defense to develop these criteria by September of this year.

Are you on target for providing those criteria to the Congress?

Mr. NORQUIST. We have developed criteria that we have worked with at OMB to go through the OCO. Consistent with your previous discussions with Director Mulvaney, you will not be surprised to know that in the out-years he would like us to shift those categories so even fewer of them count as OCO and more of it is in base, and only the most incremental of the costs show up, which would dramatically reduce the size of the OCO. But, yes, we have worked with OMB on those criteria.

Senator VAN HOLLEN. Great. And once you develop those criteria, would you have any objection to the Congress codifying those criteria so that we can avoid any sort of monkey business in slush funds in the future?

Mr. NORQUIST. I would have to defer to OMB on the effect of trying to turn that into legislation.

Senator VAN HOLLEN. Okay. Let me just talk a little bit about the whole overseas funding effort, because we all wake up to tweets these days from the President of the United States, and a few weeks ago he tweeted this: "This will be a big week for infrastructure. After so stupidly spending $7 trillion in the Middle East, it is now time to start investing in OUR Country!" That was the President's tweet.

Are you aware of how much the Trump budget calls for in overseas contingency account spending for the next 10 years, both on the defense side and the smaller portion of the State Department?

Mr. NORQUIST. I am familiar with the defense numbers. They are around $71 billion in, I think, the 2018. Then there is a similar number in 2019. And then they shift to move the sustainable costs, the things that are really not incremental, into the base. And then I think it sits at about $20 billion a year for the next 5 years after that.

Senator VAN HOLLEN. All right. So——

Mr. NORQUIST. Those are place holders, of course, because you do not know where the conflict is headed.

Senator VAN HOLLEN. Right. So a certain amount of that spending, as I read the budget, based on strategy over the next coming years——

Mr. NORQUIST. Correct.

Senator VAN HOLLEN. I hope someone will point out to the President of the United States that when I add it up, it comes to $447 billion over those 10 years, which is more than twice as much as he asked for in his infrastructure plan. He asked for $200 billion a year for our country's infrastructure, as he put it. He is asking twice as much for what he referred to in the tweet as "stupid" overseas operations. I hope someone will bring that to the attention of the President next time he decides to tweet.

Let me ask you about the out-years, because you have, as you indicated, the OCO funded at $66 billion through fiscal year 2022, I believe—fiscal year 2022, 2023. And then after that, as I see it, it goes to $20 billion a year——excuse me, $10 billion per year after that. As you say, it is a place holder.

Is there any basis for choosing $10 billion? As Senator Corker said, these numbers quickly add up over time, much more than anticipated. You are dropping it from $66 billion in fiscal year 2023 to $10 billion in fiscal year 2024. Over a 10-year budget window, that is a savings of $560 billion, right, if we drop back? My question is: What is the criteria you used to come up with the $10 billion as you look forward and mention, you know, the Strategic Plan with respect to China, Russia, and the other threats that may be out there?

Mr. NORQUIST. So our budget looks out through 2023 and is based off more or less a static projection. So we will adjust as the combatant commanders' requirements change on what is required for those. I believe beyond the 5-year window is an OMB estimate based on where they think its direction is heading.

Just to clarify, on the original submission we built for the budget, the expectation was around 65 going out. That is the next 5 years is the number OMB wants to shift more to base and only leave 20 in OCO so there is less of it that is in that contingency fund.

Senator VAN HOLLEN. Right. No, I think that is a good idea to put more in base if it is really base money. The net effect of that is to obviously reduce the overseas contingency—again, I just wondered if there was any strategic basis for that big drop, so we will follow-up with you.

Thank you, Mr. Chairman.

Chairman ENZI. Senator Cotton.

Senator COTTON. Thank you, Mr. Chairman.

Thank you, gentlemen, for your appearance here today. A lot of the questions and answers today have focused on the past and what has happened in the past and why we are where we are today in 2018 without an audit. Both of you are relatively new to your positions, and we appreciate your commitment to completing that audit, so let us look forward.

Can you tell us, Mr. Norquist, in just the simplest, briefest terms, what do you hope to accomplish with the completion of this audit?

Mr. NORQUIST. I hope to accomplish three things:

The first is to be able to put more relevant and timely information in front of senior decision makers so that when they are trying to make decisions about the organization, they have relevant data.

The second is to provide insights to the reform efforts where we discover broken processes or things where we can save money by changing the way we operate.

And the third is to be able to make great user of data analytics because we will be able to rely on the underlying data. And there is, of course, the underlying transparency requirement to the American people and Congress.

Senator COTTON. Mr. Gibson.

Mr. GIBSON. Senator, I find the audit incredibly beneficial to what we are working. As Mr. Norquist said, the data is incredibly valuable. We are looking at putting in cost analysis tools so that once you have the good data, whatever the user and the operator is can have good cost assessments so they can then place assets where they need to be and manage those that do not fit within the zone.

The second is the systems themselves. What we find is that often contributing to some of the weaknesses are poor systems. This fits right into one of our significant areas of reform, which is IT. I think we can contribute there, and, again, that contributes overall to good business processes.

And last is the ability through this process to discover areas that the weaknesses translate into truly discovery of good information. Already we have had discussions about how the spares are managed in the Navy. You look at ammunition in the Army. Just two good examples of once we have better clarity there, we can then better manage each of those, both from a financial standpoint but then those directly contribute to readiness.

Senator COTTON. So the final point of your answer there, is that what it means to a private who is out on the front lines today in Afghanistan or Iraq, that he is going to have maybe a little more training, maybe a little faster access to parts or ammunition, what have you? Mr. Gibson. I think the answer is definitely yes. All of this contributes really to the Secretary's first priority, which is lethality.

Senator COTTON. Okay. And, Mr. Norquist, you were nodding your head in vigorous agreement, for the record.

Mr. NORQUIST. Absolutely. Yes, you order a spare part, you know it is in inventory, you know when you are going to get it. You are able to keep your maintenance up when you need to and be ready.

Senator COTTON. What do we think is the potential magnitude of the savings that this could ultimately yield for the Department?

Mr. NORQUIST. I think you will see savings in three types, and for the middle section I will defer to Mr. Gibson.

In the financial side, when we automate things that are currently manual, you streamline the accuracy, you reduce the cost. Those will not be enormous numbers, but they will be valuable and sustained numbers. There will be efforts that will drive reform. And then I think the third one, which is an unknown, understated value of the audit, is Congress passed a law on information security standards. The auditors check those. They do cybersecurity testing of each of our business systems. When they find weaknesses, that is not a dollar saving, but it is enormous cost avoidance if somebody is not able to break into your payroll system, your logistics system, and others. And I think there is an upside. But let me defer to Mr. Gibson on the reform.

Senator COTTON. Before we go to Mr. Gibson, let me just put two numbers on the table.

Mr. NORQUIST. Sure.

Senator COTTON. The 2019 budget request suggested that internal business reforms could save a little over $6 billion. A 2015 Defense Business Board report, which essentially said if you ran the Department like a business—and that would mean eliminating virtually all of the civil service work rules, which I do not think many members of this Committee or this Congress would support. But if you eliminated all those legal requirements, you would save about $25 billion a year. So I will put those numbers on the table and, Mr. Gibson, turn to you. You can follow-up on what Mr. Norquist said. But I also would like to get a sense, could the results of this audit yield savings of that magnitude, or larger, $6 billion according to the Department's request, $25 billion according to the 2015 Defense Business Board?

Mr. GIBSON. Well, Senator, let me attack a couple pieces of those separately.

One, I think we have laid in $6 billion, and then OMB has laid $46 billion across the FYDP. We are very comfortable that we will meet or exceed those numbers. And then directly, as to the audit, the audit is, as I mentioned earlier, a great tool to help us get there, but it is in addition to other reform initiatives.

And then, last, on the DBB, I can tell you I fully embrace what they have suggested. We actually took some of the specifics there where they said focus on what is known shared services areas, put teams in place, and go after that. We have done just that. We actually added three additional areas to what they suggested.

And then the last part of that, I think that while we go after shared and common corporate type services, we always have to remember our main mission is the lethality of who we are. We also have to incorporate the fact of security of what we do, and that impacts inventories and supply chain and logistics. And then, last, very simply, we are in a more regulated environment than the private sector. But it should not be lost that the spirit of what that report did we fully embrace, and I think it has great value to us.

Senator COTTON. Thank you for those answers. Six billion dollars in a year, $46 billion over the 5-year defense plan would be great. I just have to point out that we just increased the defense budget by $85 billion, though, in 1 year, and that is the result of 7 years of living under the deeply flawed Budget Control Act. So I admire you for taking on a very, very big task, but it is really Congress' responsibility here to fix this problem.

Chairman ENZI. Senator Wyden.

Senator WYDEN. Thank you, Mr. Chairman.

Let me ask you a question, if I could, Commissioner Norquist. This issue of auditing the Pentagon is the longest running battle since the Trojan War. It has gone on and on, and it comes now in the context, as Senator Cotton made, you know, $85 billion more for the Pentagon, and we have got a budget that is going to cut Medicare and Medicaid. So you have to put this in that perspective as you face these issues.

When I was reviewing your testimony, one sentence really leaped out at me. You said in your testimony that it is going to take time—your words—to move from qualified audits to clean audits. So I would like to know, are you telling the American people with that statement that maybe it is going to take another 20 years to move from failed audits to clean audits? How would you explain this to the American people? How long is this going to take?

Mr. NORQUIST. Not knowing the findings, I do not know how long it is going to take. I can give you some——

Senator WYDEN. How about an estimate? The public at least deserves some kind of estimate.

Mr. NORQUIST. So the only benchmark I can use is Homeland Security took 10 years, and part of the reason that makes this a bit of a challenge is when you think about the money the auditors are talking about, they are not talking just about the money Congress appropriated in 2017. The procurement money that Congress awarded 8 years ago was available for the first 3 years to obligate and 5 years to disburse. The auditors are welcome to pick any transaction going back over those 8 years and ask us to document and support those transactions. So when you look at old military equipment, the ability to provide valuation in historical records, my concern as the CFO is there are some of these choices that I do not know that the information that we will get is worth the expense I would spend, and so I would want to come back to you and say this piece of equipment is going to go out of inventory in 3 years.

Do you want me to spend a lot of time valuing or, or do you just want to let it roll out of our inventory, its materiality is going to decline?

Senator WYDEN. At my town hall meetings this weekend, when people are going to ask about waste and compare, as I have done, various items in the budget, I think based on your answer I have to tell Oregonians that it is going to take more than 10 years, based on the fact that you compared it to something else, to move from failed audits to clean audits. Is that correct? That is a yes or no answer.

Mr. NORQUIST. To get all the way to the clean opinion, which requires fixing virtually everything, that may well be true. But the benefit of the audit we will start to get right away.

Senator WYDEN. I am going to take that as a yes, that it is going to take more than 10 years to get to a clean audit. And I would really like just a yes or no answer, because the public, it seems to me, deserves that at this point.

Mr. NORQUIST. Absolutely, Senator.

Senator WYDEN. Is that right, over 10 years?

Mr. NORQUIST. Yes, Senator.

Senator WYDEN. Okay. Let me ask you one other issue. We have had several policy analysts over the years tell us that they do not think the auditors are going to uncover new inefficiencies of a great magnitude. Now, what is striking about that is if an analyst says they are not going to find many things that are that inefficient, why is it going to take, by virtue of your last answer to me, more than 10 years to get a clean audit? I am kind of trying to reconcile these two. So do you agree that not very many inefficiencies are going to be found?

Mr. NORQUIST. Again, we have not had the results of this first audit.

Senator WYDEN. But what is your opinion now based on the fact you have worked in this field for quite some time? What is your opinion today?

Mr. NORQUIST. That you will find places for savings, that you will find things that you can automate to improve the accuracy of the data, that you will find chances to improve inventory that will save you money.

Senator WYDEN. A lot of inefficiencies or a small number?

Mr. NORQUIST. I would not have a way of saying at this point, Senator.

Senator WYDEN. I am going to hold the record open because I would like your best estimate on that, because obviously that goes to the question of again trying to explain to people why this is taking so long. Everybody else in Government gets audited. Businesses get audited. It really is the longest running battle since the Trojan War.

And, by the way, I want it understood, you are walking into this. This is not your doing.

Mr. NORQUIST. Right.

Senator WYDEN. But you are going to be the point person on this, and that is why I have asked, I think, a little bit more pointed questions, because the public's frustration on this point is enormous.

Thank you, Mr. Chairman.

Chairman ENZI. Senator Boozman.

Senator BOOZMAN. Thank you, Mr. Chairman. And thank you all for being here. We do appreciate you all taking this on. This is a huge task. It is so, so very important. I appreciate the emphasis on the business practice reform approach that you are taking, and certainly your work on the audit is going to be so, so vitally important, the key enabler to ensure discipline metrics that we need to enact reform. And I appreciated the three things that you are going to get done.

On the other hand, you know, you are going to hold people accountable, and I know our Chairman and Ranking Member very, very well, and I think I can speak for them and the Committee that we are going to hold you accountable in the sense that you have taken this on. It is a huge deal.

As you have heard from the Committee, there is a lot of frustration in this area. There is a lot of frustration not only in this Committee but throughout Congress. And so we are going to get this done in a timely fashion.

Now, the services had an audit, and I do not think they have been completed for various reasons or whatever. But the auditors got in there and made a lot of recommendations, hundreds of recommendations. What have you learned from the service audits, Air Force, Army, whatever, Navy? Was there anything to be gleaned there that you can use?

Mr. NORQUIST. Yes, Senator, there were a couple of things. One of the overarching findings was that there is often a gap between what management believes is being done based on the policies that were issued, expecting that those policies are being followed. Then you go into the field and you discover either the field is not or cannot operate according to those. That information gap the audit closes and allows you to recognize either we have got to change the policy or we have got to change the way we operate. And so that is a valuable tool that lets you bring better controls in.

There are some places we have seen where the——

Senator BOOZMAN. So are we able to go ahead, you know, and follow-up on that right now? Are we starting already?

Or do we have to wait for a timeline to——

Mr. NORQUIST. No, this is the point I wanted to try and follow-up with the Senator, which is we will get those findings each year. We will start the corrective action plans right away. What we need to do is prioritize those. There will be some things where the benefit to the taxpayer and the American people is quite high; you want to get to those sooner. There are the other ones where it is an accounting entry. I know it is important from an accounting point of view, but it will not save money, and you want to be cautious about how much effort and money you spend trying to achieve that goal. And so we will want to strike that balance.

Senator BOOZMAN. Okay. So go ahead. I interrupted you. Are there other things that you learned that——

Mr. NORQUIST. So inventory records and making sure the accuracy of those. I think, you know, the Army found Black Hawk helicopters that had been delivered but had not been yet loaded in their property system. The person there may have known it, but if the Army did a search, it would not have shown up in the property. Air Force looked at 12 facilities and found approximately, I think it was, 400 buildings and structures. Again, the people in the building knew they were there, but if you did a look at how much do I need to do to do maintenance on my buildings, you would not have had that in the data call. So those types of issues and some of the inventory issues showed up at DLA. The accuracy of that effects a better operation and it enables reform.

Senator BOOZMAN. Good. Mr. Gibson, the fiscal year 2019 defense budget submission indicates an expectation of saving $2.9 billion from ongoing reforms, including reforms in health care management. Can you give us some examples? Can you talk a little bit about health care management and some of the ways—I mean, that is such a huge issue for not only the Department of Defense but for the country in general. Do you have any ideas about efficiencies or savings in that regard?

Mr. GIBSON. Yes, Senator, we are looking at this in two ways. There is the larger—I believe it is driven by the 702 requirement to look at health care. We have taken the opportunity to step back and work with the services and with DHA to say what is the optimal way to truly organize the relationships. The services are responsible for providing a ready medical force, and the DHA provides the facilities and support to get there. That is the easy part.

The hard part is defining the roles and responsibilities and how we would roll that out. But we are in the middle of that right now. The goal is to end up truly with the services having the ability to provide a ready medical force in the most efficient and effective manner and be able to support the rest of the medical system also using the private sector and Government resources.

Another way we are attacking this, sir, is we have a health care team, and that cross-functional team then looks at specific projects which are enterprise-wide. It could be management of pharmacy services. It could be reimbursement from third parties. Frankly, it could be common buying of professional services. And those we know are relevant across the enterprise. We are looking at those and implementing those immediately to effect savings.

Senator BOOZMAN. Good. Thank you very much. And we do appreciate you and your teams for their hard work.

Thank you, Mr. Chairman and Senator Sanders, for holding a very, very important hearing.

Chairman ENZI. Thank you.

I think Senator Sanders and I have some additional questions. Senator Sanders?

Senator SANDERS. Thank you, Mr. Chairman.

Mr. Chairman, I kind of thinking that the elephant in the room here is the relationship of the DoD to defense contractors. I think that is the area that needs most research. And in that regard, I want to touch on three subjects.

Number one, I want to get back to this issue of CEOs' salaries. Two out of the top four defense contractors have CEOs that make at least $20 million a year, despite the fact that over 90 percent of their revenue comes from the Federal Government. Okay? I worked hard and successfully with others to make sure that workers who work with Federal contractors get at least a minimum wage above $7.25 an hour. We brought it all the way to a bit $10.10 an hour. But we said if you are working for a contractor who is being paid by the Federal Government, you should not get a starvation wage.

I would like a report from you as to what you can do to say to CEOs of defense contractors that it does not make a lot of sense that they are making now 100 times more than the Secretary of Defense.

Now, I am aware that $20 million is a small part of these multi-billion-dollar contracts. But I do think it sends a message. If a corporation gets the overwhelming percentage of its revenue from the Federal Government and gives its CEO a large salary, it tells me they are going to do a lot of other things to ignore the needs of taxpayers. I would like you to get back to me with some ideas as to how you can negotiate with these large defense contractors and tell them that they should not be paying their CEO 100 times more than the Secretary of Defense gets. That is number one.

Number two, that leads me to the issue of defense contractor fraud. Since 1995, Lockheed Martin has paid over $767 million in fines or related settlements for 85 instances of fraud or misconduct, and since the year 2000, Lockheed Martin has taken in more than $550 billion in Federal contracts. Some of the fraud and misconduct that Lockheed Martin has engaged in over the past two decades includes unfair business practices, contractor kickbacks, defective pricing, emissions and groundwater cleanup violations, nuclear safety violations, Federal election law violations, procurement fraud, and the list goes on.

In 2007, Lockheed agreed to repay the Federal Government $265 million for overbilling on the F–35 program. And Lockheed Martin, I should not just point them out. They are one of many. What are we going to do after giving CEOs of these defense companies huge salaries, tell them that they cannot continue to rip off the American people? What strategy do you have to prevent future fraud? Is this an issue that we should be concerned about? It seems to me we should.

Mr. GIBSON. Well, Senator, I think waste, fraud, and abuse is always something that should be front and center. It is my understanding in the acquisition process we have a number of policies that must be followed, and there are checks and balances along the way.

It is my understanding Ms. Lord is focusing on this not only with specific contractors but across the Department.

Senator SANDERS. Mr. Gibson, would it be fair to say that we have not been terribly successful up to this point, that virtually every major defense contractor has had to reach settlements or has been fined for fraudulent activities?

Mr. GIBSON. Well, Senator, I really do not have anything to base an answer on, whether it is success or failure. I think——

Senator SANDERS. Are you concerned that virtually every major defense contractor——

Mr. GIBSON. Senator, I would say that anytime we have waste, fraud, and abuse, I am concerned.

Senator SANDERS. All right. And can you tell me that this will be a major priority, that if a defense contractor repeatedly engages in fraud—and I have just listed some of what one company did—that maybe they should know that they cannot continue to get away with that with impunity?

Mr. GIBSON. Well, Senator, I know this is a priority of Ms. Lord, and I fully support and am willing to do what we can on our side to help her in achieving this. And I will certainly pass this along, your passion for this issue.

Senator SANDERS. All right. Which takes me to the third issue. We talked about CEO salaries. We talked about fraud. Now I want to talk about cost overruns. Let me read from the GAO's Assessment of Selected Weapon Programs, 2017:

"DoD currently has an acquisition portfolio comprised of 78 programs costing a total of $1.46 trillion. Of this total, roughly $484 billion is due to cost growth above the original procurement estimate; $259 billion of this cost growth occurred after programs had already begun production."According to GAO," many DoD programs fall short of cost, schedule, and performance expectations, meaning DoD pays more than anticipated, can buy less than expected, and in some cases delivers less capability to the warfighter."

We have got a major crisis there. What are we doing about it? Mr. Norquist, cost overruns.

Mr. NORQUIST. So I think one of the challenges that you have with any of those programs is the disruption to the budget. If you are expecting a program to cost a certain amount—I am taking this from the perspective of CFO Comptroller—and it goes up over time, you are disrupting other plans and expectations you had. So we have organizations whose expertise is cost estimating and trying to bring more accurate discipline to the budgeting process so we have the——

Senator SANDERS. No, I do not think——

Mr. NORQUIST. Then you have——

Senator SANDERS. Excuse me. I do not mean to—you know, I do not think that is the major issue. The major issue, if I sign you—if I work out a contract with you, you are going to—I used to be a mayor, so we went out with competitive bidding. We had a contractor come in, and we are going to do the streets of the city of Burlington for $3 million. Then 3 months later, the guy comes in and says, "Well, it is going to be $5 million." We do not say, "Hey, that is fine. It is going to impact our budgeting." We say, "Sorry, that is not going to happen."

What are we doing to deal with these outrageous cost overruns?

Mr. NORQUIST. I was just going to point to the—I was going to break down the type of challenges into three parts.

Senator SANDERS. Okay.

Mr. NORQUIST. So the first one is on the Government side you made a wrong estimate as to what the work was going to cost.

Senator SANDERS. Right.

Mr. NORQUIST. We can fix that, and we have organizations with that expertise to try and do that.

Senator SANDERS. What do you mean, we can fix that? If I tell you I am going to do something for $1 billion and I come back to you a year later and I say it is a billion and a half, what is your response to me?

Mr. NORQUIST. So this is where we have to end up—and, again, we are in the contracting world, which is outside of financial management, so I apologize. The question becomes: What changed? If the answer was on the Government side I changed the requirement, then we think of that as requirements creep, and the answer is——

Senator SANDERS. Yes, Okay.

Mr. NORQUIST [continuing]. Have I started to ask the person to do different things?

Senator SANDERS. Right.

Mr. NORQUIST. And then it is: Was it a necessary requirement change or have we——

Senator SANDERS. What happens if I do—what happens if I have changed my requirement?

Mr. NORQUIST. Well, if it is a firm fixed-price contract, for example, in the level at which I deal with it, the answer is you bid a price, that is what you are going to perform it for.

Senator SANDERS. Has the DoD done that, or have they——

Mr. NORQUIST. We use firm fixed-price contracts, and we hold the vendors—I have to defer to our lead for contracting when she gets to talking about cost-plus and other contracts which are particularly challenged by the type of issue you raise.

Senator SANDERS. Is your argument that most of these cost overruns are the responsibility of the DoD who has changed the nature of the contract?

Mr. NORQUIST. No, but it is one of the contributing factors. And so when you say what can you do about it, you can do better estimates, you can control costs, and then you hold vendors accountable. I think those are sort of the three lanes of how to break the problem down.

Senator SANDERS. All right. And what happens, tell me what we do when somebody says, "Hey, sorry, you are going to have to give me more money for the same contract that I agreed to"?

Mr. NORQUIST. So that is the contracting officer community, and actually I cannot speak to that well. So I would defer to Under Secretary Lord.

Senator SANDERS. Is that an important issue?

Mr. NORQUIST. It is a very important issue, and so in the types of contracts that I deal with in the financial community, which are smaller, you are ending up with it is a firm fixed-price contract; this is what you said you were going to do; that is where we are. So unless it is an issue, an error we made on our side, you are held accountable.

Senator SANDERS. Okay. I apologize, Mr. Chairman, but what I would like to get back from you is your ideas of what we can do about excessive CEO salaries.

Mr. NORQUIST. Yes.

Chairman ENZI. Thank you. I want to thank everybody for their questions. I want to thank you for your testimony.

I do want to note that this is the first time that anybody has made this effort to do this complete audit of the Defense Department, even though it has been a requirement for, I think, 14 years. So congratulations on that.

I appreciated the comments today about needing a capital budget. I think absolutely every department in the Federal Government needs a capital budget. I have kind of a pet peeve on National Parks as I grew up in some of the National Parks. Wyoming has Yellowstone, which was the first National Park. And I was always disconcerted that they were running out of money in August and talking about shutting down the park, which is the main season. So I asked them for their list of expenditures, which they could not give me. But I am pleased that with pressure, after just 20 years, I have a list of not only Yellowstone Park but every single park in the United States, the facilities they have got, the age of them, the cost to do them, the cost of maintenance, and I am hoping we can continue that and get that into every department of the Government and begin to manage what we have. Having an audit is a beginning part of that.

I am also pushing for biennial budgeting. I think that every agency could spend their money more effectively if they knew in advance—that means before October 1st or whatever date gets set for the beginning of the fiscal year——how much money they had to spend over the next 2 years. And I think there is substantial savings just in not trying to spend up that last amount of money in the last portion of each year. And I am hopeful that if we break it down so that we only cover half of the appropriations each year but for a 2-year period, we can get a lot more scrutiny into what we are actually buying, as well as having the people be able to spend things more effectively.

Now, you gave some examples about the improved financial management in terms of costs to Senator Boozman, and I appreciate that. Senator Wyden asked some questions about when this process would have a clean audit. Of course, we are hoping for a clean audit much before 10 years, but the public's understanding of a clean audit I think is a little bit misleading. What we are talking about is getting improvement to the point of perfection, and typically nobody gets to perfection. If they do, then our auditors maybe are not doing their job. There is always something that ought to be reviewed, and every business, including the military, has to keep reinventing itself and are because of changing conditions around the world. And that requires doing things differently, and when you start doing things differently, the audit is going to turn up some different things that maybe should not have happened, but that are correctable. And unless we do these audits—which the purpose of them is not to play "gotcha" with the Department. That is not what is supposed to be done with it. What it is supposed to do is reduce errors as much as possible and come up with better business plans so that the objectives for, you know, what we are funding actually get accomplished.

I am the Chairman of the Budget Committee, and I am just floored by how much money it is that we spend. I really have no concept for trillions. I am still having trouble with billions, and I thought I had finally mastered millions, but I am not sure about that yet either. But we spend trillions, and that is so much money that there is not any business in America or in the world that handles that kind of dollars, especially every year.

So our challenges are before us, and this is kind of a first step, and I want to congratulate you for taking the effort. And I want to thank the Committee for the interest that they have had in what you are doing. And I also want to again thank you for the promptness of your response to my questions.

Now, the hearing record will stay open so that anybody that wants to submit some additional questions can until close of business tomorrow, and hopefully we will get a quick response from you on those as well.

So thank you very much. This hearing is adjourned.

[Whereupon, at 12:16 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:]

ANSWERS TO THE QUESTIONS FOR THE RECORD FROM: HON. BOOZMAN, GRASSLEY AND VAN HOLLEN

BUDGET COMMITTEE HEARING:

DEPARTMENT OF DEFENSE AUDIT AND BUSINESS OPERATIONS REFORM AT THE PENTAGON

DATE: MARCH 7, 2018; LOCATION: 608 DIRKSEN

TIME 10:33 AM

Boozman

1. Mr. Norquist and Mr. Gibson, you are both well aware of the habit we have developed of appropriating money via Continuing resolution. How do CRs impact your ability to account for the funding we provide to the Department? Does it complicate the process of undergoing an audit?

Operating under continuing resolutions (CRs) for extended periods of time complicates the execution of the Department's plan as the CR legislation limits funding to a daily rate of operation and prohibits starting new programs to include construction projects or increasing the rate of production for weapon systems. For fiscal year 8, the Department has 176 investment-related new start efforts and 27 procurement rate increases that cannot be pursued under a CR given the restrictions of the legislation. Limiting available funding to a daily rate of operation and last year's funding levels creates inefficiencies in program execution and increased workload for the contracting and the financial communities.

Operating under a Continuing Resolution does not stop the progress of the audit, but it creates a competing demand. Once funding becomes available, the compressed remaining timeline available for obligating funds increases the burden on Defense financial management and acquisition work force.

Both the incremental nature of CR funding and the late appropriations increase the workload on the same work force that is working to support the audit and address findings.

2. Mr. Gibson or Mr. Norquist, this audit will be a billion plus effort. Do you anticipate needing new or additional business IT systems to support the ongoing audit efforts? If so, have you already planned for those needs?

We anticipate that we will get many findings around both our Enterprise Resource Planning (ERP) financial and legacy systems. These findings may range from implementing simple system change requests to deploying new tools that streamline processes. In some cases, expediting the retirement of legacy systems will be the most cost effective solution. We have planned and estimated the cost of legacy and ERP system fixes that we anticipate will be necessary over the next several years (2018–2022). However, as we are currently undergoing our first comprehensive audit, depending on the magnitude of audit findings, we will have to evaluate and adjust our resource needs accordingly.

3. Mr. Gibson or Mr. Norquist, there has been a lot of discussion about how to provide more funding flexibility to

programs within DoD. What impact would this have on auditability within the Department?

The flexibilities being discussed should not have a direct impact on auditability within the Department as most of these proposals are modifications to authorities already being used by the Department. Such flexibilities include:

- **Changing the obligation limitation on annual accounts during the last 2 months of the fiscal year from 20 percent to 25 percent if Congress does not enact annual appropriations bills by January 1;**
- **Increasing the below threshold reprogramming authority from $15 million to $25 million for the Operation and Maintenance accounts; and**
- **Allowing the Department to carryover a small percentage of its Operation and Maintenance funding into the next fiscal year as is currently allowed for the Defense Health Program**

Some of these flexibilities, however, may have a favorable indirect impact on the audit as they will allow the Military Departments and Agencies to do smarter execution, allow the Department to capture the savings from negotiating better prices that often occurs late in the fiscal year, and relieve some of the stress and backlog in the contracting and the financial communities.

Grassley

1. Please give us a snapshot of audit progress against milestones as of March 1st. Are the milestones being met across-the board? Or are you running into roadblocks? What is the success rate? What is the prognosis?

At this point in the process we are achieving our milestones. The consolidated audit has begun as planned and we have begun responding to auditor requests received from both the DoD Office of Inspector General and the Independent Public Accounting (IPA) firms. With the leadership support of the Secretary and the Deputy Secretary, we are receiving the support needed from stakeholders outside the financial management community. We are working with these communities to respond to audit requests.

The next major milestone will occur as we begin receiving audit findings later this year. The auditors will be inputting their findings into our tracking tool, and we will review the status of service corrective action plans. We will use this tool to assign priorities and responsibilities and track progress. Senior leaders will be held accountable using the audit results and their progress addressing findings. Going forward, we will measure and report progress toward achieving a positive audit opinion using the number of audit findings resolved.

2. Is it possible that the DoD accounting systems were designed to be un-auditable, or did Mr. Harrison (Todd Harrison, Center for Strategic and International Studies) simply make an inaccurate statement? If Mr. Harrison's assertion is inaccurate, then explain why DoD seems incapable of

fixing its ailing accounting systems after so many years and billions of dollars?

Mr. Harrison's comment is accurate in the sense that our legacy systems were not developed with audit in mind; rather, our legacy systems were developed to support DoD operations. As a result, we are focusing on retiring legacy systems and ensuring our target environment is auditable and compliant with Federal system requirements.

As the Department invests in new business systems, we will be able to obtain independent auditor feedback on the system's compliance so we can better hold vendors accountable for their solutions. As the auditors report findings and share recommendations based on industry best practice, DoD will use that feedback to help ensure any system issues are identified early on and corrected before/ as systems are fully deployed—helping minimize rework and avoiding wasteful spending.

Van Hollen

1. In the president's budget, proposed spending on overseas contingency operations (OCO) for defense falls from $20 billion in fiscal year to $10 billion from fiscal year to fiscal year 8. You Stated during the hearing that the Department of Defense budget looks out until fiscal year 3, and the OCO funding levels that begin in fiscal year come from the Office of Management and Budget (OMB). You Stated that OMB based its estimate on the direction it anticipated for OCO spending over the long term.

Given the sharp decline in proposed OCO funding after fiscal year 3, please explain how $10 billion was chosen as a placeholder starting in fiscal year 4, instead of a larger number more consistent with President Trump's national defense strategy. What input, if any, did the Department of Defense provide 0MB to substantiate this $10 billion per year estimate?

You are correct that the Department's Future Years Defense Program (FYDP) only looks out until 2023. Numbers beyond that point are provided by OMB.

While the OCO placeholder amounts do not reflect specific decisions about OCO requirements in any particular year, the estimate that future OCO costs will decline is consistent with the change in emphasis in the National Defense Strategy.

Chuck Grassley

Hearing Statement
Senator Chuck Grassley
Department of Defense Audit and Business Operations Reform at the Pentagon
March 7, 2018
Senate Budget Committee

Chief Financial Officer (CFO) Norquist, on September 12, 2017, I delivered a highly critical speech on your decision to begin full financial audits. I didn't think you were ready. Since then, I did some homework. I feel more confident. Your plan has possibilities.

It is based, in part, on your success story at the Department of Homeland Security. You led that agency out of the same hole you now find yourself in at the Pentagon.

Your plan deserves the test of time. Later this year, we'll know whether you are on the right track and go from there.

There are two big caveats that shake my confidence, leaving me with a healthy dose of skepticism.

First, success will depend on aggressive oversight of progress on short-term audit milestones.

You will need a tiger team to watch those milestones like a hawk on a day-to-day basis. They will need to crack the whip on the military services. And the services don't take kindly to orders from civilians in Office of the Secretary of Defense – especially on auditing.

Holding officials accountable for meeting those milestones is the key, as you say. And if you don't hold their feet to the fire, your plan will fail like all the others.

My second caveat is about what I call the wall.

The wall is an old foe. I am counting on you to conquer it.

What I am talking about is the un-fixable accounting system. It's alive and well and still blocking the way to clean opinions.

How is it that nearly three decades of auditing and fixing have failed to produce a reliable accounting system?

Billions of dollars have been shoveled into that hopper with little or nothing to show for it.

The mighty Pentagon can develop the most advanced weapons in the world but can't acquire something as simple as a workable accounting system. Why?

Comptroller General Gene Dodaro, the government's preeminent authority on accounting, has shed some light on what's wrong.

He says:

The ten billion dollars the Defense Department (DoD) invests annually in accounting system modernization have "not yielded better systems." So the "underlying problem" never gets fixed.

Continuing to make investments that don't produce better systems suggests incompetence.

A recent Bloomberg Government News report offers a different perspective.

It claims these systems may have been designed to fail from the get-go. That possibility squares with my worst suspicions.

An "expert" at the Center for Strategic and International Studies, Mr. Todd Harrison, makes this astonishing statement:

"The costs [of the audits] are particularly high for DoD because it did not design its books and accounting systems to be auditable in the beginning. So it is a heavy lift to make it auditable for the first time."

If "in the beginning" refers to the Revolutionary War, that I understand. However, what counts is the audit readiness clock set by the CFO Act. It's been ticking since 1990. Those systems were supposed to be audited "for the first time" years ago.

Given DoD's primary mission, foot dragging in the Pentagon on auditing can be expected, but Mr. Harrison has upped the ante.

To address these concerns, Mr. Chairman, we should ask the Inspector General or the Government Accountability Office to conduct an independent review.

From the passage of the CFO Act until today, the mighty DoD has been unable to fix its ailing accounting systems. Why?

Modern accounting systems are readily available. DoD should have acquired one long ago. Twenty-eight years and counting is just not believable. It surpasses understanding

Has DoD been investing in the wrong systems? If so, why?

Has anyone been held accountable for wasting so much time and money?

Is Mr. Norquist throwing more money at those same old systems, or is he seeking new technology that may be more readily available and better suited to DoD's needs?

First, an independent review might help us understand how we got stuck into the rut where we are today.

Second, it should determine whether Mr. Norquist's plan will get us out of that rut and put us on a fast track to a workable accounting system. I want assurance that he is not about to repeat past mistakes. I want assurance he is leading us down the right path. I want assurance that his plan will lead to clean opinions SOON.

In closing, I would like to assure you, Mr. Norquist, that if you ever need help moving the audit forward, the Senator from Iowa will back you up – as promised in my hand-written note.

THE ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, MARCH 21, 2018

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, Grassley, Toomey, Johnson, Gardner, Kennedy, Boozman, Cotton, Whitehouse, Merkley, Kaine, Van Hollen, and Harris.

Staff present: Elizabeth McDonnell, Republican Staff Director; and Joshua Smith, Minority Budget Policy Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. I will go ahead and call to order this meeting of the Budget Committee for the purpose of hearing an economic report of the President. Good morning and welcome to the hearing.

I want to thank Chairman Hassett for agreeing to testify today on the Council of Economic Advisers' contribution to the President's report. The Council's analysis of the administration's domestic and international economic policy priorities is particularly relevant as Congress grapples with the challenging fiscal outlook.

To keep our economy moving in the right direction, we need to continue working together on a pro-growth policy. These efforts are helping American workers, small businesses, and families. Most notably the Tax Cuts and Jobs Act we passed last year is producing higher wages, more dollars in workers' paychecks, and increased domestic investment, not to mention a new sense of community.

Returning investment to America is key to continued economic growth. Not only does it create jobs in the short term, but capital formation also raises productivity and exponentially increases the amount workers make. A more productive work force raises the standard of living for all Americans. The results of such growth are better wages, improved profits, and more reinvestment in America's businesses and workers. It invigorates the communities.

In the first few months of 2018, more than 300 companies have announced salary increases, bonuses, and/or higher 401(k) matching, benefiting more than 4.2 million workers. The Council already counted $190 billion in planned corporate investment attributable to the Tax Cuts and Jobs Act. Clearly, this investment will continue to pay dividends for all Americans.

While the tax cuts have jump-started our economic growth, we must continue to make other policy changes that can contribute to the Nation's expansion. We know that regulation and structural unemployment reduce productivity. For this reason, Congress has sought to roll back many of the ineffective regulations issued by the previous administration, and President Trump has set a goal of eliminating two regulations for every new one created. So far it has been 22:1.

Last year's deregulatory actions are estimated to produce $8 billion of savings. That is $8 billion companies can reinvest in America's businesses and workforce. It is an $8 billion boost to productivity carried through our economy, and that is just the beginning. This coming year's effort will be even more effective. As we move forward, it is Congress' responsibility to ensure that we continue to support and advance effective policies to accelerate growth. Important pro-growth legislative proposals include infrastructure investment, health care innovations, and enhanced cybersecurity.

But as we consider new legislation, we cannot forget our Government's continued overspending problem and the crowding-out effect of our massive Federal debt. Accordingly, Government investment in pro-growth policies must produce substantial increases in output.

I appreciate your thorough analysis, Chairman Hassett, on how each of these policies is projected to affect the economy. That will be very useful as Congress debates the merits of such proposals and their effects on our balance sheet.

Congress also must ensure that none of the policies put forward slows or reverses the Nation's economic expansion. For example, a number of members, myself included, have serious concerns about punitive tariffs, especially given the threat of foreign retaliation. We also believe efforts to renegotiate large trade deals must be done with our economy's best interest in mind and with congressional consultation.

I look forward to discussing the positive effects of free and fair trade and how we can create economic growth through trade. My home State of Wyoming exports across the natural resources and agricultural sectors, and access to foreign markets is vital to our economy.

Here in Congress, the Budget Committee is working to set a pro-growth legislative path. Large policy proposals are often integrated into our work in order to accommodate implementation throughout the year. We will begin this discussion with how these policies affect the balance sheet, which is highly dependent on how they support or hinder economic growth.

I look forward today to a discussion on how we can promote the economy, how we can create jobs, and how we can tackle our national debt. Above all, we must continue to invest in our economy and workers in order to address our fiscal issues.

Chairman Hassett, I look forward to hearing your perspectives on proposals to strengthen the Nation's economy.

Senator Sanders has sent word that he will not be here. Senator Van Hollen, would you like to make an opening statement?

OPENING STATEMENT OF SENATOR VAN HOLLEN

Senator VAN HOLLEN. Thank you, Chairman Enzi. I will just make a short statement. I appreciate the opportunity. And, Mr. Hassett, good to see you. Congratulations on your appointment to this position.

I just want to start with one of the comments the Chairman made regarding the deficit and debt. We passed a tax proposal that is estimated to increase our national debt well over $1 trillion, and that is taking the growth numbers into account. Many of us believe it will be far north of that. And the question is: What do we get for it? And I heard the Chairman talk about some of the changes we have seen.

As I look at all the graphs in your report, Mr. Chairman, we are pretty much on a straight-line trajectory from the economic growth we saw during the final 4 years of the Obama Administration, pretty much on a straight-line trajectory when it comes to job growth. In fact, job growth has actually declined a little bit, as your chart shows, as we get closer to what we believe is full employment. But the point is that this administration inherited an economy that was growing. They inherited an economy where jobs were growing. And as I look at the early reviews on the tax cut, what I see primarily is a huge benefit going to big corporations and their stockholders, over $220 billion in stock buybacks just this year, 2018; 35 percent of that stock is owned by foreign stockholders, so a lot of that money is going directly into the pockets of foreign stockholders.

In my State of Maryland, over 350,000 families will actually see a tax increase, including mostly middle-class families, because of the elimination of the ability to take the SALT deduction, the cap on the SALT deduction.

So as I look out at the landscape right now, it appears that, you know, stockholders are doing very well; workers in some instances are getting primarily one-time bonuses. But the amount of cash that is flowing to stockholders is far higher than the investment we are seeing in both workers and new investment, which certainly does not meet with the predictions that we were told about.

So I am looking forward to the conversation, but if you look at the budget that came out of this Committee, it included not only the plan for the tax cuts, but it also included very deep cuts to Medicaid, over $1 trillion over 10 years, and a $473 billion cut to Medicare. So I have got to figure a lot of families who are out there looking at the overall picture are recognizing that at the end of the day they are going to get the short end of the stick, unless they are a big corporation. But I look forward to the conversation.

Thank you, Mr. Chairman, for the opportunity to say a few words.

Chairman ENZI. Thank you, Senator Van Hollen. I think you did an outstanding job of filling in for Senator Sanders. I will now introduce the witness.

Our witness this morning is Kevin Hassett, the Chairman of the Council of Economic Advisers. Chairman Hassett has held his office since September 2017 and is charged with providing objective economic advice to the President during the formation of the administration's domestic and international policy. Prior to his time as the Chairman of the CEA, he was an economist and scholar at the

American Enterprise Institute. Dr. Hassett holds a Ph.D. in economics from the University of Pennsylvania.

For the information of colleagues, Chairman Hassett will take up to 7 minutes for his opening statement, followed by questions.

We look forward to receiving your testimony. Please begin.

STATEMENT OF THE HONORABLE KEVIN HASSETT, CHAIRMAN COUNCIL OF ECONOMIC ADVISERS

Mr. HASSETT. Thank you very much, Chairman Enzi and other members of the Committee, including Senator Van Hollen, for your opening statement. Thank you for coming out on a snowy day. I know that there is a lot of snow expertise on this Committee. I guess the one dark side is that this might forever be known as the "hat hair hearing." But having hat hair is probably better than not having hair at all. I guess I will just have to live with it.

I took over the job as Chairman of the CEA with a really somber responsibility going back to 1946 of building an organization in the White House that provides objective advice to the President. The CEA is about facts and about analysis and providing people with the balance of the read of the literature when we are exploring economic policy issues.

We are also charged in the CEA with the Economic Report of the President—looking at things that maybe people did not appreciate were as big a problem as they have become in the modern economy—and I would like to focus on a few of those in my spoken statement. My written statement, of course, is in the record.

I want to start with cybersecurity, the costly issue that has become more and more crucial to address. In the Economic Report, we find that in 2016 malicious actors inflicted over $100 billion worth of damage to the U.S. economy. This $100 billion estimate that we came up with is pretty conservative, actually, to my mind. Cybersecurity issues have far-reaching effects. Their seriousness merits a great deal of attention from policymakers.

The administration is focused on ways to combat cyber crime and is encouraging public-private cooperation to reduce the risks and costs of such attacks. But I think there is also—we identify in the chapter a market failure that leads private firms, which tend to face risks correlated with one another, to invest less in cybersecurity than would be economically optimal.

Turning to the health chapter, we focus on the cost of health care, the economic implication of persistent public health problems, and drug pricing. We emphasize that several factors affect health and health care costs, such as smoking, obesity, and opioid abuse, which have contributed to the unusual decline of American life expectancy for the second year in a row. I will repeat that: a decline in life expectancy.

Competition and choice could improve health insurance as well as lower American drug prices, without undermining American pharmaceutical innovation. The Federal Government can also pursue policies that lead to other countries paying their fair share for innovations—for example, among OECD countries. Americans pay more than 70 percent of patented biopharmaceutical profits that fund drug innovation. Seventy percent. The administration is focused on policies that would improve health care outcomes that lower health care costs for all Americans.

The report also examines the economic conditions of something I know every member of this Committee cares desperately about: the welfare of the middle class, analyzing the recent history of policies that have helped and hurt them. While the new tax law's wage effects can partially reverse the stagnation of the middle class, we must pay close attention to the policies that contributed to the stagnation. The inflation-adjusted labor income of the typical household at the middle of the income distribution fell below what it was at the start of the 21st century. Compounded by past tax and transfer policies, the median American inflation-adjusted total household income from working took 9 years—9 years—to recover to its pre—recession level after the Great Recession. These policies decreased the incentive to work and worsened labor force participation and wage stagnation. We list a number of them in the Economic Report, including high corporate taxes, undermining the very middle-class households that they were intended to help. Reduced work disincentives and rising wages are bringing people off the sidelines and improving labor force participation now.

I believe that the cyber, health, and middle-class chapters of the 2018 report contain some of the most eye-opening new insights on contemporary economic issues, and I will summarize the rest of the chapters here. Then I look forward to taking your questions.

The tax chapter discusses how the administration has delivered a policy that increases growth now and improves the well-being of Americans in the future. Developed countries have competed to attract business by lowering corporate taxes for years, while ours stayed at a standstill. The Tax Act lowered the corporate tax rate and reformed the Tax Code, improving America's ability to attract businesses that create good jobs for our workers. Our review of the literature and our own modeling finds that the average household could get a $4,000 pay increase from the new law once the law's full effects get absorbed by the macro economy. And already—we are keeping constant, steady track of this—over 4.9 million workers have received wages, bonuses, or improved benefits as of last week because of the tax bill. Companies have already announced investments of over $200 billion, investments like the increased growth in wages.

We also modeled the effects of the individual side of the Tax Code, finding that it could increase GDP by 1.3 to 1.6 percent after 10 years. If made permanent, this will add another $4.7 trillion to $7.4 trillion to the economy over the next decade.

I also want to mention share buybacks. Moneys previously offshore are being sent back to the U.S., so a one-time adjustment of the stock of trillions of dollars of old profits that were locked in foreign subsidiaries. No economist would make the case that the American economy would be better off if these moneys were still locked offshore. Share buybacks today are not mutually exclusive to long-run wage gains that will accompany the capital formation that will come from the lower marginal tax rates.

The deregulation chapter documents the ways in which regulations stifle productivity and prevent the creation of new businesses. The year 2009 marked the first time that more firms died than were born in the United States since the Census Bureau began compiling data in 1978, and recent research shows that fewer younger Americans are becoming entrepreneurs than ever before. It is likely that regulatory zeal slowed both dynamism and overall growth.

To put our overregulation into perspective, the CEA finds that if the U.S. regulatory environment were the same for OECD product market regulation as in Germany, we would increase annual growth by 0.1 percent per year. And so we are not talking about having a terrible environment or anything. We are just talking about moving toward modern standards of regulation. If we deregulate further to the level of the Netherlands—that does not seem like a really terrible idea—we could get growth at twice that rate, 0.2 percent per year, and this is based on peer-reviewed literature. Liberating the economy from the burdens of regulation can unleash economic activity and create jobs.

The infrastructure chapter highlights the inefficiencies of both our existing transportation infrastructure and the red tape that prevents crucial projects from getting started. Improving infrastructure should have wide bipartisan support. Polls find it has the support of 84 percent of Americans, with 76 percent believing it should be funded as the President has suggested: a combination of public funds, bonds, and public-private partnerships. In 2014, total congestion costs peaked at $160 billion, wasting 6.9 billion hours in delays that could have been spent doing jobs.

Finally, the trade chapter discusses the ways in which the administration is seeking to improve America's position. Trade has been beneficial but left some American communities worse off.

I should add we have one more chapter, and I am out of time, and so I am skipping over some of my bullet points.

But the outlook chapter examines the year in review and offers our forecast for the decade ahead. 2017 growth and real gross domestic product exceeded expectations and increased to 2.5 percent, up from 1.8 percent during the four quarters of 2016, and so it is not exactly a flat line.

The unemployment rate has fallen to 4.1 percent, the lowest since 2000. Our baseline forecast is that we will have 2.2 percent growth between now and 2028, but that that will increase to an average of about 3 percent if all of the administration policies are adopted.

With that, I thank you so much for your attention and for inviting me. It is great to be back before this Committee, and thank you again for inviting me. I am looking forward to your questions.

[The prepared statement of Mr. Hassett follows:]

The 2018 Economic Report of the President
Testimony before the Senate Budget Committee
By the Chairman of the Council of Economic Advisers Kevin Hassett
March 21, 2018

Chairman Enzi, Ranking Member Sanders, and Members of the committee, thank you for inviting me to appear before the Committee today. It is a pleasure to discuss the 2018 *Economic Report of the President* and explain the economic rationale behind this Administration's economic priorities. I look forward to explaining how the "dismal science" of economics should make you an optimist about how the U.S. economy is performing now and could perform even better if policies along the lines of those advocated by this Administration were implemented.

Today, appearing before this Committee of the 115th Congress, I intended to focus my testimony around a role assigned to the Council of Economic Advisers by the 79th Congress in the Employment Act of 1946. That role is to "gather timely and authoritative information concerning economic developments and economic trends, both current and prospective."

Perhaps no document better embodies the Council's attempt to fulfill this function than the *Economic Report of the President*. Hundreds of pages, the *Report* analyzes economic issues to which the Administration has developed policy responses – as well as those issues for which the Administration's policies are not yet final. It is for this reason that the *Report* serves as the basis of my testimony today.

The economy in the United States remains in flux. Though we are confident in the rationale behind our policy-inclusive forecast, there is only one forecast that can be said with certainty in economics: the economy of the future will not be the economy of the present. Staring into the future, as an economist, uncertainties abound. The question is whether these uncertainties materialize into opportunities for future Americans, or turn into risks that materialize to the downside and drag down the economy.

You might think of the whole of CEA's *Report* as laying out a framework for navigating some of the uncertainties now on the horizon in such a way as to turn them into tailwinds of opportunity rather than the headwinds of risks materialized to the downside. To understand the whole, however, it helps to understand each of the parts.

Cyber

You don't need much imagination to envision how America's Founders would have responded if America's merchants suffered at the hands of pirates. President Thomas Jefferson initiated one of America's first overseas conflicts, the First Barbary War, in response to the seizure of American merchant ships by pirates in North Africa. In 2016, however, malicious actors inflicted over $100 billion worth of damage to the U.S. economy. Rather than the seas, however, these malicious cyber actors attacked America and its businesses in cyberspace – where America's merchants now face threats from 21st century pirates.

As information technology has increased in its importance to the economy, so have the opportunities for malicious cyber actors to profit through illicit activity – at the expense of American businesses, households, and governments. And CEA's analysis suggests that there is a market failure that leads private firms, which tend to face risks correlated with one another, to invest less in cybersecurity than would be economically optimal.

Cybersecurity matters for the economy now more than it ever has before – and this trend does not seem likely to reverse itself anytime soon. With cybersecurity poised to remain a topic of ongoing conversation here in Washington for some time to come, this Administration is advocating for better cooperation between the public and private sectors to ensure that cybersecurity risks are managed effectively now and in the future.

Taxes

With regard to taxes, I am pleased to say that the *Report*'s chapter on taxes lays out how and why the Administration has already delivered a policy that increases growth now and improves the well-being of Americans in the future as well.

Developed countries have competed to attract business by lowering corporate taxes for years. The 2018 *Report* shows how tax rates have trended downward since the year 2000, even as the corporate rate in the U.S. has stayed the same – until now. This left the U.S. in a position that was, from a tax perspective, increasingly not competitive. By lowering the corporate tax rate and reforming the corporate tax code, the Tax Cuts and Jobs Act (TCJA) has improved America's ability to attract businesses that create good jobs for their workers by competing in the global economy.

Indeed, according to the analysis in the *Report* (which includes analysis CEA staff have performed previously), the corporate dimension of the TCJA could increase annual household income by an average of $4,000.[1] In addition to the wage estimate CEA previously released, the Report's tax chapter includes a new estimate of the effect of the TCJA's changes to the individual tax code on growth. The individual changes, the analysis shows, could increase GDP by 1.3 to 1.6 percent after 10 years.

And if the tax cuts are made permanent, the Report's analysis shows, the resulting increase in GDP stands poised to add another $4.7 trillion to $7.4 trillion to the economy over the next decade.

Already, over 4.9 million workers received raises, bonuses, or improved benefits as of last week, by our calculations. Companies have already announced investments of over $200 billion, investments likely to increase growth and wages. But this is just the beginning of the benefits the TCJA stands poised to deliver: as only months have elapsed since the passage of this historic legislation, the U.S. economy is still in the process of adjusting to its newly competitive tax code. And we can only expect wages to continue to rise and growth to continue its increase as the U.S. economy settles into its new post-TCJA equilibrium. Forecasters continue to recognize the potency of the TCJA as a means to the end of increasing economic growth and improving the American economy in the future. For instance, the OECD recently raised its growth forecast for the U.S. in 2018 by four-tenths of a percentage point and its growth forecast for the U.S. in 2019 by seven-tenths of a percentage point. The TCJA, then, serves as an example for how policies enacted today can improve the economic outlook for the U.S. economy in the future.

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[1] "Corporate Tax Reform and Wages: Theory and Evidence," White House Council of Economic Advisers, October 2017. https://www.whitehouse.gov/sites/whitehouse.gov/files/documents/Tax%20Reform%20and%20Wages.pdf

The Middle Class

The stagnation of the middle-class that the TCJA's wage effects stands poised to partially reverse, however, warrants a multi-pronged policy approach. But the urgency of policies to redress the wrongs inflicted upon the middle-class requires understanding the causes of the middle-class's stagnation in the first place, including the role of government policy itself. As the third chapter in the *Report* lays out in detail, the previous Administration's policies can explain some of the middle-class's stagnation during its tenure.

The inflation-adjusted labor income of the typical household at the middle of the income distribution is still below what it was at the start of the 21st century. And one explanation for this historical slowdown, the Report's analysis shows, is that the Obama Administration's tax and transfer policies worsened the wound through their effect on the labor market. Based on CEA estimations using Census Bureau data, the median American's inflation-adjusted total household income from working took 9 years to recover to its pre-recession level after the Great Recession – the longest this type of recovery has taken since at least 1979.

To be sure, these tax and transfer policies softened the blow of the recession by partially making up for lost income. That was their intended effect. But economics is a science that distinguishes itself by its focus on unintended as well as intended effects. And these same policies had unintended effects: they decreased the incentive to work, contributing to declining labor force participation and thestagnation of wages that reached historic proportions in this recent chapter of American economic history. All in all, then, in spite of the intentions behind them, these policies undermined the well-being of the very middle-class households they were intended to help.

Although much has been written about the retirement of the Baby Boomers as one of the main causes of the reduction in labor force participation, that explanation is only one piece of the puzzle. Demography is not destiny when it comes to economic growth, and the *Report* explains why the Administration believes that reducing work disincentives and rising wages, which we are finally starting to see, will bring people off the sidelines. A combination of policies and economic conditions that return the prime-age (between ages 25 and 54) participation rate to the level in 2007 (still well below the rate apparent in 2000) would return about 1.7 million U.S. workers to the labor force over 10 years and raise the overall participation rate by 0.065 percentage point per year, resulting in a 0.1-percentage-point increase per year in the rate of GDP growth over the next 10 years, according to CEA's estimates.

Related to workforce participation, I would like to add a note about the President's immigration policies, which focus on a merit- or skills-based approach. There has been a discussion about immigration being a headcount exercise. But the economics of human capital tells us that bringing in immigrants who are highly productive and skilled as opposed to those who simply arrive through a family relation and who may have low or no skills shows why a headcount is not the way to think about the impact of immigration on growth. For instance, a predecessor of mine at the Council of Economic Advisers, Edward P. Lazear, has written about the importance of understanding the relationship between the education levels of prospective immigrants and the economic effects their admission could rationally be expected to have.[2] It does not simply boil down to the number of people who arrive on our shores.

[2] Lazear, Edward. "Why Are Some Immigrant Groups More Successful Than Others?" October 2017. NBER Working Paper No. 23458. http://www.nber.org/papers/w23548

Deregulation

Regulatory reform was central to the Administration's economic agenda in the first year. Just as a backward tax code harms economic growth, overregulation drags down the economy. The Report's chapter on deregulation documents the ways in which regulations stifle productivity and prevent the creation of new businesses. Given the profundity of its effects on economic activity – regulation can determine which businesses have the opportunity to even start in the first place – the extent to which the regulatory environment will shape the set of risks and opportunities facing the U.S. economy in the future is easier to underestimate than it is to overstate.

For instance, regulations give incumbent businesses an advantage against upstart competitors, and an increase in regulation may be one of the reasons business dynamism has suffered a decline since the recession. The year 2009 marked the first time that more firms died than were born in the United States since the Census Bureau began compiling its Business Dynamics Statistics in 1978.[3] And recent research shows that fewer younger Americans are becoming entrepreneurs, an ominous development.[4] Meanwhile, evidence reviewed in the *Report* documents that the start-ups that are most likely to be smothered by pages of regulation tend to make disproportionate contributions to productivity growth.

The tepid growth rates observed under the previous Administration, then, can hardly come as a surprise in light of the evidence reviewed in the *Report*'s chapter on deregulation. Nor can the acceleration in GDP observed under the Trump Administration appear surprising, given the Trump Administration's commitment – and success – in pursuing its regulatory agenda.

Of course, not all regulations are bad, and the type of changes envisioned by this administration will not threaten the environment or worker safety. To put our overregulation into perspective, CEA finds that if the U.S. regulatory environment were such that the U.S. had the same OECD Product Market Regulation value as Germany, we would increase annual growth by 0.1 percent per year. If we deregulate further, to the level of the Netherlands according to the OECD Product Market Regulation index, we could get growth at twice that rate: 0.2 percent per year. In spite of what you may think about the regulatory environments in European countries, even they recognize that liberating the economy from the burdens of regulation can unleash economic activity and create jobs.

Regardless of your view of the magnitude of its effects or your philosophical disposition, it is difficult to dispute that regulation affects economic activity along many margins of adjustment. The footprint of regulation – along with the effects of lightening the regulatory load – manifests across many of the data series economists use to gauge the economy. And the Trump Administration is committed to ensuring that it develops a regulatory environment that creates an economy filled with opportunities realized -- rather than opportunities lost.

[3] Hathaway, Ian and Robert E. Litan. "Declining Business Dynamism in the United States: A Look at States and Metros." 2014. Brookings Institution. https://www.brookings.edu/wp-content/uploads/2016/06/declining_business_dynamism_hathaway_litan.pdf

[4] Economic Innovation Group. "Millennials & Entrepreneurship." 2016. http://eig.org/wp-content/uploads/2016/09/Millennials-Entrepreneurship.pdf

Infrastructure

This Administration's deregulatory agenda complements its infrastructure agenda, which aims to equip America with the infrastructure it needs to remain competitive in the 21st century and beyond.

Investing in infrastructure via the stimulus and its shovel-ready projects was expected to be a major factor in our recovery to the Great Recession, but – as Chapter 4 of the *Report* shows – this type of investment ended up as only a fraction of what was promised, with only 3.5 percent of the over-$800 billion plan going to highway transportation infrastructure. And at least part of the reason infrastructure did not pan out as hoped was the amount of red tape that stood between the legislation and the infrastructure projects that would benefit America's would benefit from.

Improving infrastructure should have wide bipartisan agreement, and polls show it is highly popular among the American people, with 84 percent in support and 76 percent believing it should be funded as the president has suggested: a combination of public funds, bonds, and public-private partnerships. As the *Report* notes, sources indicate that in 2014 total congestion costs peaked at $160 billion, wasting 6.9 billion hours in delays and 3.1 billion gallons of fuel.

Bureaucracy has built up over decades, creating years-long obstruction on many projects. The President's infrastructure plan focuses on streamlining the permitting process and eliminating red tape that has stymied infrastructure projects from being efficiently developed and managed to enable projects to get off the ground faster. The plan also calls for a $1.5 trillion investment in infrastructure, which we find could add 0.1 to 0.2 percentage points to economic growth over the next decade, saving Americans precious time by alleviating traffic congestion and enabling them to connect to opportunities that create more prosperity.

Our report lays out additional steps such as enacting targeted user fees, facilitating public-private partnerships, and ensuring that infrastructure funding goes towards the most-valuable infrastructure projects. These steps will ensure that this Administration allows America to develop the infrastructure that it will help it remain competitive now and in the future.

Trade

Trade across national boundaries matters in the short-run, but its effects on economic activity become all the more-dramatic in the long-run. This Administration's focus on ensuring that America's trade policies are fair to America's workers, consumers, and businesses is a reflection of its recognition of this reality. And its willingness to devote the resources it has to trade policy is an investment poised to pay dividends in the form of the benefits it will deliver to future generations of Americans.

The trade chapter of *Report* documents that American firms tend to face higher barriers to exporting their products abroad than their peer firms in the group of high-income G20 countries tend to face in exporting their products to the U.S . This holds true when looking at tariffs or non-tariff barriers, which have grown in importance as tariff rates have trended down.

CEA also notes that in recent decades, trade has left some American communities worse off. When you look at the data, it is not hard to see why this Administration is seeking to improve America's position with respect to international trade. Additionally, the global trade system has come under strain due to the influence of countries, such as China, that violate market principles and distort the functioning of global markets. When America's businesses and workers can compete in the global economy on a level playing field, our underlying dynamism will allow our economy to flourish.

A priority of the Administration is to create the conditions that would maximize the benefits from trade that accrue to the United States—and produce gains for our trading partners as well – both now and in the future.

Health

The importance of few issues studied by economists is as easy to understand as health. The *Report*'s chapter on health examines the status of Americans' health and the options that could allow them to live longer lives and to live healthier lives.

The Administration is focused on policies that would improve healthcare outcomes and lower healthcare costs for all Americans. CEA's analysis calls attention to several factors that affect health and healthcare costs, such as smoking, obesity, and opioid abuse, which have contributed to the decline of American life expectancy for the second year in a row.[5]

CEA highlights how competition and choice could improve health insurance as well as lower American drug prices—without undermining American pharmaceutical innovation. The Federal government can also pursue policies that lead to other countries paying their fair share for innovations. CEA estimates that, among members of the OECD, Americans pay more than 70 percent of patented biopharmaceutical profits that fund drug innovation.

It is tough to think of an issue as fundamental to human wellbeing as health. As explained in the health chapter, this Administration has a framework for understanding how to ensure that Americans can enjoy the high-quality health outcomes they deserve.

Outlook

The 2018 *Report* concludes by examining the year in review and offering our projections for the years ahead.

As CEA's analysis shows, the U.S. economy experienced a strong and notable acceleration in 2017, with growth in real gross domestic product exceeding expectations and increasing to 2.5 percent, up from 1.8 percent during the four quarters of 2016, and the unemployment rate falling 0.6 percentage point to 4.1 percent, the lowest since 2000. The Administration's baseline forecast for the longer term is for output to grow by an overall average annual rate of 2.2 percent through 2028, excluding the effects of the December 2017 Tax Cuts and Jobs Act.

The policy-inclusive forecast, which assumes implementation of the Administration's agenda —tax reform, deregulation, infrastructure and addressing disincentives to work—is for real GDP to grow by 3.0 percent a year, on average, through 2028. The current Administration's long-run, policy-inclusive forecast is conservative relative to previous administrations, and is in fact slightly below their median of 3.1 percent. The implementation of the Administration's full policy agenda – on taxes, deregulation, and

[5] "Mortality in the United States, 2016." December 2017. National Center for Health Statistics Data Brief No. 293, Center for Disease Control." https://www.cdc.gov/nchs/data/databriefs/db293.pdf

infrastructure – would allow growth to reach these rates. Meanwhile, the Administration's baseline forecast for the path of growth in the absence of policy changes is exactly in line with the long-run outlook given in the Obama administration's last *Economic Report of the President* (2017). While failure to implement the Administration's priorities would allow the tepid American growth observed in the Obama years to continue, the implementation of the Administration's agenda on infrastructure and deregulation as well as taxes would allow growth to reach the path set out in the policy-inclusive forecast.

Conclusion

As the size of the 2018 *Report* attests, it is no easy matter to "gather timely and authoritative information concerning economic developments and economic trends, both current and prospective," as the Council is required to do under the Employment Act of 1946. To attempt to do so is to undertake a task that imparts both a sense of exhilaration and of humility.

If fully implemented, as the *Report* explains, the Administration's agenda on taxes, infrastructure, and deregulation stands poised to offer an escape from the "new normal" of low economic growth that became a norm only in the last decade. With the right policies, this Administration can do its best to ensure that the future is one of opportunity – and expectations raised – rather than one of expectations lowered. With growth forecasts climbing up under the Trump Administration, there are already signs that Administration's policies have tipped the economy in this direction.

But there is much work still to be done. And as Chairman of the Council of Economic Advisers, I am proud to have presided over the production of a *Report* that explains how policymakers can do their part to deliver a robust and vibrant economy replete with opportunity, both now and in the future.

Chairman ENZI. Thank you for your testimony and for being here. We will now turn to questions. I think everybody knows the way that we do those, except that I am going to make a deviation this morning and call on my fellow Chairman Senator Johnson to see if he has any questions that he wants to ask.

Senator JOHNSON. Well, thank you, Mr. Chairman.

Chairman Hassett, welcome. I appreciate you braving the snow and putting a hat on.

I want to talk about overregulation. From my standpoint it is the most significant thing this administration has done. We stopped adding to the regulatory burden.

Now, in our Committee we have heard from experts and there are a number of studies that put the overall regulatory burden of Federal regulations at close to $2 trillion per year. Where do you put that burden? Again, by the way, if you divide that by the number of households, it is about $15,000 per year per household. I call it the "silent killer." Most people do not really understand it, and so you are not getting a whole lot of credit for it. But what does the CEA put the regulatory burden at?

Mr. HASSETT. You know, I would——

Senator JOHNSON. Is your microphone——

Mr. HASSETT. Stupid me. In order to give you a precise number, I would have to get back to you because we have reviewed the literature, and there are some estimates as high as $2 trillion. There are some that are about half that. And it is one of the frustrations that we go into in the regulation chapter, that regulation is really, really hard to measure because, for example, if we withdraw a regulation, the number of pages in the Federal Register can go up because we have to write the regulations withdrawing the regulations and so on.

And so I think that there is a great deal of uncertainty of the cost of regulation, but there is no uncertainty, I think, about the fact that business optimism, especially small business optimism, has skyrocketed since the administration has put new regulations on hold. And that is something we have thought hard about. We think that new regulations have an unusually high cost, a disproportionate cost, because you know as a businessman that if we give you a new reg, you have got to hire lawyers and engineers to figure out what to do with it. The existing reg you have kind of figured out before. And so I think the fact that we have stopped the new regs is one reason why sentiment and growth picked up even before the tax bill.

Senator JOHNSON. I will second that. You know, prior to this administration, it is about all I heard from the business community, is the new regulations, you know, specific ones or just generalized. And now they can actually concentrate on growing their business as opposed to looking over their shoulder, wondering which new regulation——you know, how much it is going to cost for a compliance officer or how something could put them out of business. So I think that is the most significant thing, as important as making American businesses more competitive tax-wise was as well.

I do want to go back, though, because I think rather than really taking a look at specific numbers and data, which I like, being an accountant, can you just give a little economic lesson? What do shareholders do with dividends? What do they do when their shares are purchased back by—I mean, what do they do with that money? Do they stuff it in a mattress?

Mr. HASSETT. Well, there is not a lot of evidence—it is actually one of the first academic papers I ever wrote—that dividends increase consumption. So what it means is that when someone gets a dividend, then they tend to reinvest it in something else. And so a way to think about the economic effects of unlocking all of that capital that was locked offshore is that firms can send it home, and they are investing it. You know, we have seen that already, announcements north of a couple hundred billion, they are giving pay raises to people, but they are also doing share buybacks. Those share buybacks will likely be reinvested in other equities. It is a way to move capital maybe from older firms that are less dynamic toward newer firms that are more.

Senator JOHNSON. So it more efficiently reallocates the capital. Rather than having it locked up in these C corporations, now it is actually being reallocated as millions of investors are literally making those reallocation decisions.

Mr. HASSETT. That is correct.

Senator JOHNSON. What about foreign investors? I have always viewed—you know, rather than foreigners buying America, I viewed that as, you know, foreign investors investing in America. Isn't that a good thing?

Mr. HASSETT. Yes, and thank you for that. And I think the way to think about it is that if the U.S. firm is repurchasing a share, which is a way that they do special dividends basically, that if they are repurchasing a share, then they are returning cash to their shareholders, who then reinvest. If the shareholder is a foreign shareholder who owns U.S. equities, he has presumably done a portfolio analysis that suggests some share of his portfolio should be invested in the U.S. And the share buyback probably does not change that, and so I think it is highly likely that share buybacks will be reinvested in U.S. equities.

Senator JOHNSON. And, by the way, when we do run a trade deficit, isn't the whole capital balance somewhat made up by the fact that foreigners then take and invest in America?

Mr. HASSETT. Sure, the current account and the capital account balance, and one of the things that we talk about in the Economic Report is that we had set up a system where firms moved jobs offshore, moved wage increases offshore by putting their production over there and selling it back in here to avoid our really high tax rate. And so we estimate that that increased the trade deficit by about 50 percent because of the transfer pricing, inflated imports——

Senator JOHNSON. So one final very quick question. I just want you to confirm numbers, because the more I look at this—I know Wisconsin actually has a trade surplus with both Mexico and Canada. But when I look at overall total NAFTA numbers, in 1985, prior to NAFTA, we were exporting $136 billion to Canada and Mexico with a deficit of about $61 billion. Now we are exporting $476 billion with a $68 billion trade deficit. So, in other words, we increased exports, I would say because of NAFTA, or certainly after

NAFTA was passed, by $340 billion, and our trade deficit only increased by seven. Are those largely accurate figures?

Mr. HASSETT. Yes, those sound like the correct numbers to me.

Senator JOHNSON. It sounds like a pretty good deal to me.

Mr. Chairman, thank you.

Chairman ENZI. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. And again, Mr. Chairman, thank you for your testimony today.

Back in October of last year in remarks at the Heritage Foundation, President Trump said, “If we pass this tax cut bill, the typical American household is going to get a $4,000 pay raise.” Now, I have seen a sprinkling of one—time bonuses. I have seen some pay increases. Walmart went from, I think, $10 to $11. But your own report on page 50, in the box, says that only 43 employers in the country have, in fact, raised their wages at all.

So as we sit here today, can you name for me one U.S. company that has raised the wage of their workers by $4,000? Because we all know there is a big difference between getting a one-time bonus and something in your base pay. Four thousand dollars this year would be $40,000 over 10 years. So can you give me one U.S. company or corporation that has raised their worker pay by $4,000?

Mr. HASSETT. I would have to go through our list and get back to you to see if there is one that is that high, but I would doubt it. If you look at page 49, there is a chart that shows the likely wage increases that come from corporate tax reductions, and these estimates are often based on cross-country variation, which means that it is a long-run estimate, maybe 3 to 5 years or something. And the way the wage increase happens is that the firms build factories here in the U.S. instead of over there; that increases the demand for labor here; and then——

Senator VAN HOLLEN. I appreciate that, Mr. Chairman, but I am looking at the chart, and I am looking at President Trump’s statement. I did not see a little asterisk there saying it is going to be down the road. So this is going to be after the next Presidential election, is that right? That is your prediction? We are going to start seeing these $4,000——

Mr. HASSETT. We are seeing wage increases now, but the entire effect does not happen in the first——

Senator VAN HOLLEN. But I remember a lot of our colleagues, I mean, I can roll back the video on the floor of the Senate. I mean, this was a huge talking point, $4,000 wage increases. And today we cannot mention—identify one company that has actually done that. And the reality is your own report says only 43 employers around the country have actually given wage increases, which is far short of what was advertised.

Let us talk about stock buybacks for a second, because back in December 19th 2017, the incoming Director of the National Economic Council, Larry Kudlow, tweeted out—this is just as the tax plan was passed—“Companies will invest in equipment, technology, plants, et cetera. Stock buybacks are not smart.” That is what he tweeted out. Do you agree with that assessment?

Mr. HASSETT. No, I do not. I do not. I think that firms—in fact, I have academic papers I can send you about this where we try to look at where buybacks come from. Buybacks tend to happen with firms that are older firms and that already have the plant that they want, they do not have an expanding market, and so they are returning the capital——

Senator VAN HOLLEN. So it is interesting. Larry Kudlow converted, too, after that December tweet. On March 16, 2018, he tweeted out, "Stock buybacks are proof of the tax reform's success." So in December, he said they were stupid. In March, these were great proof of the plan's success.

I want to ask you about something in your report. It goes to this whole question about stock buybacks and whether or not they are really benefiting the economy. And what you say here in the report on page 398 is, "Although it may be admirable for individual firms to thus return funds to their shareholders, the rising share of paybacks to shareholders suggests that investable funds are not being adequately recycled to young and dynamic firms."

Is this a rising concern of yours, the fact that we do not—we see a lot of money parked there that is actually not being recycled in these younger firms?

Mr. HASSETT. The chart on that page refers to old data, and I think that the tax bill has only been there for a few months. And so the hope is that—so in the past, people did not really want to locate their new factories here because we had the highest tax rate in the developed world. Now they do. The people who have lots of cash offshore can fund the new factories with that, but many of them do not want to do that because they already have their full capacity, in which case they will return the capital to investors, and they will go to innovative——

Senator VAN HOLLEN. Mr. Chairman, as I look at that data—I mean, I am looking at it. You are right. Actually, in 2017 stock buybacks went down, and in the first 3 months of this year they have gone through the roof. So, in fact, you have a lot more stock buybacks now. We can debate this for a long time, but as of today—as of today, all the data you have got—who is benefiting more from this: stockholders or workers?

Mr. HASSETT. You know, I think that the buybacks have gone up because the money was locked offshore. If you think about the economic consequences of locking the money offshore, then that hurts workers and it hurts the capital markets of the U.S. both.

Senator VAN HOLLEN. But in terms of the dollar value of the tax cut, how much has gone to workers versus how much has gone to stock buybacks?

Mr. HASSETT. The worker effect comes from capital formation, which happens over time. The buybacks are going to be front-loaded.

Senator VAN HOLLEN. I would just point out again, when President Trump and lots of other folks talked about it, they did not have a big asterisk next to the $4,000 pay raise saying it is going to be after the next election.

Thank you.

Mr. HASSETT. Could I just respond to the asterisk point, Mr. Chairman? Only for 1 second. I think that nobody asserted that the full effect of the tax bill would be there by March. I do not think anyone——

Senator VAN HOLLEN. If I was a typical American household, I would have read the President's remarks as saying I am going to get a $4,000 pay increase.

Chairman ENZI. To answer the Senator's question, one company, Walmart, has given a $2-an-hour pay increase. If you are working 40 hours a week for 50 weeks of the year, it comes to $4,000 in increase.

Senator VAN HOLLEN. Walmart is the example people are using, but I go back, Mr. Chairman, to the statement in the report, which says 43 employers. In the entire country, 43 employers have given a pay increase.

Chairman ENZI. In the first month, that is nice.

Mr. HASSETT. It is now much higher.

Chairman ENZI. Senator Gardner.

Senator VAN HOLLEN. Mr. Chairman——

Chairman ENZI. Senator Gardner.

Senator VAN HOLLEN. Polling shows about 2 percent.

Chairman ENZI. Senator Gardner.

Senator GARDNER. What I am surprised about this argument is it is as if the Government is now run by a bunch of Eeyores who are complaining about pay increases, complaining about minimum wage increases, complaining about increases to pension funds, complaining about deregulation that is resulting in new investments coming back to the United States. It is as if people believe tax cuts resulting in bonuses, minimum wage increases, and pension benefits are nothing but a bunch of crumbs. In fact, that has been used.

Mr. Hassett, Chairman Hassett, do you believe that a $1,000 bonus amounts to crumbs?

Mr. HASSETT. No.

Senator GARDNER. Do you believe that a pension increase, an increase in people's pension benefits, does that amount to crumbs?

Mr. HASSETT. No.

Senator GARDNER. Do you believe that minimum wage increases, salary increases, and deregulation allowing billions of dollars to come into this economy amount to crumbs?

Mr. HASSETT. No.

Senator GARDNER. And so what we hear is this dissatisfaction with the American people making more money. We have seen wage increases. We are going to see more. In fact, there was an article in the Denver Post yesterday by the Associated Press that talked about the fact that the tax cuts are working to bring new investments, hundreds of millions of dollars into States around the country and into Colorado, resulting in more employment. In fact, we saw for the first time in a very long time the unemployment rate actually affected because more people are leaving—they are getting into the work force. The labor participation rate is actually increasing. Is that correct?

Mr. HASSETT. Yes, it——

Senator GARDNER. Is that correct? Because people are ticked off that they got a bonus because it is just a bunch of crumbs?

Mr. HASSETT. Well, the labor force participation rate is going up, that is correct.

Senator GARDNER. Because more people are working, right? And why are more people working?

Mr. HASSETT. Well, to give you data on what you were just talking about—we keep, again, careful track of this——85 firms have offered a minimum wage increase; 46 companies have raised another wage, which would be like a permanent increase——

Senator GARDNER. But I guarantee——

Mr. HASSETT. Three hundred and thirty have given bonuses, and 52 have increased their 401(k) contributions. That is a lot of firms.

Senator GARDNER. You know, and, again, I had a conversation yesterday with a group of lumber dealers in Colorado, and Lemoine Dowd, a great family owned business in Boulder, Colorado, they have given their employees dollars back as a result of the tax cuts. That is probably not included in a report like this, is it?

Mr. HASSETT. I would have to ask my staff.

Senator GARDNER. Yes, and so, I mean, there are businesses around——

Mr. HASSETT. We are scraping the news for——

Senator GARDNER. But instead what we see right now, Chairman Hassett—let me ask you this, because what we have seen the Democrats unveil is legislation or at least a legislative proposal that would increase taxes by 19 percent. They want to increase taxes by 19 percent, corporate rate to 25 percent. What would that do to the economy if this massive tax increase were to be passed?

Mr. HASSETT. Well, it would probably be better than what we had with the 35 percent rate, but it would at the margin chase capital away from the U.S., which would reduce the demand for workers and reduce wages. It is simple Econ. 101. If you want——

Senator GARDNER. So the tax increase that we have seen from our colleagues on the other side of the aisle would result in fewer workers, lower wages?

Mr. HASSETT. That is correct.

Senator GARDNER. And do you——

Mr. HASSETT. And fewer factories here in the U.S. Senator Gardner. Do you think that they would see the new tax dollars they are paying to the Federal Government, would that be crumbs to people around the country? Would they see that as economic pain that they are suffering as a result of a significant tax increase?

Mr. HASSETT. It would not be crumbs.

Senator GARDNER. Thank you. Thank you, Mr. Chairman.

I understand that people are bitter that we cut taxes and that people are upset that we actually reduced the burden on the American people. And I understand that some people believe it is in their best interest to increase taxes. I just do not understand an economic policy that would actually take away bonuses, take away wage hikes, and slow American growth as a result. It just makes no sense to me.

Would we be less competitive if we repealed and reversed the tax cuts that passed?

Mr. HASSETT. Yes, we would.

Senator GARDNER. And would we see capital no longer returning back to the United States as a result of that?

Mr. HASSETT. Yes, it would——

Senator GARDNER. Do workers—you know, workers around this country, do they benefit from pension plans that may hold stock?

Mr. HASSETT. Yes.

Senator GARDNER. And do those pension plans then benefit from dollars that go to them as a result?

Mr. HASSETT. They do, and from the increase in market value of firms because the corporate tax has been reduced.

Senator GARDNER. And so we are seeing benefits to the American people, to American workers, through rising wages, and I do not understand why people can be bitter about that.

You note in your testimony that the most significant component of the bill was lowering our business taxes to make them competitive again. The Council has estimated that lowering the corporate tax rate alone would boost average household salary, as you have talked about. We are already starting to see these benefits in higher wages, lower utility bills. That has not been talked about, people with fixed incomes seeing lower utility bills and more jobs. We have heard opponents talk about this as crumbs. You have clearly said that it is not a crumb. So, obviously, the American people continue to benefit from this.

You talked about regulations and the decrease in regulations. What would a 0.2 percent—like you mentioned the Netherlands, a 0.2 percent in GDP mean if we were to reduce—continue our regulatory path?

Mr. HASSETT. Well, it would be 2 percent over 10 years, which would give you 2 percent of $28 trillion, which is the level of GDP in——

Senator GARDNER. And so could you just—what would that——

Mr. HASSETT. It is a lot of money.

Senator GARDNER [continuing]. Mean this year in jobs? What would that mean?

Mr. HASSETT. Yes, so it would be an enormous amount. I guess I would have to have my calculator out to give you an exact number, but, $2.8 trillion divided by——

Senator GARDNER. Thank you, Mr. Chairman. Again, I do think we need to be concerned about this tax increase proposal, as you mentioned, because of the impact it would have on wage cuts and certainly more people paying taxes.

Mr. HASSETT. Thank you, Senator.

Chairman ENZI. Thank you.

Senator Merkley.

Senator MERKLEY. Thank you, Mr. Chairman.

You have talked a lot about how wonderful these buybacks are, and so I am curious. What percent of the stock in America is owned by people, working-class families, who earn less than $80,000 a year?

Mr. HASSETT. I would have to get back to you with the exact number, but it is a small percent.

Senator MERKLEY. Small, like 3 percent?

Mr. HASSETT. It could be, yes. I would have to——

Senator MERKLEY. In that vicinity? So if there are $227 billion in buybacks and it is 3 percent, then how much is that that is going to working-class America?

Mr. HASSETT. The direct effect of the buyback is small for working——

Senator MERKLEY. Yes, what is 3 percent of 227?

Mr. HASSETT. The indirect effect is larger.

Senator MERKLEY. Can you do that basic math, 3 percent of 227?

Mr. HASSETT. Yes.

Senator MERKLEY. How much is that?

Mr. HASSETT. It is a small number.

Senator MERKLEY. Small, a little over 6 billion, I think.

Mr. HASSETT. Six billion, seven.

Senator MERKLEY. You can do that in your head probably.

Mr. HASSETT. Yes.

Senator MERKLEY. Okay So a little bit over $6 billion goes to working America from those buybacks, and if there is $227 billion in buybacks, that means—can you subtract 6 billion from 227? How much is left?

Mr. HASSETT. Okay so it is 221.

Senator MERKLEY. Okay so $221 billion goes to the richest Americans, and $6 billion goes to workers. Now, wouldn't it make more sense for working America to reverse those numbers and have $221 billion go to working America and only have $6 billion go to the already richest Americans?

Mr. HASSETT. So as the cost of capital is now lower, capital formation will increase. It is something that we already see in the data, that higher capital formation will increase workers' wages. There is a big literature that looks——

Senator MERKLEY. Okay wait, wait. We are talking stock buybacks here. We will get to wages in a moment. But I think——

Mr. HASSETT. But it seems like you're charactering——

Senator MERKLEY. Please do not interrupt me.

Mr. HASSETT. Okay, sorry.

Senator MERKLEY. I think most Americans would feel that if you have a plan designed for working America, the vast bulk of the benefits would go to working America, not to the richest Americans. Three percent is a very small fraction.

Now, this tax plan borrowed $1.5 trillion from our children, and then when the benefits flow out through these buybacks, only 3 percent goes to working America and $221 billion, as you say, goes to the richest Americans. And so that seems like a big price tag to put on our children to the already richest Americans, don't you think?

Mr. HASSETT. I think that it is better for America that that capital came home.

Senator MERKLEY. Okay. Well, let us proceed to take a look at the bonuses that have been paid, because my colleagues like to talk about how much in bonuses is being paid. Well, let us take a look at it. I have got the chart right behind me here. Wow, Okay $227 billion in corporate stock buybacks, which goes, as you say, more than $200 billion, maybe $220 billion of it goes to the richest Americans. Let us see down here. What do we get for workers? Five billion dollars.

Do you think working America would be better off if working America got this chart, this column of $227 billion and the richest already—they do not need more money, they get this little fraction over here? Wouldn't America be better off?

Mr. HASSETT. We had trillions of dollars locked offshore. Those trillions of dollars are now coming——

Senator MERKLEY. I am just saying, wouldn't the design——

Mr. HASSETT [continuing]. Home, and they are——

Senator MERKLEY. Wouldn't working America be better off if you design a tax decrease that actually helped working Americans?

Mr. HASSETT. Well, on the individual side, you know, that did happen. But on the corporate side——

Senator MERKLEY. Okay So we clearly see that very little of the buyback wealth is going to working America. We are seeing very little of the bonuses going back to working America. And we have seen that very little wage increases occurred, and you have just indicated that you cannot identify a single company in the country that reached that $4,000 per worker increase that you were bragging about just a few months ago, and all my colleagues were echoing on the floor of the Senate. You cannot find one company in America that has done that. So that really is a significant problem when you design a plan for the richest Americans, try to sell it for workers, but workers get the short end on the buybacks; they get the short end on the wage increases; they get the short end on the bonuses. And it is all borrowed from our children. Isn't that kind of a shameful thing to do to the next generation of Americans?

Mr. HASSETT. Senator, I think that you have misstated what I said, and I certainly was not bragging. I was providing analysis. But, you know, I have got——

Senator MERKLEY. So it is just your analysis was that far off.

Mr. HASSETT. My analysis was not off at all, Senator. My analysis——

Senator MERKLEY. $4,000——

Mr. HASSETT. Could I please finish my sentence?

Senator MERKLEY. Please do.

Mr. HASSETT. My analysis was that the $4,000 would come over 3 to 5 years. I said that on television a zillion times. That is what our analysis in the Economic Report says. No one said that the full phased-in capital formation would happen by March of this year.

Senator MERKLEY. Well, actually, a lot of people went to the floor, my colleagues went to the floor and said we would see this right away in January. In January we would see these vast wage increases. And we have not seen it, and we are well into the year.

But let us turn to the infrastructure plan. So the President has put forward a budget that says we are going to reduce infrastructure spending by $240 billion, and then we are going to have a $200 billion infrastructure plan.

Now, if I take away 240 and I put 200 back in, is that a plus or minus overall in terms of investment in infrastructure?

Mr. HASSETT. The President's infrastructure plan is to accelerate permit approval and to make it easier for private capital to come in and invest in infrastructure, something private capital——

Senator MERKLEY. But you acknowledge that the budget has a decrease of $240 billion in infrastructure?

Mr. HASSETT. We expect that overall infrastructure spending would skyrocket——

Senator MERKLEY. No, but I am just asking about the basic budget.

Mr. HASSETT. Within the budget, you are correct.

Senator MERKLEY. Okay Thank you. I am correct. It is a minus. That is not infrastructure plan. Thank you very much.

Chairman ENZI. The Senator's time has expired.

Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. Where to begin?

For the record, I may be guilty of having been the Senator who spent more time on the Senate floor advocating this tax reform than anyone else. I did not measure it. It may not be true, but I would be up there. I can assure all of my colleagues that I never once said nor do I recall ever once hearing any of my colleagues say that the result of our tax reform would be $4,000 pay raises for Americans by March of 2018.

Now, of course, I was wrong. In the case of Walmart, that exact thing did happen, in fact. But I did not anticipate it, did not project it. And part of the reason why is the way I view the mechanism that takes tax policy and over time results in higher wages. So I wonder if we could explore that a little bit, Chairman Hassett. Thanks for being with us today. But one of the mechanisms is a very straightforward mechanism that we saw that did kick in early, which is just the additional free cash-flow of a lot of companies that resulted from a lower tax rate was something that they decided made sense to share with their workers, and so we saw this wave of bonuses and pay raises and pension contributions.

But it seems to me there is a more profound dynamic that I think we have encouraged, and that is, by lowering the cost of capital, which we have done in a variety of ways through this tax reform, especially fully expensing all capital expenditures, that is going to lead to not just increasing demand for workers to deploy that capital, to use that capital, but it is also going to make workers more productive, which is a necessary precondition for higher wages. But you are the Chairman and you are the expert. Could you tell us a little bit about how you think about the mechanism that takes us from the tax reform that we passed to higher wages for workers over time? Why does that happen?

Mr. HASSETT. So, you know, it is very important to think about where wages can come from sustainably. One is increased productivity of workers from higher human capital. We could sure do a better job at training people and retraining people and get that human capital component up. But the second is that you give workers more physical capital to work with. And capital deepening's contribution to productivity growth and wage growth in the last few years actually turned negative for the first time in U.S. history, and it turned negative for the simple reason that we were, with our high tax rate, chasing the capital offshore. And so now that the capital is coming back, if you think about it, the share buyback data are evidence that the capital is coming back. It is not just sitting in the subsidiary in Ireland anymore, it is going to come back, and it is going to feed either capital formation in the firms that had the money offshore or in the new entrepreneurial firms that will issue equity and then invest in America——

Senator TOOMEY. Just to interrupt for one quick second, and then I would like for you to continue. But if a company repatriates money that had been trapped offshore and returns that to shareholders, does that harm any worker? Is a worker hurt by that process?

Mr. HASSETT. No. No, it helps because what will happen is a shareholder will reinvest it in some other firm, which will bid up the demand for workers and increase wages. And that is why there is such strong, striking data that we talk about in the Economic Report linking cross-country variation in corporate tax rates to worker wages, because capital formation is where wages come from.

Senator TOOMEY. So the data actually shows a correlation there?

Mr. HASSETT. Sure.

Senator TOOMEY. Yes.

Mr. HASSETT. And that is where the $4,000 number comes from. It is a very modest read of the literature. I would say the average estimate in the literature is much larger than that. And $4,000, to put in perspective, Senator, in present value, it is not like you get $4,000 in 1 year. It is that the wages are going up, and they grow off the higher base.

Senator TOOMEY. Right.

Mr. HASSETT. So the present value is something like $8 trillion of that $4,000.

Senator TOOMEY. My colleague from Oregon several times alluded to this idea that this is all being borrowed from our children. Now, as you know, the static score on the tax reform was about $1.5 trillion. That is compared to a current law baseline which is unrealistic in several respects. But compared to a current policy, which is a more realistic baseline, the static score was about $1 trillion. My understanding is if our economy grows by three-or four—tenths of 1 percent faster than it would have in the absence of the tax reform, Federal revenue will actually be greater than the current policy baseline. Is that your view, that we are——

Mr. HASSETT. Yes.

Senator TOOMEY [continuing]. Actually going to have a smaller deficit, not a larger deficit? Or I should say we will have more revenue, not less revenue, as a result of the tax reform?

Mr. HASSETT. And also the debate is a little bit unfocused to an economist in the sense that the corporate side, as you know, once you net out all the international tax increases, because we made it harder to transfer price profit offshore, ended up netting $300 or $400 billion, so the $1 trillion dynamic score is, you know, mostly coming from the individual side. I think that the final score for the refundable child credit, which I think many people on both sides in this Committee supported, was $700 billion. So, again, are you robbing from children to give them a $700 billion child credit? It seems like it is an unfocused argument to me.

Senator TOOMEY. Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Kaine.

Senator KAINE. Thank you, Mr. Chair, and I am going to continue some of the discussion, Mr. Hassett, about taxes. I am going to go to my good colleague from Colorado. Do not associate me with those who you are saying are bitter about the passage. Disappointed, yes. Many of us wanted to participate. Many of us I think could have made it better. Instead of doing tax reform like President Reagan did in 1986 where he took 10 months and got 97 votes in the Senate because it was bipartisan, we did 41 days and there was really no opportunity for those of us who have done a lot of tax reform to participate and make it better.

We got a chance—Mr. Hassett, I do not know if you paid attention to this. We did get a chance to make 1-minute amendments on the reorganization of the American economy. And my disappointment is largely this: that it was deep and permanent tax cuts for corporations and modest and temporary tax cuts for individuals. And I think that is a fundamental mismatch.

I had a 1-minute amendment that I did make on the floor, and I basically said this: Hey, guys, I got an idea. Let us reduce the corporate tax rate not to 20 but to 25—or 21 at that point, but to 25. But let us make all the individual tax cuts permanent. And if you basically do that, drop the rate to 25, not 21, you can make all the individual tax cuts permanent, and it will reduce the deficit effect by about $1 trillion. And 34 Democrats voted for it. We wanted to reduce the corporate tax rate. We wanted to make the individual tax cuts permanent. We wanted to reduce the deficit effect. But we could not get a single Republican vote.

It is tax time now, so, you know, Virginians are doing their tax returns, just like everybody. Now Virginians doing their tax returns cannot completely deduct State and local taxation, their tax payments. There is a limit to it. Corporations can deduct the full amount. They are not limited in the deductibility of State and local taxation. But now for the first time, we have limited individuals, and corporations can do it all. I just think it was a really poor balancing of relief, that we could have given significant relief to American companies versus relief that we should have given to the American taxpayer.

I want to ask you this, Mr. Hassett: Did the CEA recommend to the President the tariffs that were announced on steel and aluminum?

Mr. HASSETT. Senator, my job is to provide objective advice. I can tell you that as CEA Chair I am a principal in trade meetings in the Roosevelt Room, and, you know, those meetings are confidential. But——

Senator KAINE. Let me——

Mr. HASSETT. Could I just finish one sentence? Because I am not dodging.

Senator KAINE. Yes, but I do not want to ask you what you said——

Mr. HASSETT. I provide economic analysis. Yes, I cannot talk about what I said.

Senator KAINE. Right.

Mr. HASSETT. But economic analysis of, for example, steel or aluminum tariffs, there has been a pretty big literature that shows that in the industries themselves, there is a little bit of an increase in employment and output, and in the downstream steel-consuming and aluminum—consuming industries, there tends to be a little bit of a loss. Those two things in the literature have been a small net negative. But the 232 announcement is a national security announcement, and I think that the President was elected Commander in Chief. I am not a national security expert——

Senator KAINE. So you basically say——

Mr. HASSETT. He thinks it is important to have——

Senator KAINE. Let me ask you a question.

Mr. HASSETT. Sure.

Senator KAINE. So you basically say the literature would say net negative, but it might be justified by the

President's national security experts. Let me read——

Mr. HASSETT. That is correct.

Senator KAINE [continuing]. You some quotes about this, what the experts have said about the proposed tariffs. "More than five jobs will be lost for every one gained." That is the Trade Partnership.

Council on Foreign Relations: "Trump's steel tariffs could kill up to 40,000 auto jobs, equal to nearly one-third of the entire steel work force."

Harbor Intelligence: "Tariffs would boost production jobs by about 1,900, but 23,000 to 90,000 U.S. manufacturing jobs will be lost."

MillerCoors: "Like most brewers, we are selling an increasing amount of our beers in aluminum cans, and this action will cause aluminum prices to rise. It is likely to lead to job losses across the beer industry."

Our home builders: "These tariffs will translate into higher costs for consumers and U.S. businesses that use these products, including home builders."

Auto dealers: "Auto sales have flattened in recent months, and manufacturers are not prepared to absorb a sharp increase in the cost to build cars and trucks in America. The burden of these tariffs, as always, will be passed on to the American consumer."

Retailers: "Make no mistake, this is a tax on American families. When costs of raw materials like steel and aluminum are artificially driven up, all Americans ultimately foot the bill in the form of higher prices for everything from canned goods to electronics and automobiles."

The Business Roundtable: "Business Roundtable strongly disagrees with today's announcement because it will hurt the U.S. economy and American companies."

And the U.S. Chamber: "These new tariffs would directly harm American manufacturers."

The President basically tweeted out and said it is easy, we should—trade wars are good, and when we have trade wars, we win big. Do you think trade wars are good?

Mr. HASSETT. In the Economic Report of the President, we have a big trade chapter that documents stuff that to me was kind of surprising. As you know, I have been before this Committee before but not as a trade economist. And our trade deals really are quite asymmetric. Even Europe charges high tariffs on our stuff, much higher than we charge on their stuff, and China——

Senator KAINE. And they are announcing retaliatory tariffs last week.

Mr. HASSETT. And China is stealing our intellectual property, and every President—you know, I have been in DC 20 years, and it seems like every President has talked about wanting to improve that situation and then failed. And President Trump is serious about——

Senator KAINE. So you think this is a good move?

Mr. HASSETT. Which?

Senator KAINE. The tariffs that were just announced that I am asking you about.

Mr. HASSETT. I am a team member. I support the President, and the 232 tariff is a national security judgment, which I am not an expert in, national security.

Senator KAINE. Thanks, Mr. Chair.

Chairman ENZI. Thank you.

Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman. Doctor, welcome. I am sorry I was late.

Mr. HASSETT. Thank you.

Senator KENNEDY. You did your graduate work at Pennsylvania?

Mr. HASSETT. That is correct, sir.

Senator KENNEDY. Great. Let me just ask you a couple of questions as an economist. All things being equal, do you think—who can spend money better: the people who earned it or a well-intentioned Government worker?

Mr. HASSETT. The people that earned it. Usually—in fact, that even applies to Christmas presents. I wrote an article in the Washington Post about this once, that you should give people the money instead of picking a present because they will know better how to use it.

Senator KENNEDY. Let me ask you some questions about a small business in America. Can we agree that taxes for a small business—this is true for a large business, too, but let us talk about a small business. Can we agree that taxes for a small business constitutes a cost of doing business?

Mr. HASSETT. Yes.

Senator KENNEDY. So it is sort of like insurance and labor and paying the utility bill. Is that right?

Mr. HASSETT. That is correct.

Senator KENNEDY. Okay If we were to increase the costs to a small business, would that help them to expand?

Mr. HASSETT. No.

Senator KENNEDY. When you tax something, you get less of it. Is that right?

Mr. HASSETT. That is correct, usually.

Senator KENNEDY. So if we wanted small business women and small business men to expand their business, we ought to help them control costs, preferably lower them. Is that correct?

Mr. HASSETT. That is correct, sir.

Senator KENNEDY. Okay. That is sort of Economics 101?

Mr. HASSETT. And if you look at the NFIB Survey of Small Businesses, which is really a rich data source, you can see that small businesses have celebrated the passage of this bill and that their sentiment has increased dramatically over that time.

Senator KENNEDY. Right, but, I mean, that is kind of basic economics, right?

Mr. HASSETT. It is economics, but it is also visible in the data as well. Sometimes basic economics turns out to be wrong. But it is nice to see it confirmed——

Senator KENNEDY. But is that a principle that most people would agree is part of just basic free enterprise economics?

Mr. HASSETT. Yes.

Senator KENNEDY. Okay. So unless you were in the quad throwing the frisbee during Econ. 101, you would agree with that?

Mr. HASSETT. I think that that is correct, unless it is a Giffen good, which is a technical thing.

Senator KENNEDY. Okay.

Mr. HASSETT. But we do not have to talk about that in a Senate hearing.

Senator KENNEDY. Okay. I mean, obviously, one of the purposes of our tax cut bill was to attract foreign direct investment, and I think a lot of investors looked at America and said, "God, we would love to do business there. They have got a stable court system, free society. You know, it looks like a wonderful place to live. There is just one problem. We do not want to pay 35 percent in taxes." That is kind of a deterrent, isn't it?

Mr. HASSETT. Yes.

Senator KENNEDY. Okay. Let us talk about infrastructure for a second. We moved in our Tax Code bill to a territorial system of taxation. Is that correct?

Mr. HASSETT. That is correct, sir.

Senator KENNEDY. We used to be non-territorial, correct?

Mr. HASSETT. "Worldwide," we called it, yes.

Senator KENNEDY. Yes, We had a lot of American companies with business overseas that made a lot of money. They stockpiled it. They did not want to bring it back because they would have to pay 35 percent in taxes, right?

Mr. HASSETT. Yes, that is right.

Senator KENNEDY. So we made them a swell deal. They can bring it back now if they are liquid, if they are liquid overseas profits. They are going to have to pay 15 percent. Is that correct?

Mr. HASSETT. Yes, and it was actually even a sweeter deal than that in the sense that if a firm located a new operation offshore, then they could transfer-price their profits say to Ireland and post a loss in the U.S. and then get a refund on past taxes in the U.S. So we were basically using tax refunds to build foreign factories under the old code.

Senator KENNEDY. Okay How much tax money, tax revenue is going to be generated—roughly, just give me an answer, because I am going to run out of time here in a second. How much in tax revenue do you think will be generated by the repatriation?

Mr. HASSETT. By the repatriation of the couple of trillion? I would have to pull out the line item on that.

Senator KENNEDY. Give me a ballpark guess.

Mr. HASSETT. 150 billion.

Senator KENNEDY. Okay. That is a non-recurring source of revenue, isn't it?

Mr. HASSETT. Yes, it is.

Senator KENNEDY. Okay. And classic budgeting says you match up a non-recurring source of revenue with a non—recurring expense, right? Unless you want to create a structural deficit. Is that correct?

Mr. HASSETT. If you are looking at the present value, then you have to consider both.

Senator KENNEDY. But that is basically correct?

Mr. HASSETT. Yes.

Senator KENNEDY. Okay So why don't we spend that money on infrastructure instead of dumping it into the big old black hole of the general fund from the Federal Government where it is spent on God knows what?

Mr. HASSETT. You know, Senator, the tax bill passed with the support of everybody in the White House, and I respect the legislative process. They decided to do the thing exactly——

Senator KENNEDY. Well, we can change that, can't we?

Mr. HASSETT. I think moving forward, you know, especially in the medium and long run, as this Committee knows and as Senator Enzi has been a leader——

Senator KENNEDY. I get all that. I have not been here long, but I figured that part out. But, I mean, unless we——I am sorry, Mr. Chairman. I am going to wrap it up in a second. But unless we want a structural deficit, you do not put non-recurring revenue into your budget, for God's sakes. My 22-year-old knows that. You spend it on a non-recurring expense. Infrastructure. Would there be something better non-recurring than infrastructure to spend it on?

Mr. HASSETT. Again, if you generate economic growth with a lower cost of capital, then that is going to give you revenue, and then that revenue is recurring——

Senator KENNEDY. Yes, but it is not going to equal the $150 billion. We are not——

Mr. HASSETT. It could in present value, yes. I would be happy in QFRs to do some math on this.

Senator KENNEDY. I mean, I am not trying to get you in trouble, but you need to talk to Secretary Mnuchin, because he keeps wanting to match up—sorry, Mr. Chairman.

Mr. HASSETT. And I got the precise estimate of the revenue from repatriation. It is $338 billion, so I guessed a little bit low.

Senator KENNEDY. All right. I heard the gavel. Man, this is like "The Gong Show."

Mr. HASSETT. He is tough.

Senator KENNEDY. I have got to stop.

Chairman ENZI. I only let people run over by a minute.

[Laughter.]

Chairman ENZI. Senator Whitehouse.

Senator WHITEHOUSE. It is when you said it was like "The Gong Show" that the gavel really came down.

Senator KENNEDY. I know.

Senator WHITEHOUSE. Mr. Hassett, what is a negative externality?

Mr. HASSETT. A negative externality would be something like pollution, that if there was a factory—the classic example, textbook, is a factory next to a laundry that puts out dark fumes.

Senator WHITEHOUSE. And a negative externality as viewed by economists is a bad thing?

Mr. HASSETT. Yes.

Senator WHITEHOUSE. And the customary way we respond to that is with regulations?

Mr. HASSETT. Or with taxes. You could tax——

Senator WHITEHOUSE. Exactly. You could do a pollution fee——

Mr. HASSETT. It is called a "green tax." That is correct.

Senator WHITEHOUSE. I want to just make a record here that the 2017 Draft Report to Congress on the Benefits and Costs of Federal Regulations that came out under the Trump administration says this: "The principal findings of this Report are as follows:"

Number one, "The estimated annual benefits of major Federal regulations reviewed by OMB from October 1, 2006, to September 30, 2016, for which agencies estimated and monetized both benefits and costs, are in the aggregate between $219 billion and $695 billion, while the estimated annual costs are in the aggregate between $59 billion and $88 billion, reported in 2001 dollars. In 2015 dollars, aggregate annual benefits are estimated to be between $287 and $911 billion and costs between $78 and $115 billion."

So those show very, very significant annual net benefits to those major Federal regulations, which I suspect has a lot to do with this problem of negative externalities.

Mr. Hassett, I want to take you into health care. I do not know how weedsy you get on this, but I want to talk about accountable care organizations—does that ring a bell?—or the Medicare Shared Savings Program.

Mr. HASSETT. Yes, you are getting into the weeds——

Senator WHITEHOUSE. Okay. This is going to be a little weedsy, but I want to——

Mr. HASSETT. Okay.

Senator WHITEHOUSE. I want to focus on it for a reason, because your Economic Report criticized the accountable care organization effort that was a part of the Affordable Care Act, saying the ACA's signature cost control provisions were ineffective and had unintended consequences, and then went on about accountable care organizations.

So I want to make a plug for these accountable care organizations. We have one in Rhode Island. It is called "Coastal Medical." It is a primary care provider practice. It is the family doctors, basically. It is one of the biggest providers in Rhode Island. They, before this, were trapped, as other providers were, in fee-for-service. You do not get any money unless you do something to somebody or prescribe something to somebody or call somebody in for a session with the doctor.

Because of the ACO program, they were able to find ways to get reimbursed, to share the savings of driving the costs down for their patients. It has required changing the way that they provide care. They have hired people who do things like social work and case management. They make home visits to appropriate patients for various things. They have nurses on call 24/7 so if you wake up in the middle of the night and you feel badly, you can call their nurse and get a little bit of an educated decision about whether you need to go to the emergency room or not.

They have hired pharmacists who are helping with pharmaceutical management, particularly of patients who take considerable numbers of pharmaceuticals. They have even hired an actuary. The head of the practice, Dr. Kurose said "Five years ago, I barely knew what an actuary was. Now I have one."

And all of those things have improved the care for their patients. Patient enthusiasm for the care that they are getting is through the roof. They absolutely love it. The doctors love it. And what is interesting is that their per patient cost has fallen $700 since 2011. This is not a question of the rate of increase declining. This is an actual drop.

Now, I think that is an important model, and we can perhaps argue about how much of the savings that have been generated Medicare should get versus what the doctors should get. But I hope that you would agree that where a change in the way doctors are compensated has enabled them to improve the way they treat their patients, and to do so in a way that has saved $700 per patient, that is a good indicator for cost of health care and for the direction of cost in health care.

So I do not know if you have a reaction to that, but I do think——

Mr. HASSETT. Well, thank you for the plug——

Senator WHITEHOUSE [continuing]. If you just look at the Medicare billing piece of that and you are not looking at the endpoint, which is where did the actual cost of care go, you are missing the story. The real story is follow Coastal, drive care down by $700 per patient, and then we can worry about what to do with those savings.

Mr. HASSETT. So thank you. We did, in the report, review the academic literature and the data, but your tip about looking closely at Coastal Medical is a good one. As you know, I have noticed over time that Rhode Island has been pretty innovative in many areas of public policy, and it could be that there is variation in the effectiveness of organizations and that that is a particularly good one.

Senator WHITEHOUSE. Come visit. We will show you.

Mr. HASSETT. But we will look carefully at it, sir, and I look forward to working with you on that.

Senator WHITEHOUSE. Thank you.

Chairman ENZI. Senator Cotton.

Senator COTTON. Thank you. Thank you, Mr. Hassett, for your testimony today.

I want to discuss wage growth over the last 40 years, also going forward. I have a chart that my trusty sidekick here will post in a moment, but it relates to a piece from the Harvard Business Review last October that found that since the 1970's, wage gains have primarily accrued to the top earners, the richest and those with the highest levels of education in our country, while wages for the bottom half have been stagnant and declining. So here is our trusty chart.

You can see now what I am talking about. If you have an advanced degree, over the last 40 years your wages have gone up in real dollars by 36 percent; college degree, 30 percent; only a high school diploma, it has basically been stagnant, it has declined by 2 percent, not great; obviously, less than a high school diploma, it has been catastrophically bad, declined by 17 percent.

I specifically want to discuss the input of immigration on this. If the supply of labor exceeds the demand of labor, does that not put downward pressure on wages, especially for the kinds of wages for labor that we tend to import in the form of immigrants or non-immigrant guest workers?

Mr. HASSETT. The economics of that is accurate, yes.

Senator COTTON. Okay So the law of supply and demand is not repealed magically in the labor market, as some people in Congress seem to imply.

Mr. HASSETT. Correct.

Senator COTTON. Today we have about a million new immigrants in our country with a Green Card. The vast majority of those come not through employment or education based but through family reunification, mostly extended family reunification and other programs. That is one reason why the vast majority are unskilled and low-skilled.

To what extent do you think the fact that the vast majority of our immigrants in this country are unskilled and low-skilled has helped explain what you see on the chart here, that we are bringing in people with—immigrants who have less than a high school degree or a high school degree as opposed to immigrants that have Stanford Business School and MIT Ph.D.s?

Mr. HASSETT. It is certainly a factor, Senator, and there is literature on this that, you know, I would be happy to, in written correspondence with you, review. George Borjas at Harvard University has studied the impact of immigration on low-skilled wages and found pretty big negative effects. There are some other papers that argue with his methodology and so on.

Senator COTTON. Yes, so what do you think about—I mean, I tend to admire Professor Borjas' work, and I think he has done a good job of correcting a lot of the record on somewhat—what I would consider less rigorous academic research. What do you think of Professor Borjas' work in this area?

Mr. HASSETT. He is a great economist. But, you know, all work should be subject to careful scrutiny, and I would have to get back to you about the criticisms of the work that is——

Senator COTTON. Let us say if we took those million immigrants per year, and rather than being unskilled and low-skilled workers, if we had a million immigrants a year who were, say, MIT Ph.D.s or Stanford Business School graduates, would it relieve some of the pressure that Americans in this part of the income scale face?

Mr. HASSETT. It would. It would also add to economic growth, and the capital formation from the tax bill, though, should very much help that minus 17 percent number as well.

Interestingly, in the first taxes and wages literature that leads to the $4,000 number, Aparna Mathur and I used blue-collar wages, so it is actually the blue-collar wages that respond to corporate taxes because they are the ones that are using the better machines. And I think that we are about to see an investment explosion in the U.S. that is going to also help very much with that number.

Senator COTTON. Why is that?

Mr. HASSETT. Because the capital is going to come back to the U.S., people are going to build plants here, and the people running the machines tend to be blue-collar workers that do not have college degrees.

Senator COTTON. I agree with that belief. But a smarter and better immigration policy that is more focused on high-skilled workers with higher levels of educational attainment who are going to receive higher-than-average wages or bring higher-than-average investment capital in this country would also work in tandem with that tax policy, correct, that help get these men and women higher wages? Which they get to keep more of now because of the tax bill. I know you all talked a lot about the tax bill this morning.

Mr. HASSETT. That is correct, sir.

Senator COTTON. And then, finally, since we talked mostly about permanent immigration, Green Card holders, I want to talk briefly about non-immigrant visa holders, some of the controversial programs like the H–1B program or the H–2B program. Those have the same—it would have the same impact on wages for people who are in H–2B—let us take the H–2B program, so, you know, a lot of landscaping, a lot of resort work, a lot of ski instructors, that kind of thing. Again, if you are importing more of those workers, it is going to put downward pressure on the wages for that kind of work, correct?

Mr. HASSETT. That is correct, yes.

Senator COTTON. In your opinion, how big is the regional or local effect on that? Obviously, ski instructors are not running around Arkansas. They are in Colorado. And resort workers tend to be in places on the coasts or the Great Lakes or the Rocky Mountains. How big an impact is the regional effect on those wages?

Mr. HASSETT. The regional effect can be enormous, especially close to an unsecured border, but also because of the variation in the tightness of labor markets. The last I checked, for example, in Colorado, there is about half an unemployed worker per job listing, and so that No. 1 problem for firms is finding workers. But there are other places where that is not true.

Senator COTTON. So that is one reason why we have so many H–2B workers in places like ski resorts in Colorado or beach resorts in North Carolina or Florida, or what have you. That is one reason why when you go there, you hear and meet so many people from Eastern European countries like Poland and Czechia and Slovakia and Austria and so forth who come and hand out towels as lifeguards in the summer or work on the ski lifts in the wintertime. Those people could also come in from Izard County or Jefferson County, Arkansas, couldn't they?

Mr. HASSETT. In principle. But one of the things that has been a puzzle to us as we study the current job market is that mobility from places that need jobs to places that have jobs is very, very low right now, and I think that might be related to the variation of real estate prices and a number of other factors.

Senator COTTON. I know a bunch of 18-year-olds in Arkansas who would love to hand out towels at Palm Beach in the wintertime.

Mr. HASSETT. It looks pretty good today as well with all the snow outside.

Senator COTTON. Okay. Thank you, Mr. Hassett.

Mr. HASSETT. Thank you, Senator.

Chairman ENZI. I have not taken a turn yet, but I will call on Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman.

Can you leave that up for a minute? Can you leave up the chart?

Senator COTTON. I am going to leave the chart up.

Senator JOHNSON. Okay. I appreciate that.

So I do not run out of time, I want to first ask a question that Senator Kaine raised about the lack of permanence in terms of individual and passthrough entity tax cuts. I obviously fought pretty hard for the approximately 95 percent of American businesses that pass through their income to the individual owner. Is that something—first of all, making those tax cuts permanent, is that something the administration would support?

Mr. HASSETT. Yes, of course. In fact, it is a key assumption in the President's budget.

Senator JOHNSON. So it would probably be a pretty good idea maybe if the House and the Senate were to propose that and hopefully get Democrat support to make those tax cuts permanent. We obviously ran out of the static score that we were operating under with the budget resolution, correct?

Mr. HASSETT. I am very grateful that it passed the Senate, and I understand that is difficult and depends on complicated budget rules. But if it was permanent, the economic effect would be higher.

Senator JOHNSON. And the administration would absolutely support making those tax cuts for individuals and passthrough entities permanent?

Mr. HASSETT. Yes. Director Mulvaney said that in this Committee room a few weeks ago as well.

Senator JOHNSON. Good. Is there any caveat to the information that Senator Cotton put up on that chart?

Mr. HASSETT. Sure. You know, even in articles that I have written that it is not clear that price indices are always measured well, and so I think that, for example, if you were to ask a typical person with less than a high school diploma in 2016 would they trade their consumption bundle with the consumption bundle from 1979, then they would say no.

Senator JOHNSON. But, again, in terms of——

Mr. HASSETT. So I think the basic point is correct, but whether people are truly worse off than they were in 1979, I think that that could be related to problems in price index——

Senator JOHNSON. But those are accurate numbers in terms of wage growth?

Mr. HASSETT. They are accurate numbers.

Senator JOHNSON. Okay. So here is the conundrum. Like you mentioned in Colorado and Wisconsin, in the 7 years I have been a United States Senator, there is not one manufacturing plant I have visited—and I come from manufacturing; I have this experience myself—that can hire enough people, not even close. We developed this project taking folks from the inner city, busing them up to Sheboygan County, where there were 4,000 jobs just in that one economic zone that were going unfilled. So what is causing the labor shortage?

Mr. HASSETT. Well, we believe that labor force participation is going to recover. The previous administration preached that it was all the retirement of the baby boomers, and we think that there are a number of other factors, including opioid abuse, that have reduced labor force participation. So I think that that is one of the things that is a near-term opportunity. I think that if you are in a tight labor market area, then one thing that you should do as an employer is probably advertise with, you know, targeted messages for people in groups that have left the labor force, like people above 55 and so on, to get workers back.

Senator JOHNSON. I came under a fair amount of criticism for work our Committee did talking about the opioid crisis somewhat being funded by Medicaid where individuals use their Medicaid card, you know, the people that are permanently out of the work force in the 25-to–54 age cohort. They are using their Medicaid card obtaining opioids and selling those on the open market to supplement their income. Isn't part of our problems our welfare system that pays people not to work, that creates the lack of mobility?

Mr. HASSETT. There are two waves in the opioid crisis. The first one was really from 2000 to 2010 and was based on prescriptions, while the price of prescriptions was dropping a lot in part because of generics, but also because of Medicare Part D and expanded coverage. After 2010, it seems like the dominant factor or one of the dominant factors is the switch toward illegal opioids, like fentanyl, that are very, very cheap. So I think that there are multiple factors, but Government policy certainly is one of the contributing factors.

Senator JOHNSON. I mean, we have really limited the number of work requirements in transfer payment programs, correct?

Mr. HASSETT. Yes.

Senator JOHNSON. Isn't that a big problem, we literally pay people not to work? We require no work requirement?

Mr. HASSETT. I think that work requirements that are easy to understand as well and apply across lots of programs, a universal type work requirement would be something that I think would be consistent with the discussions I have seen in the administration.

Senator JOHNSON. Certainly Senator Cotton and Senator Perdue have been suggesting a far more merit-based immigration system, legal immigration system I completely support. But I would consider part of high skills, people who want to work hard as well.

Anyway, that is all I have, Mr. Chairman. Thank you.

Mr. HASSETT. Thank you, Senator.

Chairman ENZI. Thank you. Thanks for being here through almost all of the hearing. I am going to have some questions now. Quite a few things, a few that I have to clear up some possible misunderstandings on before I get into my questions.

There were some comments about the deductibility of taxes being limited. The deductibility of taxes for 2017 is not affected.

Mr. HASSETT. It is next year, yes.

Chairman ENZI. Everybody that is paying their 2017 taxes are still filing under the old laws using the old forms and do not have the same limitations that there will be when they file on their 2018 taxes.

I would also comment that there is this comment about the tax cuts being temporary for individuals and then permanent for companies. When we were making the decisions on that, there was a definite reason for that, the biggest reason being that companies prepare a lot longer into the future in making their economic decisions than individuals do. In fact, individuals are pretty much on a year-to-year basis, except with some of their investments, which might get into the higher income.

Is there a definition for "rich"? We keep talking about what we are doing for the rich and against the poor. Can you tell me exactly where that level is?

Mr. HASSETT. I could not, Senator.

Chairman ENZI. I cannot either. I thought that one of the benchmarks was established at $80,000 as being—if you are below $80,000 you are not rich, and if you are above $80,000 you are rich based on some of the comments here.

And then there were the comments about people not realizing these benefits yet that have been projected. Should it take a while? How long did you anticipate that it would be before we really saw differences from the Tax Cuts and Jobs Act?

Mr. HASSETT. Yes, again, I think that the literature on taxes and wages that allows us to look at timing suggests that it is 3 to 5 years. But many of the papers are long-run, which means that the full effect could be a little bit larger but take longer, so that there are papers in the chart that I waved a while ago that say there is $10,000, but maybe that is the full long-term effect. Say you get to $4,000 in the fifth year, and then you grow from there. Then you could imagine that—it depends on how far out you look, how big the effect would be. But, again, I was very clear throughout the debate about where that estimate came from and how long it would take, and it should not—I guess at Walmart it already did, but the full effect should not be there yet because it depends on the capital formation. And as you said, that is why the corporate tax is permanent. Capital formation is kind of a 20-year decision for a firm. They are deciding to locate a new plant someplace, and that takes a little bit of a while. A lot of the capital goods that firms would want to order in order to increase productivity take 6 months to get delivered. And so it is not something that even if they, like January 1, went crazy ordering stuff, then the odds of it being in place and affecting wages right now are pretty low.

Chairman ENZI. So you did not feel compelled to do an analysis over what would happen because of the tax cuts in the first 2 months?

Mr. HASSETT. I did not, sir.

Chairman ENZI. Thank you.

The Economic Report describes the central infrastructure problem that we are looking at. It is clear that demand for that spending is not going to subside anytime soon. There seem to be two general options for the Committee to consider. One is reducing the spending to match incoming revenue or increasing revenue to match desired spending. Is there a better option for the economy? What distinctions would you make between user charges and taxes?

Mr. HASSETT. I think that there are pluses and minuses from every approach, and we go into that in great detail in the Economic Report of the President. I think that the headline is that if folks up here get it right, then it can be a big positive for economic growth. And then the question is, you know, how does one get it right, and there are lots of different attempts to finance infrastructure across the world and across the U.S. We mention things like user fees and tolls in addition to the gas tax if funding is one of the ways—increased funding is one of the ways you want to go.

And I think that that is something that inevitably Congress is going to have to address because as we move toward higher fuel economy and electric cars and so on, then the gas tax is not going to be able to fund all the potholes that we have to fix.

Chairman ENZI. I always note that the Simpson-Bowles plan was to raise the gas tax a nickel at a time for 3 years, and that would have put us in pretty good shape. Now I think the President is proposing a nickel a year for 5 years to get us to the same point we would have been at had we done that, and I have made several speeches on that over the period of time. But is that a specific revenue option that the administration is supporting?

Mr. HASSETT. I know that it is something that I think is on the table. I think the administration—the President has spoken about the gas tax. That is, you know, a public record. But I think that in the Economic Report we explore all the options and try to present economic analysis that helps you decision maker decide what the best path is.

Chairman ENZI. Of course, I keep referring to that as the "gas user fee."

Mr. HASSETT. Yes.

Chairman ENZI. You do not drive, you do not need to pay it. But last week 67 Senators voted to pass a bipartisan piece of legislation that would help out community banks across America, and we have not gotten into that today. Can you tell us about the benefits the Council believes will come from relieving the overly burdensome regulations that have been placed on the Nation's smaller banks over the last 8 years? And could you speak to the Council's projection for benefits of increased financial stability, particularly in rural communities, when they have that greater access to credit?

Mr. HASSETT. Right, the administration has issued a SAP in favor of the bill. I understand that, you know, there is ongoing negotiations with the House, and I think that, you know, respecting the legislative process is important.

As for the economics, I think that one of the most striking things, in addition to the low wage growth, that I see in the data is the sharp decline in entrepreneurship in the U.S. and an especially sharp decline in rural areas that a Harvard professor has written a study that suggests it is related to the decline in community banks associated with big increases in regulatory costs. But I think that entrepreneurship in rural areas, really if you are outside of the top 20 big cities, it is really, really hard to be an entrepreneur now because you just do not have access to the relationships and the finance that you used to. So I think that there is a big economic growth upside, which is mentioned, I think, in the SAP from the bill like the one that is being considered in the Senate.

Chairman ENZI. So if something like that passes, do you think that will have an effect on the GDP?

Mr. HASSETT. It certainly would, and I have not done a precise estimate. I cannot say it is 0.1 versus 0.3 or something like that, but the literature suggests that the decline in community banks has really harmed entrepreneurship, and entrepreneurship is one of the factors that especially contributes to total factor productivity growth, which has been especially disappointing. And so I would guess that once we did the full entrepreneurship estimate that we would potentially increase our total factor productivity growth estimate.

Chairman ENZI. Thank you. And thank you for your testimony and answering the questions. We do leave the ability to ask questions open a little bit. I do not see my instructions here on how quickly that has to be in. Today? So by close of business today, we need to have any questions that anybody wants to submit to have answered, and we would appreciate a speedy response on that.

Mr. HASSETT. Thank you so much for inviting me. It is a great honor to be here.

Chairman ENZI. We appreciate your vast knowledge on this and also the concise answers you gave to the questions, which is very helpful, too.

Mr. HASSETT. Thank you, sir.

Chairman ENZI. So thank you for your testimony. The hearing is closed.

[Whereupon, at 11:59 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
For Chairman Kevin Hassett
The Economic Report of the President
3/21/2018
Senate Budget Committee

Question #1:
Chairman Hassett, the Economic Report of the President included a summary of recent corporate announcements regarding increases to worker compensation and proposed domestic investment attributable to the Tax Cuts and Jobs Act (TCJA). I think it is important for members of the committee to be updated on the real world response to the tax bill, especially since we expect greater investment in the mid- and long-term. Will the Council continue to keep track of the corporate response to the TCJA? Please keep us updated as additional information becomes available.

Regardless of one's political persuasion, there seems to be a bipartisan consensus that the Tax Cuts and Jobs Act (TCJA) will continue to influence corporate behavior in the future. The Employment Act of 1946 requires the Council "to gather timely and authoritative information concerning economic developments and economic trends, both current and prospective." The Council, then, looks forward to continuing to track the TCJA's impact in the mid- and long-term.

Questions for the Record
From Senator Kamala D. Harris
For Kevin Hassett, Chair of the President's Council of Economic Advisors
Economic Report of the President
March 21, 2018
Senate Budget Committee

Question #1: The Center on Budget and Policy Priorities released a report that projects that individuals who make under $30,000 per year, which according to data from the Social Security Administration was about 49% of wage earners in America in 2016[1] , will have less take-home pay by 2025 as a result of the tax bill[2]. According to the report, this is due to the fact that the Child Tax Credit expansion does not go far enough in providing assistance to low and middle income Americans and the repeal of the individual mandate will leave millions more people uninsured and raise health insurance premiums for millions more. In addition, we face a growing student debt crisis which is trapping people under a crushing debt burden. Federal Reserve Chairman Jerome Powell recently said that we would see "longer-term negative effects" because for people who are trapped under a heavy loan burden, "it hurts their credit rating, it impacts the entire half of their economic life." **How can these optimistic predictions for growth be true when experts are suggesting that Americans are going to have to less money in their pockets and are increasingly being trapped by debt that will make it harder for them to buy a home, start a business, and do the things that are the cornerstone of robust participation in the economy?**

It seems important to distinguish between two things: future economic conditions, and *predictions* of future economic conditions. Some experts, as you intimate, forecast a more-pessimistic set of future economic conditions than others. In the fullness of time, however, future economic conditions will demonstrate whether the forecasts of today's pessimists or those of today's optimists are more-accurate. "Optimistic predictions" can be true when some experts offer pessimistic prognoses because the pessimistic prognoses can be wrong.

Consider the first year of the Trump Administration, 2017. Economic growth exceeded the 2017 growth forecast the Obama Administration published in its final *Economic Report of the President*. To the extent that the 2017 *Economic Report* offered a pessimistic forecast, then, this experience proves the point: the pessimists have been wrong about the trajectory of economic conditions under the Trump Administration before.

But there is no reason even to expect that the economy can perform only as well as the optimists suggest. To the extent that the Trump Administration's own forecast for economic growth offered an optimistic forecast, growth in 2017 exceeded the forecasts even of the

[1] https://www.ssa.gov/cgi-bin/netcomp.cgi?year=2016.

[2] https://www.cbpp.org/research/federal-tax/jct-estimates-final-gop-tax-bill-skewed-to-top-hurts-many-low-and-middle-income#_ftn1.

optimists: the Trump Administration was the only Administration since that of Ronald Reagan for which economic growth in its first year exceeded the Administration's own forecast.

There is no reason to think that even the forecasts of the optimists, much less those of the pessimists, are the upper-bound for what the U.S. economy can achieve.

Question #2: In California, immigration is an important part of our culture, but it is also an important driver of our economy. In my state, immigrants pay $99.4 billion in taxes, have $268.3 billion in spending power, and own businesses that employ 1,460,099 other Americans[3]. And for certain industries, such as agriculture, dairy, and hospitality, the participation of immigrants, including undocumented individuals, is vital. According to the American Farm Bureau Federation, undocumented workers compose 50-70% of the country's agricultural workforce. **Has the Council of Economic Advisors thought about how increased immigration enforcement actions will hurt the U.S. GDP by creating productivity losses in certain industries such as Agriculture, dairy, and hospitality? If not, will you commit to making an assessment of the impact that increased immigration enforcement actions will have these industries?**

Productivity is a measure of output per unit of input. To the extent that immigration influences GDP through an impact on productivity, then, immigration would need to influence output *per unit of input* rather than merely output (e.g., GDP alone). Immigration enforcement will affect productivity through its effect on both the supply of labor to an industry and the average skill level of workers within an industry. The effect of any increase in enforcement on both the supply and the composition of labor in specific industries cannot be credibly forecasted without more information regarding the scenario under consideration than the question provides.

Per the Employment Act of 1946, the Council "provides timely and authoritative information concerning economic developments and economic trends, both current and prospective" to the President and other policymakers. But the specific analysis undertaken by the Council depends on the specific policies under consideration by the President. The Council, accordingly, cannot commit to undertaking specific analyses or types of analysis in the future.

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[3] http://www.newamericaneconomy.org/locations/california/.

Questions for the Record
From Senator Chris Van Hollen
For The Honorable Kevin Hassett
Oversight of the Congressional Budget Office
March 21, 2018
Senate Budget Committee

Question #1

The Economic Report of the President includes a baseline forecast that real gross domestic product will "grow by an overall average annual rate of 2.2 percent through 2028." When the Republican tax plan and other Trump Administration policies are included, this projection for average annual economic growth rises to 3.0 percent. Table 2-1 in the Analytical Perspectives volume of the Trump Administration's FY2019 budget includes this higher projection for economic growth, along with projections for wages and salaries.

1. Do the projections for wages and salaries in the Analytical Perspectives Table 2-1 include the Trump Administration's expectation that the recently enacted tax cuts will provide the typical American household with a $4,000 pay raise?

   As described at length in the *Economic Report of the President* (2018), the projections in Analytical Perspectives Table 2-1 assume the full implementation of Administration tax, infrastructure, and deregulation policies.

2. Please provide comparable baseline projections of wages and salaries, for each year from 2018 through 2028, that do not include the Republican tax plan and other Trump Administration policies. This baseline should use the same assumptions that were used to project average real GDP growth of 2.2 percent.

   To generate the baseline GDP forecast of 2.2 percent growth on average through 2028, CEA employed a time series model based on the most recent academic literature. CEA cannot discuss the specifics of that estimation process without shedding light on an internal Administration deliberation, though the *Economic Report of the President* (2018) offers documentation of the Administration's approach to formulating forecasts of economic variables.

   CEA believes that its documentation of its forecast construction process offers guidance that would allow for those who seek to replicate its forecasts – and construct their own variations on them – the means to do so. The Council would be happy to advise you or any Senate staff on its interpretation of the latest techniques in the macroeconomic time-series literature, which the Council would recommend serve as a basis for any set of macroeconomic projections, as well as to advise on technical issues involved in constructing baseline forecasts under various sets of assumptions.

3. Please provide the Administration's projections for the number of households in the United States, for each year from 2018 through 2028, in order to clarify how much of a pay raise the typical household will supposedly receive in each year.

   The Administration's forecast of average wage effects per household does not require any set of assumptions for the specific number of households in particular years.

Question 2

President Trump promised that his corporate tax cuts would give the typical American household a $4,000 pay raise. According to The Washington Post, President Trump made this claim 12 times, including 6 times since signing the tax cuts into law.[4] Please provide any examples of President Trump acknowledging workers will need to wait 3-5 years—as you testified—to see if they actually get this supposed pay raise.

If you look at the CEA documentation that President Trump explicitly cited as early as October 2017, you will see that the $4,000 pay raise was characterized as a long-run effect throughout the duration of its relevance to the tax debate.

President Trump first cited the $4,000 expected wage increase to America's households, and America's workers, on October 11, 2017 – with explicit attribution to the Council of Economic Advisers. The specific sentence in which President Trump first mentioned the estimate to the public was:

"My Council of Economic Advisers estimates that this change, along with a lower tax rate, would likely give the typical American household a $4,000 pay raise."[5]

There are many places to find the Council of Economic Advisers documentation that President Trump is referencing in the very first mention of the $4,000 quantity. On October 5, 2017 – before President Trump's first mention of the $4,000 number on October 11 – during a speech to the public at the Tax Policy Center, I articulated that tax legislation along the lines of the Unified Framework could increase household income by "up to $7,000." And on October 16, 2017, the Council of Economic Advisers released a paper documenting the origins and nature of the $4,000 calculation in detail.

That paper clearly states: the $4,000 estimated effect is what economist call a "long-run" estimate, the type that happen only over the course of years. Consider, for instance, this passage on page 6 of the relevant CEA document ("Corporate Tax Reform and Wages: Theory and Evidence"):

[4] Washington Post, "President Trump has made 2,436 false or misleading claims so far," March 2, 2018.
[5] http://www.presidency.ucsb.edu/ws/index.php?pid=128410&st=&st1=

"These wage effects are long-run outcomes and should be thought of as the recurring flow of income after the corporate tax changes have fully taken hold, since the identification relies on cross sectional variation in tax rates (6)."[6]

President Trump has from the earliest days of its invocation in public debate cited the Council of Economic Advisers for the estimate. And so the documentation provided by the Council of Economic Advisers leaves no doubt as to its long-run nature. The Council of Economic Advisers made this documentation available to the public to answer this type of question.

That documentation has been available during public debate about tax legislation along the lines of the Unified Framework, the legislation that became the Tax Cuts and Jobs Act, and remains available online. The Council remains happy to answer any questions you or your staff have about the research it publishes.

Question 3

There were 1.4 million long-term unemployed workers in the United States as of February 2018.[7] You have raised concerns about this problem recently, and I share your concerns. You have even discussed establishing a government program to hire long-term unemployed workers. Please describe how you believe this kind of program could work best, and why the problem of long-term unemployment is so urgent.

The benefits of such a program would be greatest when economic forces, left to their own devices, fail to decrease over time the number of individuals who are long-term unemployed. And in the wake of the Great Recession, the number of individuals who were long-term unemployed surged to record highs. When conditions like that exist, it is difficult not to look at the numbers and at least consider a government intervention to directly hire the long-term unemployed.

Under President Trump, however, a booming labor market seems to have accelerated the hiring of the long-term unemployed, with the number of long-term unemployed falling from 1.9 million at the President's election to 1.4 million in the most recent month. We and other economists expect this number to continue to fall. The rationale for a direct government hiring program as a way to achieve the goal of reducing long-term unemployment seems less compelling when the booming labor market is inducing their employment already.

[6] https://www.whitehouse.gov/sites/whitehouse.gov/files/documents/Tax%20Reform%20and%20Wages.pdf

[7] Bureau of Labor Statistics, "Number of Unemployed for 27 weeks & over," last accessed March 21, 2018.

Questions for the Record from Senator Wyden for Kevin Hassett

March 21, 2018

"The Economic Report of the President"

Senate Budget Committee

1. Alternative Estimates of Wage Growth due to Corporate Tax Cuts, excluding Global Studies

In the Economic Report of the President, the White House Council of Economic Advisers (CEA) again repeats the claim that American workers' wages will increase by $4,000 per year because of the corporate tax cuts in Republican tax law.

CEA recognizes that estimates of the incidence of corporate taxes on labor provided by U.S.-based and country-based studies are "more applicable to the United States" (pg. 46) than estimates from cross-country global studies. Yet CEA's method for estimating corporate tax incidence still incorporates estimates from global studies, such as Hassett and Mathur (2015). Thus in reaching your $4,000 wage increase figure, you "remove the two highest and two lowest estimates" from the full set of 13 global, U.S., Canadian, and German-based estimates cited in the report (pg. 48). With this method, CEA gets a range of $3,400 to $9,900 for wage increases due to corporate tax cuts. But this method includes global studies that CEA itself recognizes as relatively inapplicable to estimates for U.S. households. Further, CEA does not justify its decision to drop the top two and lowest two estimates from the set of 13 estimates surveyed in the report.

I am concerned that CEA included global estimates in its method and arbitrarily chose to drop certain studies from its estimates so as to jerry-rig a range of "possible" wage increases that the Administration found more favorable. Further, I am concerned that CEA applied the elasticities in the literature to *average* rather than *median* income in order to inflate its wage growth estimate, since average income is distorted upwards, relative to median income, by ultra-wealthy households that are outliers in the income distribution.

Please re-run your analysis and provide me with three separate estimated ranges for average household income increases, comparable to the figure of $3,400 to $9,900 on pg. 48 of the report, using the four alternate methods below. Then, please provide me with three additional estimates that apply the elasticities in the literature using median household income rather than average household income. To be clear, I am requesting <u>six different estimates</u> from CEA of the range of possible household wage increases due to the corporate tax cuts.

Alternative methods:

1. Do not drop the highest two and lowest two estimates from the full set of 13 global, U.S., Canadian, and German-based estimates cited in the report.
2. Only drop the single highest and single lowest estimates from the full set of 13 global, U.S., Canadian, and German-based estimates cited in the report.
3. Only include the three U.S.-based estimates: Felix (2009), Carroll (2009), and Carroll (2009).

The Council of Economic Advisers has strived to document the nature of all of its calculations on the expected effects of tax legislation and to show a commitment to transparency in our estimates of the effects of tax legislation. CEA has laid out the methodology underlying its calculations on the relationship of corporate taxes to wages such that readers can replicate – and perform their own variations of – CEA's calculations. The *Economic Report of the President* (2018) and the October 2017 CEA paper "Corporate Taxes and Wages: Theory and Evidence" are two such documents that shed light on CEA's methodology. If you or your staff have any questions about the specifics of the methodology CEA lays out – and its robustness to a range of assumptions and parameter values – I would be as happy to answer them in-person.

2. Distributional Estimates for Wage Growth due to Corporate Tax Cuts

In the Economic Report of the President, CEA claims that the *average* U.S. household will receive a $4,000 pay increase because of the corporate tax cuts in the Republican tax law. However, CEA does not provide any distributional analysis estimating how households across the income distribution will benefit differently from this purported wage growth.

1. Has CEA produced any formal distribution analysis to accompany its analysis of the wage growth of the average U.S. household?
    a. If the answer to (1) is yes, please provide me with a distributional table that breaks out households by income quartile and breaks out the top 1 percent of earners.
    b. If the answer to (1) is no, please answer the following questions:
        i. Has the CEA at any time produced any informal estimate(s) relating in any way to how its projected $4,000 wage growth would be distributed across

U.S. households of varying incomes. If so, please provide me with those informal estimate(s).

ii. Did any member of CEA discuss, formally or informally, the need to provide a distribution analysis?

iii. Was the CEA ever asked at any point by any Administration official to produce a distributional estimate relating in any way to how its projected $4,000 wage growth would affect U.S. households of varying incomes?

iv. Was the CEA ever instructed at any point by any Administration official to not produce a distributional estimate relating in any way to how its projected $4,000 wage growth would affect U.S. households of varying incomes?

v. Does the CEA have the technical capacity to produce such a distributional analysis? If so, please provide me with the distribution table as specified in (1). If not, please explain why CEA does not have the capacity to produce this analysis and identify the office within the Administration able to produce and provide me with this distributional analysis.

I am unable to answer questions about internal deliberations of the Administration. However, I can understand that you and/or your staff may have questions about the distributional effects of the Tax Cuts and Jobs Act – or other current or prospective tax policies.

If that is the case, I would encourage you and/or your staff to utilize the Open Source Policy Center's TaxBrain, which allows users to see the distributional effects of tax policies based on a methodology that is transparent for users to evaluate: https://www.ospc.org/taxbrain/

3. Stock buybacks, Wage Increases, and Domestic Investment

At a February 22nd White House Press Briefing, CEA Chair Hassett stated, regarding U.S. multinational corporations' repatriated earnings under the Republican tax law, that "with that money coming back...right now we're going to have an adjustment where you'll see probably more dividends [and] share buybacks than wage increases because that's cumulative past earnings."

1. Is it the view of the CEA and the Administration that, so far in 2018, the share of the repatriated foreign earnings of U.S. multinational corporations that has been dedicated to stock buybacks is greater than the share of these repatriated funds that has been dedicated to wage increases?

It is the view of CEA that it is not reasonable to expect the effects of share buybacks within a few months of the tax legislation's passage to serve as indicators of the tax legislation's long-run effects. As explained below, share buybacks are a one-time effect that – though beneficial – are conceptually distinct from the types of investment effects that you would expect to increase labor productivity and therefore wages.

Chairman Hassett's comment unambiguously states that at least a sizable portion of the repatriated earnings are being dedicated to stock buybacks rather than domestic investment. Yet CEA makes a point in its report of arguing that its projected $200 billion decrease in net capital overflows due to the Republican tax law would fully finance its projected $207 billion increase in U.S. capital stock (pg. 69). This claim assumes that 100% of reduced capital outflows will be dedicated to domestic investment, with none dedicated to other activities.

2. Does CEA's claim that the $200 billion decrease in net capital outflows would fully finance the $207 billion increase in domestic investment assume that not a single dollar of the $200 billion in domestically retained capital would be dedicated to directly increasing employee compensation?
3. Does CEA agree that Chairman Hassett's statement, which recognized that a sizable portion of repatriated funds are being dedicated to stock buybacks, is inconsistent with CEA's claim that 100% of reduced capital outflows could possibly be dedicated solely to domestic investment?
4. If CEA disagrees with the assertion in (3), is it the position of CEA and the Administration that not a single dollar of reduced capital outflows due to corporate tax cuts will be dedicated at any point to stock buybacks?
5. If reduced capital outflows cannot fully finance CEA's projected increase in domestic investment, what other financing mechanisms account for this purported $207 billion increase in domestic investment?

At the February 22nd press conference, I discussed repatriations of foreign earnings. In the *Economic Report of the President* (2018), CEA estimated a response of foreign direct investment to changes in certain tax parameters. This set of questions appears to assume the existence of a certain economic relationship between these two quantities. Given the nature of what each quantity represents, however, there does not seem to be a basis for thinking that these quantities have the type of economic relationship assumed by the question.

My statements at the February 22nd press briefing referred to the effects of the one-time repatriation of money from offshore domiciles to the United States. You would expect this type of transaction to happen once and only once in response to the passage of historic tax legislation like the TCJA and it is, effectively, a one-time shift in the stock of wealth from storage overseas to storage in the United States. Corporations, according to media reports, are indefinitely holding approximately $3 trillion overseas – and some of this wealth may move from its offshore location to the U.S. These are the "cumulative past earnings" referenced by Chairman Hassett. As it moves across national boundaries, the movement of this wealth may manifest in national income and product accounts as flows of portfolio investment. But they are flows that occur only once, as the passage of the tax legislation happens only once. And they represent a shift in the nation in which an existing stock of wealth is stored, rather than a flow of investment that funds the type of real economic activity that employs workers.

The nature of this quantity, then, contrasts with the quantity described on page 69 of the *Economic Report of the President*. That quantity, of estimated reduced capital outflows, were calculated using estimated tax elasticities of investment from a large academic literature on the responsiveness of foreign direct investment to corporate tax rate differentials. Quantities of this type represent increases in the flow of foreign direct investment in plant, property, and equipment – not portfolio investment – as well as an increased flow of U.S. investment in plant, property, and equipment in the United States rather than abroad. There is no reason to think that there exists any logical relation between the magnitude of this increase in annual flows of foreign direct investment and the stock of "cumulative past earnings" now held as wealth abroad that now stands poised to be repatriated from offshore to the United States. Unlike movements in stocks of wealth between offshore and U.S.-based accounts, FDI does represent the type of investment that funds the type of real economic activity that employs workers.

I would be happy to discuss the distinction between equilibrium investment effects and the effects of one-time repatriations with you or your staff, as this distinction has implications for how you would expect the tax bill to influence economic activity. And, as per the Employment Act of 1946, purpose of the Council is "to gather timely and authoritative information concerning economic developments and economic trends, both current and prospective."

CBO'S BUDGET AND ECONOMIC OUTLOOK: FISCAL YEARS 2018–2028

WEDNESDAY, APRIL 11, 2018

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

The Committee met, pursuant to notice, at 10:32 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, Corker, Gardner, Boozman, Cotton, Sanders, Wyden, Whitehouse, Merkley, Kaine, Van Hollen, and Harris.

Staff present: Elizabeth McDonnell, Republican Staff Director; and Warren Gunnels, Minority Staff Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. Good morning, and welcome to our hearing on CBO's budget and economic outlook for fiscal years 2018 through 2028.

Dr. Hall, thank you for this report. As you know, this update was delayed from its normal release in January due to congressional activity at the end of last year. I appreciate CBO's dedication to integrating into the final product analysis of last December's Tax Cuts and Jobs Act as well as the 2018 Bipartisan Budget Act and the omnibus appropriations bill. It is vital that this Committee have the most up-to-date information in order to understand the fiscal impact of the policies being implemented.

This year's report, like so many before it, shines a spotlight on our country's unsustainable fiscal outlook. Automatic spending programs like Social Security and Medicare are growing disproportionately to the revenue and outpacing the economy.

Consider this: Automatic spending will soon consume all the taxes and revenues the Federal Government collects, and that is before one dollar goes to providing for our national defense and other priorities funded through so—called discretionary spending as part of the annual appropriations process. And 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.

Congress must come to terms with this overspending. Our Government makes promises to pay for those programs without identifying a source of funding to ensure their sustainability. Dedicated taxes and fees are currently paying for less than half of the total mandatory spending.

To really address this fiscal imbalance, we can either reduce spending or increase our projected economic growth, but preferably some combination of the two. The Tax Cuts and Jobs Act passed last year was a good first step toward growing our economy. It is already producing higher wages, more dollars in workers' paychecks, and increased domestic investment. And while we may have disagreements over the extent of its impact on the economy, both the Joint Committee on Taxation and CBO have confirmed that the tax cuts will have a positive impact on GDP growth.

The Budget Committee continues to work toward setting a pro-growth legislative path for the upcoming year. Part of that has to be the process by which Congress budgets. We cannot continue to make last-minute deals that only add to our debt and ignore the structural policy changes needed for long-term sustainability or to spend money from the end of the 10-year period in the first year.

The threat of a Government shutdown should not be used to increase spending, but, unfortunately, since the 2011 failure of the Joint Select Committee on Deficit Reduction that was created by the Budget Control Act, we have seen this outcome time and again, most recently culminating in the Bipartisan Budget Act of 2018. This new law raised the caps on regular discretionary spending by $296 billion over fiscal years 2018 and 2019. CBO estimates that if appropriations were to grow at the rate of inflation after 2018 rather than returning to the Budget Control Act's lower caps, discretionary spending would be $1.7 trillion higher over the next 10 years than it is under CBO's baseline.

Many members of this Committee have supported reforms to the budget and appropriations process, including automatic continuing resolutions and biennial budgeting. Senator Cotton has proposed eliminating the Budget Control Act's discretionary caps to end what he called the "bust—and-boom budget cycle." We need to reform our budget and appropriations process to end the specter of Government shutdowns that lead to overspending. The truth is, however, that annual appropriations make up just a fraction of our total spending. To really address underlying problems, we need more time and effort put toward oversight and reducing the rate of growth of mandatory spending.

Congress needs to focus more on addressing these autopilot programs in order to make them more effective and eliminate duplication. We need to set long-term goals to ensure a sustainable debt-to-GDP ratio so our overspending does not ultimately bankrupt the country. The continued growth of our national debt is something this Committee and Congress needs to address. A balanced budget is the best outcome, but as the President's fiscal year 2019 budget shows, it is getting harder and harder to produce. While the correct debt-to-GDP goal is debatable, I think we can all agree this report's projected path approaching 100 percent over the next 10 years is not a good outcome.

Dr. Hall, I look forward to your thoughts on what actions Congress could take to foster a stronger U.S. economy and reduce spending.

Senator Sanders.

OPENING STATEMENT OF SENATOR BERNARD SANDERS

Senator SANDERS. Thank you very much, Mr. Chairman. And, Dr. Hall, thanks very much for being with us again.

Mr. Chairman, over and over again, President Trump, his administration, and many of my Republican colleagues have made the claim that the tax plan that was passed that gave massive tax breaks to the richest people in this country would magically pay for itself.

On September 28th, Secretary Mnuchin, the Treasury Secretary, said, "Not only will this tax plan pay for itself, but it will pay down debt."

On October 22d, President Trump said this about his tax plan: "If we pick up one point on GDP, that is $2.5 trillion. It more than pays for everything."

On December 4th, Senate Majority Leader McConnell said, "I not only do not think the tax bill will increase the deficit, I think it will be beyond revenue neutral. In other words, I think it will produce more than enough to fill that gap."

And, Mr. Chairman, on December 19th, you said, Mr. Chairman—see, I am quoting you.

Chairman ENZI. Thank you.

Senator SANDERS. That is how much I respect your work here. "I am tired of the accusations the Republican budget hawks—and that definitely includes me"—i.e., you—"are willing to throw in the towel and accept a trillion and a half dollar deficit over the next 10 years. I am still a deficit hawk. And here is why: Claims to the contrary that this tax bill will go unpaid for are based on an incomplete analysis of the tax bill."

Fair quote?

Chairman ENZI. Fair quote.

Senator SANDERS. Okay. Well, Mr. Chairman, the results are in, and the nonpartisan experts at CBO tell us that not only will the Trump tax plan not pay for itself, it will add nearly $1.9 trillion to the Federal deficit over the next 11 years, even after taking economic growth into account. And the Trump tax cut is not the only Republican policy that has increased the deficit and the national debt over the past 17 years. There are wars, there are massive increases in military spending that have added to the problems.

So here we are, and this is a point, Mr. Chairman, that I want to make. When we talk about the Government, we have got to talk about the American people, not just the Government. We have got to talk about a declining middle class. We have got to talk about 40 million people living in poverty. We have to talk about the massive level of income and wealth inequality that exists in America.

You just talked about it, if I may say, really about the necessity, in your view, about cutting Social Security and Medicare. And I think that that is a very, very wrong idea. When you have got millions of seniors in Vermont, Wyoming, and all over this country trying to get by on $12,000, $13,000, $14,000 a year, what we should not be doing as a Nation is giving unbelievable tax breaks to billionaires, and then say, "Oh, we have got to cut Social Security or take away health care benefits from the elderly in this country." That is a warped sense of priorities, in my view.

So I think when we talk about the budget, we have to talk about it in the broader context of what is happening in America. And what is happening in America is we are seeing a massive increase in income and wealth inequality. Does anybody here want to defend the fact that three people in America now own more wealth than the bottom half of the American people? Do we want to defend the reality that a very significant amount of new income today is going to the top 1 percent?

So our job is to create an economy that works for all of us, and you do not do that, as the President proposed, by a $1 trillion cut in Medicaid, $500 billion in Medicare. You do not do that by cutting Social Security. What you do do is say to the wealthiest people in this country, who in many ways have never had it so good, you recognize the fact that income and wealth inequality is worse today than at any time since the 1920's, you say to those people, "Start paying your fair share of taxes." And maybe we also may want to think about why we are expanding, increasing military spending by $165 billion over the next 2 years when you have veterans in this country sleeping out on the street.

So the bottom line is, Mr. Chairman, the President's tax plan is not going to lower the deficit. According to the CBO, it is going to increase the deficit. And the time is long overdue for us to get our priorities right, start protecting working families and the middle class, not just wealthy campaign contributors.

Thank you.

Chairman ENZI. Thank you, and I appreciate you quoting me. But later, when you said that I said cut Medicare and Social Security, I have never said cut them.

Senator SANDERS. Okay. Then what did you mean when you talked about entitlement programs, when you talked about those programs? What do you mean by that?

Chairman ENZI. I think you missed the part about some of the duplication and effectiveness of making those programs, and I did not rule out an increase in the revenues for them. Something has to be done, and it needs to be a combination, is what I said.

Senator SANDERS. All right. If I misquoted you, then I am sorry. But some of your colleagues, especially in the House, have talked about cuts to Social Security and Medicare.

Chairman ENZI. Thank you.

Our witness this morning is Dr. Keith Hall, the Director of the Congressional Budget Office. Earlier this year he appeared before this Committee to discuss CBO's work and his efforts to increase responsiveness and transparency at the agency. This morning Dr. Hall will be talking to us about CBO's latest projections and the challenges we face as a Nation. We look forward to receiving your testimony.

For the information of colleagues, Dr. Hall will take up to about 7 minutes for his opening statement, followed by questions.

Welcome, Dr. Hall. Please begin.

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

Dr. HALL. 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 on Monday.

In the Congressional Budget Office's baseline projections, which incorporate the assumption that current laws governing taxes and spending generally remain unchanged, the Federal budget deficit grows substantially over the next few years. Later on, between 2023 and 2028, it stabilizes in relation to the size of the economy, though at a high level.

As a result, Federal debt is projected to be on a steadily rising trajectory throughout the coming decade, approaching 100 percent of gross domestic product by 2028.

Projected deficits over the 2018–2027 period have increased markedly since we issued our last budget and economic projections in June 2017. The increase stems primarily from tax and spending legislation enacted since then, especially the 2017 tax act, the Bipartisan Budget Act of 2018, and the Consolidated Appropriations Act of 2018.

In our economic projections, which underlie our budget projections, inflation-adjusted GDP or real GDP expands by 3.3 percent this year and by 2.4 percent in 2019. Most of this growth is driven by consumer spending and business investment, but Federal spending also contributes a significant amount this year.

Growth of real GDP exceeds the growth of real potential GDP over the next 2 years. This marked cyclical path in real GDP will occur in large part because the recent legislation provides significant fiscal stimulus at a time when there is very little slack in the economy. Those effects, as well as the larger Federal budget deficits resulting from the new laws, exert upward pressure on interest rates and prices. During the 2020–2026 period, those factors, along with slower growth in Federal outlays and the expiration of reductions in personal income tax rates, dampen economic growth. After 2026, economic growth is projected to rise slightly, matching the growth rate of potential output by 2028.

Between 2018 and 2028, real actual output and real potential output alike are projected to expand at an average annual rate of 1.9 percent. In our forecast, the growth of potential GDP is the key determinant of the growth of actual GDP through 2028 because actual output is very near its potential level right now and is projected to be near its potential level at the end of the period.

Potential output is projected to grow more quickly than it has since the start of the 2007–2009 recession, as the growth of productivity increases to nearly its average over the past 25 years. Nonetheless, potential output is projected to grow more slowly than it did in earlier decades, held down by slower growth of the labor force, which results partly from the ongoing retirement of baby boomers.

In our projections, the effects of the 2017 tax act on incentives to work, save, and invest raise real potential GDP through the

2018–2028 period. Over the same period, the tax act is projected to boost the level of real GDP by an average of 0.7 percent and nonfarm payroll employment by an average of 1.1 million jobs.

Our current economic projections differ from those that we made in June 2017 in a number of ways. The most significant is that potential and actual real GDP are projected to grow more quickly over the next few years. Projected output is greater because of recently enacted legislation, data that has become available after our previous economic projections were completed, and improvements in our analytical methods.

Over the next decade, the unemployment rate is lower in our current projections than in our previous ones, particularly during the next few years, when economic stimulus boosts demand for labor. Also, both short-and long-term interest rates are projected to be higher, on average, from 2018 to 2023.

Turning to the budget projections, we estimate that the 2018 budget deficit will total $804 billion, $139 billion more than the $665 billion shortfall recorded in 2017. In our projections, budget deficits continue increasing after 2018. As deficits accumulate, debt held by the public rises from 78 percent of GDP, or $16 trillion, at the end of this year to 96 percent of GDP, or $29 trillion, by 2028. That percentage would be the largest since 1946 and well more than twice the average over the past five decades.

For the next few years, revenues hover near their 2018 level of 16.6 percent of GDP in our projections. Then they rise steadily, reaching 17.5 percent of GDP by 2025. At the end of that year, many provisions of the 2017 tax act expire, causing receipts to rise sharply—to 18.1 percent of GDP in 2026 and 18.5 percent in 2027 and 2028. They have averaged 17.4 percent of GDP over the past 50 years.

In our projections, outlays for the next 3 years remain near 21 percent of GDP, which is higher than their average of 20.3 percent over the past 50 years. After that, outlays grow more quickly than the economy does. That increase reflects significant growth in mandatory spending, mainly because the aging of the population and rising health care costs per beneficiary are projected to increase spending for Social Security and Medicare, among other programs. It also reflects significant growth in interest costs, which are projected to grow more quickly than any other major component of the budget, the result of rising interest rates and mounting debt. By 2028, net outlays for interest are projected to be roughly triple what they are in dollar terms this year, roughly double when measured as a percent of GDP. In contrast, discretionary spending is expected to decline in relation to the size of the economy.

For the 2018–2027 period, we now project a cumulative deficit that is $1.6 trillion larger than the $10.1 trillion deficit that we anticipated in June. Projected revenues are lower by $1 trillion, and projected outlays are higher by half a trillion.

Laws enacted since June 2017—above all, the three mentioned earlier—are estimated to make the cumulative deficit $2.7 trillion larger than previously projected between 2018 and 2027. However, revisions to our economic projections caused us to reduce our estimate of the cumulative deficit by $1 trillion over the same period, mainly because of the expectations of faster growth in the economy and in wages and corporate profits. Other changes had relatively small effects on the projections.

CBO also analyzed an alternative scenario in which current law was altered to maintain major policies that are now in place, so that substantial tax increases and spending cuts would not take place as scheduled under current law, and to provide more typical amounts of emergency funding than the sums provided for in 2018. In that scenario, far larger deficits and much greater debt would result than in CBO's current baseline projections. Debt held by the public would reach about 105 percent of GDP by the end of 2028, an amount that has been exceeded only once in the Nation's history. Moreover, the pressures contributing to that rise would accelerate and push debt up even more sharply in subsequent decades. Such high and rising debt would have serious negative consequences for the budget and the Nation; in particular, the likelihood of a fiscal crisis in the United States would increase.

I appreciate the invitation to testify today about CBO's budget and economic outlook. I would be happy to answer questions.

[The prepared statement of Dr. Hall follows:]

Congressional Budget Office

Testimony

The Budget and Economic Outlook: 2018 to 2028

Keith Hall
Director

Before the
Committee on the Budget
United States Senate

April 11, 2018

This document is embargoed until it is delivered at 10:30 a.m. (EDT) on Wednesday, April 11, 2018. 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 on Monday.

In the Congressional Budget Office's baseline projections, which incorporate the assumption that current laws governing taxes and spending generally remain unchanged, the federal budget deficit grows substantially over the next few years. Later on, between 2023 and 2028, it stabilizes in relation to the size of the economy, though at a high level by historical standards.

As a result, federal debt is projected to be on a steadily rising trajectory throughout the coming decade. Debt held by the public, which has doubled in the past 10 years as a percentage of gross domestic product (GDP), approaches 100 percent of GDP by 2028 in CBO's projections. That amount is far greater than the debt in any year since just after World War II. Moreover, if lawmakers changed current law to maintain certain current policies—preventing a significant increase in individual income taxes in 2026 and drops in funding for defense and nondefense discretionary programs in 2020, for example—the result would be even larger increases in debt.

Projected deficits over the 2018–2027 period have increased markedly since June 2017, when CBO issued its previous projections. The increase stems primarily from tax and spending legislation enacted since then—especially Public Law 115-97 (originally called the Tax Cuts and Jobs Act and called the 2017 tax act here), the Bipartisan Budget Act of 2018 (P.L. 115-123), and the Consolidated Appropriations Act, 2018 (P.L. 115-141). The legislation has significantly reduced revenues and increased outlays anticipated under current law.

In CBO's economic projections, which underlie its budget projections, output grows at a faster pace this year than in 2017, as the recent changes in fiscal policy add to existing momentum in spending on goods and services. Growth in actual GDP outpaces growth in potential (that is, maximum sustainable) GDP both this year and next, pushing the unemployment rate down. After 2019, economic growth is projected to slow, eventually matching CBO's estimate of the economy's maximum sustainable rate of growth.

Real GDP (that is, GDP adjusted to remove the effects of inflation) and real potential GDP are now projected to be greater throughout the coming decade than projected last June, in part because of the significant recent changes in fiscal policy. Also, interest rates are projected to be higher and the unemployment rate lower in the next few years than CBO projected previously.

Even if federal laws did generally remain in place, budgetary and economic outcomes would be difficult to predict and thus uncertain. CBO's projections, especially its economic projections, are even more uncertain than usual this year, because they incorporate estimates of the economic effects of the recent changes in fiscal policy—and those estimates are themselves uncertain. CBO aims to formulate projections that fall in the middle of the distribution of possible outcomes.

Economic Growth Is Projected to Be Relatively Strong This Year and Next and Then to Moderate

In CBO's projections, the growth of real GDP exceeds the growth of real potential output over the next two years, putting upward pressure on inflation and interest rates (see Figure 1). But during the 2020–2026 period, a number of factors dampen economic growth: higher interest rates and prices, slower growth in federal outlays, and the expiration of reductions in personal income tax rates. After 2026, economic growth is projected to rise slightly, matching the growth rate of potential output by 2028.

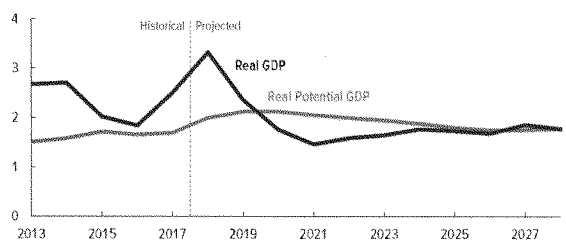
Economic Growth

Between 2018 and 2028, actual and potential real output alike are projected to expand at an average annual rate of 1.9 percent. In CBO's forecast, the growth of potential GDP is the key determinant of the growth of actual GDP through 2028, because actual output is very near its potential level now and is projected to be near its potential level at the end of the period.

Potential output is projected to grow more quickly than it has since the start of the 2007–2009 recession, as the growth of productivity increases to nearly its average over the past 25 years and as the recent changes in fiscal policy boost incentives to work, save, and invest. Nonetheless, potential output is projected to grow more

Figure 1.

Growth of Real GDP and Real Potential GDP



In CBO's projections, **real GDP growth** and **real potential GDP growth** average 1.9 percent over the 2018–2028 period, even though real GDP grows more rapidly at first.

Source: Congressional Budget Office.

Real values are nominal values that have been adjusted to remove the effects of inflation. Potential GDP is CBO's estimate of the maximum sustainable output of the economy. The growth of real GDP and of real potential GDP is measured from the fourth quarter of one calendar year to the fourth quarter of the next.

GDP = gross domestic product.

slowly than it did in earlier decades, held down by slower growth of the labor force (which results partly from the ongoing retirement of baby boomers).

In CBO's projections, real GDP expands by 3.3 percent this year and by 2.4 percent in 2019 (see Table 1). It grew by 2.6 percent last year. Most of the growth in output in the next two years is driven by consumer spending and business investment, but federal spending also contributes a significant amount this year. After averaging 1.7 percent from 2020 through 2026, real GDP growth is projected to average 1.8 percent in the last two years of the 2018–2028 period.

Effects of Recent Legislation on the Economy

The recently enacted legislation has shaped the economic outlook in significant ways. In CBO's projections, the effects of the 2017 tax act on incentives to work, save, and invest raise real potential GDP throughout the 2018–2028 period. In addition, all three major laws mentioned above provide fiscal stimulus, raising real GDP more than potential GDP in the near term. Over the longer term, all of those effects, as well as the larger federal budget deficits resulting from the new laws, exert upward pressure on interest rates and prices.

The largest effects on GDP over the decade stem from the tax act. In CBO's projections, it boosts the level of real GDP by an average of 0.7 percent and nonfarm payroll employment by an average of 1.1 million jobs over the 2018–2028 period. During those years, the act also raises the level of real gross national product (GNP) by an annual average of about $470 per person in 2018 dollars. (GNP differs from GDP by including the income that U.S. residents earn from abroad and excluding the income that nonresidents earn from domestic sources; it is therefore a better measure of the income available to U.S. residents.) Those projected effects grow in the earlier years of the period and become smaller in the later years.

The other two laws are estimated to increase output in the near term but dampen it over the longer term. The fiscal stimulus that they provide boosts GDP by 0.3 percent in 2018 and by 0.6 percent in 2019, in CBO's assessment. However, the larger budget deficits that would result are estimated to reduce the resources available for private investment, lowering GDP in later years.

GDP Is Projected to Be Greater Than CBO Previously Estimated

CBO's current economic projections differ from those that the agency made in June 2017 in a number of ways. The most significant is that potential and actual real GDP are projected to grow more quickly over the next few years. As a result, the levels of those measures are 1.6 percent higher than CBO previously estimated for 2027 (the last year in the previous projection period). Projected output is greater because of recently enacted

Table 1.

CBO's Projections of Key Economic Indicators for Calendar Years 2018 to 2028

	Actual, 2017	2018	2019	2020	Annual Average 2021–2022	Annual Average 2023–2028
	Percentage Change From Fourth Quarter to Fourth Quarter					
Gross Domestic Product						
Real[a]	2.6	3.3	2.4	1.8	1.5	1.7
Nominal	4.5	5.2	4.5	3.9	3.7	3.9
Inflation						
PCE price index	1.7	1.8	2.0	2.1	2.1	2.0
Core PCE price index[b]	1.5	1.9	2.1	2.2	2.1	2.0
	Annual Average					
Unemployment Rate (Percent)	4.4	3.8	3.3	3.6	4.4	4.8
Payroll Employment (Monthly change, in thousands)[c]	181	211	182	62	25	57
Interest Rates (Percent)						
Three-month Treasury bills	0.9	1.9	2.9	3.6	3.7	2.8
Ten-year Treasury notes	2.3	3.0	3.7	4.1	4.1	3.7

Sources: Congressional Budget Office; Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve.

PCE = personal consumption expenditures.

a. Real values are nominal values that have been adjusted to remove the effects of inflation.

b. Excludes prices for food and energy.

c. Calculated as the change in payroll employment from the fourth quarter of one calendar year to the fourth quarter of the next, divided by 12 (the average monthly amount).

legislation, data that became available after CBO's previous economic projections were completed, and improvements in the agency's analytical methods. Also, because inflation is now anticipated to be higher, the level of nominal GDP is projected to be 2.4 percent higher in 2027 than previously estimated.

Over the next decade, the unemployment rate is lower in CBO's current projections than in its previous ones—particularly during the next few years, when economic stimulus boosts demand for labor. Also, both short- and long-term interest rates are projected to be higher, on average, from 2018 to 2023—by roughly 0.7 percentage points and 0.4 percentage points, respectively—than projected in June. That faster rise in interest rates primarily reflects stronger overall demand.

Deficits Are Projected to Be Large by Historical Standards

CBO estimates that the 2018 deficit will total $804 billion, $139 billion more than the $665 billion shortfall recorded in 2017 (see Table 2). Both amounts, however, are affected by shifts in the timing of some payments. Outlays in 2018—and thus the deficit—have been reduced by $44 billion because October 1, 2017 (the first day of fiscal year 2018), fell on a weekend; as a result, certain payments that were to be made on that day were instead made in September, in fiscal year 2017. If not for those shifts, the deficit projected for 2018 would be $848 billion.[1]

In CBO's projections, budget deficits continue increasing after 2018, rising from 4.2 percent of GDP this year to 5.1 percent in 2022 (adjusted to exclude the shifts in timing). That percentage has been exceeded in only five years since 1946; four of those years followed the deep 2007–2009 recession. Deficits remain at 5.1 percent between 2022 and 2025 before dipping at the end of the period, primarily because some tax provisions are scheduled to expire under current law, boosting revenues. Over the 2021–2028 period, projected deficits average

1. October 1 will fall on a weekend again in 2022, 2023, and 2028. The resulting shifts noticeably boost projected spending and deficits in 2022 and 2028; they reduce spending and the deficit in 2024.

Table 2.

CBO's Baseline Budget Projections

	Actual, 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total 2019–2023	Total 2019–2028
							In Billions of Dollars							
Revenues	3,316	3,338	3,490	3,678	3,827	4,012	4,228	4,444	4,663	5,002	5,299	5,520	19,234	44,162
Outlays	3,982	4,142	4,470	4,685	4,949	5,288	5,500	5,688	6,015	6,322	6,615	7,046	24,893	56,580
Deficit	-665	-804	-981	-1,008	-1,123	-1,276	-1,273	-1,244	-1,352	-1,320	-1,316	-1,526	-5,660	-12,418
Debt Held by the Public at the End of the Year	14,665	15,688	16,762	17,827	18,998	20,319	21,638	22,932	24,338	25,715	27,087	28,671	n.a.	n.a.
							As a Percentage of Gross Domestic Product							
Revenues	17.3	16.6	16.5	16.7	16.7	16.9	17.2	17.4	17.5	18.1	18.5	18.5	16.8	17.5
Outlays	20.8	20.6	21.2	21.3	21.6	22.3	22.3	22.2	22.6	22.9	23.1	23.6	21.8	22.4
Deficit	-3.5	-4.0	-4.6	-4.6	-4.9	-5.4	-5.2	-4.9	-5.1	-4.8	-4.6	-5.1	-4.9	-4.9
Debt Held by the Public at the End of the Year	76.5	78.0	79.3	80.9	83.1	85.7	87.9	89.6	91.5	93.1	94.5	96.2	n.a.	n.a.
Memorandum:														
Deficit as a Percentage of GDP, Adjusted to Exclude Timing Shifts[a]	-3.5	-4.2	-4.6	-4.6	-4.9	-5.1	-5.1	-5.1	-5.1	-4.8	-4.6	-4.8	-4.9	-4.9

Source: Congressional Budget Office.

GDP = gross domestic product; n.a. = not applicable.

a. The adjusted amounts exclude the effects of shifting payments from one fiscal year into another so that those payments are not made on a weekend.

4.9 percent of GDP; the only time since World War II when the average deficit has been so large over so many years was after the 2007–2009 recession.

Revenues

For the next few years, revenues hover near their 2018 level of 16.6 percent of GDP in CBO's projections. Then they rise steadily, reaching 17.5 percent of GDP by 2025. At the end of that year, many provisions of the 2017 tax act expire, causing receipts to rise sharply—to 18.1 percent of GDP in 2026 and 18.5 percent in 2027 and 2028. They have averaged 17.4 percent of GDP over the past 50 years.

Outlays

In CBO's projections, outlays for the next three years remain near 21 percent of GDP, which is higher than their average of 20.3 percent over the past 50 years. After that, outlays grow more quickly than the economy does, reaching 23.3 percent of GDP (adjusted to exclude shifts in timing) by 2028. That increase reflects significant growth in mandatory spending—mainly because the aging of the population and rising health care costs per beneficiary are projected to increase spending for Social Security and Medicare, among other programs. It also reflects significant growth in interest costs, which are projected to grow more quickly than any other major component of the budget, the result of rising interest rates and mounting debt. By 2028, net outlays for interest are projected to be roughly triple what they are this year in nominal terms and roughly double when measured as a percentage of GDP. In contrast, discretionary spending in the projections declines in relation to the size of the economy.

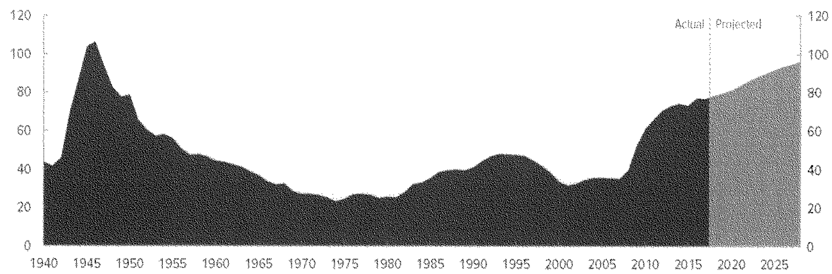
Deficits Are Projected to Be Larger Than CBO Previously Estimated

The deficit that CBO now estimates for 2018 is $242 billion larger than the one that it projected for that year in June 2017. Accounting for most of that difference is a $194 billion reduction in projected revenues, mainly because the 2017 tax act is expected to reduce collections of individual and corporate income taxes.

Figure 2.

Federal Debt Held by the Public

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

For the 2018–2027 period, CBO now projects a cumulative deficit that is $1.6 trillion larger than the $10.1 trillion that the agency anticipated in June. Projected revenues are lower by $1.0 trillion, and projected outlays are higher by $0.5 trillion.

Laws enacted since June 2017—above all, the three mentioned above—are estimated to make deficits $2.7 trillion larger than previously projected between 2018 and 2027, an effect that results from reducing revenues by $1.7 trillion (or 4 percent) and increasing outlays by $1.0 trillion (or 2 percent).[2] The reduction in projected revenues stems primarily from the lower individual income tax rates that the tax act has put in place for much of the period. Projected outlays are higher mostly because the other two pieces of legislation will increase discretionary spending. Those revenue reductions and spending increases would result in larger deficits and thus in higher interest costs than CBO previously projected.

In contrast, revisions to CBO's economic projections caused the agency to reduce its estimate of the cumulative deficit by $1.0 trillion. Expectations of faster growth in the economy and in wages and corporate profits led to an increase of $1.1 trillion in projected tax receipts from all sources. Other changes had relatively small net effects on the projections.

Debt Held by the Public Is Projected to Approach 100 Percent of GDP

As deficits accumulate in CBO's projections, debt held by the public rises from 78 percent of GDP (or $16 trillion) at the end of 2018 to 96 percent of GDP (or $29 trillion) by 2028. That percentage would be the largest since 1946 and well more than twice the average over the past five decades (see Figure 2).

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

- Federal spending on interest payments on that debt would increase substantially, especially because interest rates are projected to rise 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

2. Those estimates generally reflect the budgetary effects reported in CBO's cost estimates at the time the new laws were enacted and do not include the budgetary effects of information that has become available in recent months about the 2017 tax act. Those adjustments are classified as technical updates.

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.

Deficits and Debt Would Be Larger If Some Current Policies Were Continued

CBO also analyzed an alternative scenario in which current law was altered to maintain major policies that are now in place and to provide more typical amounts of emergency funding than the sums provided for 2018. Specifically, CBO analyzed what would happen if:

- More than 50 expiring revenue provisions were extended, including the individual income tax provisions of the 2017 tax act;
- Delays in implementing certain taxes established by the Affordable Care Act were extended or made permanent;
- Scheduled limits on discretionary appropriations did not take effect, and most appropriations instead grew each year from their 2018 amount at the rate of inflation; and
- Lawmakers provided inflation-adjusted emergency appropriations for nondefense discretionary programs equal to the average amount of such funding from 2012 through 2017—about $11 billion—each year between 2019 and 2028, rather than the roughly $100 billion a year projected in the baseline.

In that scenario, far larger deficits and much greater debt would result than in CBO's baseline projections for the 2019–2028 period. Deficits would be larger by an average of a full percentage point of GDP, rising by a total of $2.6 trillion to yield a cumulative deficit of nearly $15 trillion over that period. And debt held by the public would reach about 105 percent of GDP by the end of 2028, an amount that has been exceeded only once in the nation's history. Moreover, the pressures contributing to that rise would accelerate and push debt up even more sharply in subsequent decades.

This testimony reiterates the summary of *The Budget and Economic Outlook: 2018 to 2028*, 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/53651 and www.cbo.gov/publication/53721, respectively.

Keith Hall
Director

Chairman ENZI. Thank you for your testimony and even more for the expanded documents that you do to help us to know where things are going.

We will now begin a round of questions, and I think everybody knows how we alternate back and forth, and it is based on being here at the sound of the gavel or arrival since that time. So I will begin my questions.

The Tax Cuts and Jobs Act has already stimulated the economy, putting more dollars in the hands of hardworking Americans and businesses for investments. As we look forward to the reduction in the business tax rates, they are incentivizing more work and higher investment. And I noticed in your chart on Table 2 that revenues grow every single year. I noticed that outlays grow every single year, too, and more substantially than revenues do, which is the problem that we need to solve.

Can you expand on the expected individual and business response to the tax bill in the medium term?

Dr. HALL. Sure. We have forecasted that the tax act will encourage savings, investment, and work. The reduction in the lower tax rates and the bonus expensing we think will lower the user cost of capital, increase investment in the economy, and boost GDP growth. We also see that the effective marginal tax rates on labor income is also down. We think that will increase labor force participation, hours worked, and increase employment throughout the 10-year period.

We also think that the reduction in effective marginal tax rates on both capital and labor will have a significant effect, and I think our average boost to GDP over the 10—year period is 0.7 percentage points higher over the 10-year period because of the tax act.

Chairman ENZI. Excluding intergovernmental transfers and counting only income from sources outside the Government, such as Social Security payroll taxes and Medicare premiums, you estimate that the trust fund programs will add to the deficits through the 2019–2028 period by amounts that grow from $655 billion in 2019 to $1.5 trillion in 2028. These trust fund programs will add a total of $10.2 trillion to the deficit over the 10-year budget window.

Is the current trajectory of these programs fiscally sustainable? And without legislative action, which year do you project that the Social Security Disability Trust Fund and Medicare's Hospital Insurance Trust Fund will be exhausted? Not that I am suggesting cuts in those. I am suggesting solutions.

Dr. HALL. Well, the aging of the population and the rise in health care costs we think will—are the major forces driving the big increase in the deficit over the next 10 years and beyond. That is exactly right. The Health Insurance Fund, for example, we think is going to run out of money in 2026. We have not re-estimated the Old Age and Survivors Insurance Program, but our last estimate was that that will be exhausted in 2031.

Chairman ENZI. Thank you. The latest baseline includes more than $14 trillion in discretionary spending over the next 10 years. While the Armed Services Committee is able to authorize its spending each year, many of the nondefense programs remain unauthorized, a problem that persists. I know that CBO prepares a report each year on unauthorized appropriations, but this year it was released prior to final appropriations being enacted.

Assuming defense continues to be authorized on an annual basis, do you have an estimate of what portion of this $14 trillion in your current baseline is unauthorized?

Dr. HALL. We really do not. The last estimate we did was 2016, and it was a pretty large number. It was about $310 billion. We have not updated the estimate. We do not really want to forecast too much because, obviously, Congress decides what to authorize going forward, so that number could change.

Chairman ENZI. Okay. I think we will be interested in getting that number, anyway.

Dr. HALL. Okay.

Chairman ENZI. The Tax Cuts and Jobs Act made the corporate rate permanent to ensure long-term investment decisions that businesses have to make over the show the U.S. as a competitive market.

Dr. Hall, does the lower statutory corporate rate encourage firms to locate their establishments domestically?

Dr. HALL. Yes, we do believe that the overall effect of the tax act is to make the U.S. a more appealing location for business activity. So we actually do see that the reduction in corporate rates and some of the changes in the international tax system will boost investment and actually increase investment in the United States from abroad.

Chairman ENZI. Thank you. My time has expired.

Dr. Sanders.

Senator SANDERS. Thank you for the doctorate.

Chairman ENZI. Sure.

[Laughter.]

Senator SANDERS. I barely made it through college, though.

Dr. Hall, as you know, President Trump and some of my Republican colleagues said over and over again that the tax cut bill would pay for itself. On page 128 of your report on the budget and the economy, however, the CBO projects that the Trump tax plan will increase the deficit by nearly $1.9 trillion over the next 11 years. Is that correct?

Dr. HALL. That is correct.

Senator SANDERS. Okay. So, my friends, at the end of how many hours we have sat in this room hearing about the benefits of trickle-down economics that magically, if you give tax breaks to billionaires, it is going to create all the growth, and tax revenues will increase to overcome the deficit, turns out not to be true.

Dr. Hall, President Trump, among others, has claimed that—this is a quote from Trump—"The rich will not be gaining at all with this tax plan." But according to the Tax Policy Center, by the end of the decade, 83 percent of the benefits of the Trump tax plan go to the top 1 percent and 60 percent of the benefits go to the top one-tenth of 1 percent. Is that roughly accurate?

Dr. HALL. I think that is their estimate. We have not done a similar calculation, though.

Senator SANDERS. So, in other words, what we are talking about is a tax plan that significantly grows the deficit and almost all of the benefits go to the very, very wealthiest people in this country.

One of the issues that concerns me is that what we are seeing happening to working families all across this country—and, Dr. Hall, I do not know if you have even seen it, but a report came out literally today from the Bureau of Labor Statistics, and the report tells us that the average worker in America has seen zero wage growth over the past year after adjusting for inflation.

In March 2017, the typical non-manager in America made about $22.60 an hour. In March 2018, that same worker made the same $22.60 an hour. Does that sound roughly right to you.

Dr. HALL. It does sound roughly right, yes.

Senator SANDERS. So what I would say—and, Dr. Hall, while we are at it, talk a little bit about income and wealth inequality. Is it true, based on your understanding, that the three wealthiest people in this country now own more wealth than the bottom half of the American people?

Dr. HALL. That I do not know. We did just release a report. I do not have the numbers in my head. We did just release a report in the past few weeks, actually, about income inequality that is worth looking at.

Senator SANDERS. Okay. Well, we will do that.

My colleague from Wyoming, the Chairman, talked about Social Security and Medicare. I introduced legislation that would lift the cap on taxable Social Security income for people making $250,000 a year or more. Now, everybody is concerned about the financial future of Social Security. That is a legitimate concern.

Correct me if I am wrong here, but according to the Social Security Administration, if you lift the cap on income of $250,000 or more, which is just the very highest income earners in this country, Social Security will be solvent for the next 60 years, and we can increase benefits for lower-income Social Security beneficiaries. Does that sound right to you?

Dr. HALL. I do not know if that is true or not. I have not looked at——

Senator SANDERS. According to the Social Security Administration. So for all people who are concerned about the solvency in Social Security, the answer is not to cut benefits, but at a time of massive income and wealth inequality, to ask the people on top to start paying their fair share of taxes so that we can protect the many, many millions of people today who are struggling to keep their heads above water in my State, and I am sure in every State represented in this room. And we do not talk about this enough. Mr. Chairman, it might be worth a hearing on this. You have got a lot of elderly people who are cutting their prescription drugs in half, cannot afford the medicine that they need, cannot afford to keep warm in the wintertime. We have a real crisis in terms of poverty among elderly people in this country, and the answer is not to be talking about cutting Social Security or Medicare. The answer is to be strengthening those programs through a fairer tax system.

Thank you very much, Dr. Hall, and thank you, Mr. Chairman.

Chairman ENZI. Senator Grassley.

Senator GRASSLEY. Thank you for your work, Director Hall. Sorry that there is such a bleak picture painted. Having the public debt go from 78 percent to 96 percent of gross national product is not very good news. I hope Congress thinks about the impact on our children and grandchildren with that debt and deficit.

My colleagues on the other side of the aisle want to make this all about revenue and the historic tax cuts that we enacted. I think that that completely disregards the positive economic effects of these reforms that I think you pointed out in your exchange with the Chairman.

So my first question is kind of carrying on where the Chairman left off: Is it not accurate, based on your analysis, that the tax reforms enacted last year will increase economic growth, lead to lower unemployment, increase hours worked, increase capital investment, and increase wages?

Dr. HALL. Yes, those are all true.

Senator GRASSLEY. So then I have to conclude that when Democrats say that they want to repeal tax reforms, they are really telling the American people that they want fewer jobs and lower wages, and no American is going to think that is acceptable.

Based on your analysis, how would allowing the individual tax reforms to expire after 2025 impact the economy?

Dr. HALL. Well, we think that would be sort of the opposite of stimulus. We actually do think it will help slow growth. One of the reasons we did the alternative scenario was to assume that some of those things like the tax rates do not expire and they continue, to give you an idea of that.

Senator GRASSLEY. Okay. Instead of asking a question, unless you disagree with this percentage, I am going to say that revenue as a percentage of GDP has averaged 17.4 percent over the last 50 years. According to your analysis, what will revenue as a percentage of GDP be in 2025, which is prior to the expiration of the individual tax reforms?

Dr. HALL. I forget the number. I think it is somewhere north of 18 percent of GDP, so it is a bit higher.

Senator GRASSLEY. Well, if you are saying north of 18 percent, then that is even better than what I thought it was going to be, 17.5. So even with the tax cuts enacted last year fully in effect, revenue as a percentage of GDP will exceed the historic average.

Dr. HALL. That is right, and I did misspeak. I got the year wrong. You are right, it is 17.5 percent in 2025. I was looking at the next year.

Senator GRASSLEY. Now, turning to spending, is it correct that over the past 50 years spending has averaged about 20.3 percent of GDP?

Dr. HALL. Yes.

Senator GRASSLEY. And what do you project spending to average over the next 10 years as a percentage of GDP?

Dr. HALL. I do not have the number right in front of me, I am sorry, but it is something north of 21 percent.

Senator GRASSLEY. Yes, I think quite a bit north.

Dr. HALL. Okay.

Senator GRASSLEY. I do not know whether these figures come from you, but I have down here 22.4, reaching 23.6 in 2028.

Dr. HALL. That sounds right. I am sure that is——

Senator GRASSLEY. And what are the primary drivers of spending growth?

Dr. HALL. Well, the primary drivers are things related to the aging population and health care costs. So it is things like Medicare, Medicaid, and the entitlements because of the aging population.

Senator GRASSLEY. And I think I agree with that. I do not know whether these percentages are accurate, but they take up 12.9 percent of GDP today, and that is going to go up to 14.9, while discretionary spending, that part that we appropriate every year, is projected to fall 1 percentage point.

So, in sum, revenues, even with tax cuts, will remain on a par with historic averages, but spending is set to increase significantly over historic norms. It seems to me that if we are going to get control of our growing debt and deficits, our focus needs to be on the spending side, particularly mandatory spending programs.

I yield.

Chairman ENZI. Senator Wyden.

Senator WYDEN. Thank you, Mr. Chairman. Dr. Hall, good to see you again, and your professionalism is always appreciated.

Here in this room, a bipartisan tax reform bill was produced by then-Chairman Judd Gregg, and I was proud to be one of the sponsors of it. Our approach would have put the bulk of the tax relief into the pockets of the middle class rather than the multinational corporations. Unfortunately, our colleagues on the other side rejected that bipartisan approach, and others, and decided to put the massive tax cuts for the multinational corporations on the national credit card. So let me keep you clear of politics and let us just walk through a couple of numbers so we can be clear about this.

In the updated outlook, you all estimate that the Trump tax law is going to increase the deficit by almost $1.9 trillion over the budget window, even after taking economic feedback, economic possibilities into account. Nearly $600 billion of that cost is due just to bigger interest payments on all this new debt.

So here is my question, and just apropos of the numbers: Besides slashing Social Security, Medicare, and Medicaid, I do not know where else Republicans could possibly go to pay for this $1.9 trillion in debt largely going to the multinational corporations. In fact, when I sort of strip the budget down, it would seem to me that cutting the defense budget would be the only other realistic option.

What is missing here with that analysis?

Dr. HALL. Well, you know, I do not want to make recommendations, I suppose, on how to fix the problem.

Senator WYDEN. I do not want you to. I just want to hear—I mean, I guess when I looked at it last night, I said maybe they could cut everything discretionary like NIH, and we would lose the prospects of research. But, basically, other than the Defense Department and cutting that, where else would they go or could they go other than Social Security, Medicare, and Medicaid?

Dr. HALL. I actually have one of my favorite figures here that gives you a little bit of insight from the report, Figure 4.3. Right now net interest alone is about 1.6 percent of GDP, and that number is going to triple, just the net interest payments is going to triple over the next 10 years, and that will become about 3.1 percent of GDP. That is bigger than all of defense spending, discretionary spending. It is bigger than all of nondefense discretionary spending. So my point is that the interest cost is starting to just swamp things like defense spending and nondefense spending. So whatever the fix is going to be, it needs to be something that is pretty big.

Senator WYDEN. So you cannot just wave your hands and sort of throw up fairy dust and say you are going to drive down the debt. I am just looking at three ranges of kind of numbers. One of them, when you have that amount of debt, is—and this is where I think they are going, is Social Security, Medicare, and Medicaid, and I base that on their budget proposal for this year. Then I think you could wipe out the discretionary budget, NIH and parks and the like. But I cannot see any other budgetary real estate.

I know my time is almost up. Can you give me some examples for other possibilities than what I mentioned?

Dr. HALL. Well, I think looking at that figure, it gives you some idea of sort of where the buckets are. But even that is sort of underestimating the problem because that is just the interest cost. That is just getting a deficit down toward zero. We then would have a huge amount of debt sitting out there. So I think the problem is even more extreme than that.

Senator WYDEN. Well, I am not going to pummel this any longer, and you have certainly made a very good point with respect to the debt. But when the growth projections are nowhere near what was promised, No. 1, the middle class are not seeing what they were told they were going to get, which was a $4,000 pay raise, and the middle class drives 70 percent of the American economy, I do not see how growth is going to get you close to paying for that $1.9 trillion that was put on the credit card, and it still leaves us with a safety net and defense, unless you want to cut the discretionary programs, and I do not see that being proposed either. So I will look forward to talking with you about this more, and I certainly share your view about the debt.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Corker.

Senator CORKER. Mr. Chairman, thank you. And, Dr. Hall, thank you for being here. I have several committee assignments, like most people here, and this has nothing to do with our leadership. I find this to be the least serious Committee that I serve on, but we thank you for being here today. And it seems like it is always sort of a partisan, whoever is in charge, tit for tat. None of us have covered ourselves in glory. This Congress and this administration likely will go down as one of the most fiscally irresponsible administrations and Congresses that we have had.

My best vote, one of the best votes I have made here was the Budget Control Act of 2011, and we did not finish the work by leaving in the sequester, by making the cuts that needed to be made. I was not on the special committee. I do not know if anybody here was. But we did not finish our work, and so we ended up with a sequester. But it was the best vote that I have made in that we at least capped domestic spending for a period of time. It would have been better if we did our work.

You have talked about the cost of this tax bill, and if it ends up costing what has been laid out here, it could well be one of the worst votes I have made. I hope that is not the case, and I hope there is other data to assist, whether it is jobs or growth or whatever, but I want to get back to that in a moment.

But the thing that is never talked about here is we—the bipartisan budget—Maya MacGuineas' group just did an analysis on the bipartisan budget agreement that we just passed. You did not do that in your papers because it had just happened. But I think you are saying that the tax bill could add $1.9 trillion in debt over the next 10 years. The spending bill that we just passed, if policy continued, would be $2.1 trillion. Would you say that what we did in fairness, passing the spending bill we just passed, would add about the same order of magnitude of indebtedness over a 10—year period as the tax bill?

Dr. HALL. Yes, actually, we do have a bit of an estimate. I think the add to discretionary spending from those two bills is about $650 billion over 10 years.

Senator CORKER. The what?

Dr. HALL. The Bipartisan Budget Act and the omnibus, they combine to add about $650 billion to the deficit over 10 years.

Senator CORKER. Not under current policy.

Dr. HALL. That is under——

Senator CORKER. Surely do not tell me that, or you are going to lose all credibility. $650 billion in debt, current policy over what we just passed?

Dr. HALL. Yes. About $305 billion of that is from exceeding the caps, and then another $330 billion to spending not subject to the caps.

Senator CORKER. So if you add $150 billion a year in spending over 10—we added $150 billion to the baseline, did we not?

Dr. HALL. You mean in——

Senator CORKER. We just added $150 billion to the baseline. How could you multiply that by 10 and come up with $650 billion? I mean, with any growth at all, it is going to be in the $2 trillion range when you include debt service.

Dr. HALL. Right, right. If you look at Table A–1, we have got the change, changes in our budget forecast since June 2017. If you look under discretionary outlays, you will see that we have a forecast here of discretionary outlays adding around $650 billion to the deficit over the 10 years that did not exist before.

Senator CORKER. If you keep current policy in place?

Dr. HALL. Right. That is right.

Senator CORKER. I want to followup with you on that.

Dr. HALL. OK, sure.

Senator CORKER. That cannot be accurate. I mean, you just do the math, you add $150 billion to the baseline, you multiple it by 10, it cannot be accurate.

But, anyway, the point is that we have had both spending that has increased the deficit and tax reform that has increased the deficit. Is that correct?

Dr. HALL. That is right.

Senator CORKER. So, really, we have had both sides of the aisle—the only three people on this Committee that have not been involved in increasing the deficit over the last 15 months are Senator Harris, Senator Sanders, and Senator Merkley. And I do not think it is because they are fiscal conservatives. I think it is because they did not agree with the priorities that were in these bills. But they are the only three that have not participated in increasing the deficit. We all have participated. I voted against the spending. Some of you voted against the tax bill. But let us face it, I mean, both sides of the aisle are totally remiss as it relates to deficits. And, I mean, I listen to this partisan bickering over blaming people. It is ridiculous. We are absolutely not capable of dealing with our country's finances. And, of course, a big part of it is the American people do not really want it to be controlled.

I want to get back with you on the numbers, and I know my time is up. The thing that is confusing to me, I noticed that—and I will close with this—On page 117, you have got the growth at 0.7 percent, an average increase growth of 0.7 percent over the 10-year period. And we were looking at an average growth increase of 0.4 percent paying for this bill that was passed, the tax reform bill. And I am just confused as to whether that is just a seven-tenths increase in the baseline and there really is not that much growth. I am confused over that, so I want to get back to you on that. I know my time is up.

Dr. HALL. One thing that might be confusing you, that is a level. So we think GDP on average the level would be seven-tenths higher over 10 years on average.

Chairman ENZI. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. And, Dr. Hall, I want to start by thanking you and your team for your nonpartisan, professional work. And as your report clearly indicates, the claims that the recent tax cut would pay for itself were pure fantasy. You indicate here that even with additional economic growth, the debt will increase by close to $2 trillion over 10 years.

I want to dig down a little bit into the different impact this tax bill has on gross domestic product versus gross national product, because both are measures of our economy, but am I correct in saying that gross national product is a better measure of the income that comes to the people of the United States?

Dr. HALL. That is right. Gross domestic product focuses on where things are made, and gross national product focuses on who gets the income from what is made.

Senator VAN HOLLEN. Right. So to the extent that the Republican tax law boosts gross domestic product more than gross national product, it is because some of that income from increased economic activity is flowing to foreigners instead of Americans, right?

Dr. HALL. Right, and one of the big reasons is the big increase in borrowing that we are having to do, both privately and publicly. It is coming from abroad, so when you borrow money, you owe interest payments, and those interest payments are income that flow out of the country.

Senator VAN HOLLEN. Right. And it is also a fact that if you look at the stock of American companies, 35 percent of that stock is currently owned by foreigners, so when there is a stock buyback, that is money that flows directly into the pockets of somebody overseas, non-Americans.

In fact, if you dig into your report, you find that by 2028, CBO concludes that the Republican tax law boosts gross domestic product by 0.5 percent but boosts gross national product by only 0.1 percent. Is that right?

Dr. HALL. That is correct.

Senator VAN HOLLEN. All right. So doesn't this mean that roughly 80 percent of the income from the increased activity of the tax plan in the final year when it has fully kicked in is going to foreigners?

Dr. HALL. I am not sure I would characterize it that way, but I get your point about——

Senator VAN HOLLEN. Well, Dr. Hall, you just said that GDP is a measure of the total economy, and the difference between GNP and GDP is the amount that is going to foreigners.

Dr. HALL. Sure.

Senator VAN HOLLEN. So you are finding that GDP is growing a lot faster in year 10 than GNP, right?

Dr. HALL. That is right.

Senator VAN HOLLEN. And, in fact, it is five times faster, right?

Dr. HALL. Right.

Senator VAN HOLLEN. All right. So I just want to be clear, Mr. Chairman: 80 percent of the benefit of increased economic activity from the tax law is going into the pockets of foreigners. So every dollar of increased economic activity in 2028, 80 cents of that is not going into the pockets of hardworking Americans that the Chairman referred to. It is going into the pockets of foreigners. Right?

Dr. HALL. Well, you know, I think—your calculation is right. I am just not sure that is exactly how I would look at the benefits of or the impact of the tax act by just——

Senator VAN HOLLEN. Well, as you said, it is in your report. Let me ask you about——

Dr. HALL. I am not trying to argue with you. I am just——

Senator VAN HOLLEN. Let me ask you about two parts of the plan that I tried to spend a lot of time on the floor warning my colleagues about, and this has to do with the foreign minimum tax. Here it is called the "global intangible low-tax income," GILTI for short.

Dr. HALL. Right.

Senator VAN HOLLEN. You are familiar with that piece?

Dr. HALL. Yes.

Senator Van Hollen. And then there is another part that is a deduction for profits from foreign sales, which they call the "FDII," or "fiddy," right?

Dr. HALL. That is right.

Senator VAN HOLLEN. Okay. And on page 109 of your report, you state, "By locating more tangible assets abroad, a corporation is able to reduce the amount of foreign income that is categorized as GILTI. Similarly, by locating fewer tangible assets in the United States, a corporation can increase the amount of U.S. income that can be deducted as FDII." And you conclude, "Together, the provisions may increase corporations' incentive to locate tangible assets abroad."

Just to translate into English, when we talk about moving tangible assets abroad, we are talking about things like plant and equipment and that kind of thing, right?

Dr. HALL. Right, although I do not want to exaggerate that. Part of what we were doing there is pointing out that it is pretty complicated, and it——

Senator VAN HOLLEN. Dr. Hall, I am just reading from your report——

Dr. HALL. I understand.

Senator VAN HOLLEN.—and your findings here are consistent with that of lots of economists, as you know, that this provision, the way this provision was written creates this perverse incentive to shift jobs overseas. And if a corporation does succeed in lowering its tax bill by moving its factory overseas along with the jobs, then they are effectively getting a tax break by moving plant and equipment overseas, aren't they?

Dr. HALL. Yes, I just want to put it into context, though. We think overall the tax act is going to encourage investment in the United States on the whole, not abroad.

Senator VAN HOLLEN. But part of that investment, as we talked in the earlier question, is from foreigners, and foreigners——

Dr. HALL. That is right.

Senator Van Hollen.—in the year 2028 are getting 80 cents of every dollar of increased income from economic activity.

Dr. HALL. Part of that money will be foreign——

Senator VAN HOLLEN. So, yes, more foreign investment and more profits for foreigners in a bill that was sold as something that was going to help the American worker.

The final question relates to the other half of the GILTI, which is the FDII. Would you agree that is a tax expenditure?

Dr. HALL. Well, it is not our call. It will be the Joint Committee on Taxation. They will followup with that.

Senator VAN HOLLEN. Is that the kind of thing that you in the past have said is sort of a tax break that some people get but others do not?

Dr. HALL. Actually, we have not. We rely on the JCT to make that determination.

Senator VAN HOLLEN. I just find it ironic, Mr. Chairman, that we have got now what is a Government program that encourages the people to move plants and equipment overseas. I thank you.

Chairman ENZI. Senator Cotton.

Senator COTTON. Thank you, Director Hall, for your appearance and your testimony. There has been a lot of talk so far about the macroeconomic picture, about budget, debt and deficits, and economic growth and so forth. Let us bring it down to the micro picture, what this means for families.

The CBO outlook projects an unemployment rate in 2019 of 3.3 percent, historically low, so that is good news. Maybe even better news, CBO projects an increase in hourly wages and attributes that to increased competition for labor among businesses because the bidding up of wages is necessary to attract new employees and retain existing workers.

Director Hall, what are the policies fostering that competition and leading to the increase in hourly wages?

Dr. HALL. Well, we are ending the slack in our economy, but we have a lot of stimulus from the tax act and the other two bills, so that stimulus really is pushing GDP growth above potential and so we are getting this very low unemployment rate, we think, and higher employment.

Senator COTTON. And does that mean that some of the gains from that growth, whatever it may be—we have our differences between the two parties, but some of the gains from that growth will accrue to a greater degree to labor than it will to capital since you are seeing wage increases for people's labor?

Dr. HALL. Well, yes, there will be benefit for labor, and we do see actually a decline in the marginal tax on labor as a result.

Senator COTTON. Well, I think that is a good thing given that labor for many decades now, especially unskilled, low-skilled laborers, people who are getting out of high school and going straight into the work force or maybe not getting a high school degree have not seen their wages increase.

I also think one important policy that we need to continue is immigration enforcement, and I think that we need to take a look at our immigration levels, because obviously we could increase our abstract GDP simply by bringing in millions of more workers. The way you increase your GDP is more productivity or more workers. But that would not necessarily be good for America's families. It would not necessarily be good for GDP on a per capita or a per household basis.

I want to turn now to something that I did not see in your report. I looked at your report; I looked at your testimony. I did not see much, if anything, about national defense and military spending. Did I overlook that, or did you not put much focus there?

Dr. HALL. You know, I think we did not put a ton of focus. We did our usual.

Senator COTTON. And I raise that because I want to make the point that I do not think our military is responsible for driving much of these deficits and the debt we face now, and I think your report makes that clear, in part by not discussing the increase in military spending. There is no doubt that we increase military spending substantially this year and next year, but as your report makes clear, the long-term debt picture is driven primarily by retirement, especially health care spending. Is that right?

Dr. HALL. That is right.

Senator COTTON. And I would even make the case that in the long term, military spending is essential for controlling our deficits and ultimately our national debt because it creates the international system in which our economy operates. I have a few figures here from the end of World War II about international trade and investment, that trade expansion in the United States has produced roughly $2.1 trillion in economic gains. That translates into more than $7,000 per person and more than $18,000 per household, and that our economy is about 13 percent larger than it would have been absent that increase.

It is hard to imagine that kind of increase in trade happening if we had had a conflict on the scale of World War II again. No doubt there has been many wars, and our Nation has participated in many of those wars. But certainly we have not had the kind of great power conflict in this world that we saw from 1939 to 1945. The Federal Reserve Bank studied the effects of war on trade and concluded that it not only severely diminished trade in the long term for countries directly involved, but even for neutral countries, you saw declines in trade of up to 10 percent. And it is the United States military that has been creating that environment, that has been patrolling the seas, securing critical choke points, forcing our allies to conciliate or mediate their differences so their small conflicts do not rise into big conflicts, as well as deterring first the Soviet Union and now some other peer competitors from the kind of adventurism that launched us into World War II and before that World War I.

So we spend a lot on our military, and we spend a lot more than every other nation, many of the closest nations combined, but that is in part because military competition is so destructive of economic growth and prosperity and, therefore, we cannot afford to skimp on it. I took that to be the message of the absence of much discussion of military spending in your most recent report in your testimony, that the military is one of the most fundamental things our Government spends taxpayer dollars on and that we have to continue to do so if we have any hope of achieving the prosperity that we all hope for our country.

Thank you.

Chairman ENZI. Senator Harris.

Senator HARRIS. Thank you, Mr. Chairman. Good morning.

Dr. HALL. Good morning.

Senator HARRIS. I reviewed the CBO's outlook for the next decade, and I am deeply concerned about the increase to the deficit, as many members of this Committee have expressed. I am especially troubled that much of the deficit increase can be attributed to the Republican tax plan that was passed a few months ago which will add nearly 1$1.9 trillion to the deficit.

According to the CBO's analysis, the debt will exceed the size of the entire United States economy in just over a decade, 2 years sooner than you forecasted in June, the debt problem created by a massive giveaway to the wealthy and corporations and by making the individual tax cuts expire in 2025 while making the corporate tax cuts permanent. This was a pure giveaway to the corporations and the top 1 percent of the United States. And when Congress talks about how we fix this deficit increase from the tax plan, some of my colleagues on the other side of the aisle discuss the need for entitlement cuts. Entitlement cuts really mean cutting Medicare, Medicaid, and Social Security. It means cutting the main programs 4.3 million seniors in my home State of California rely on, seniors who deserve to retire with dignity.

For my constituents, retiring with dignity means being able to afford their prescription drugs. It means not living paycheck to paycheck and having the peace of mind that Government will not take away the benefits promised to them. At a time when so many seniors cannot afford their life-saving medications, we need a budget that allows Medicare to negotiate drug prices. What we do not need is a budget that cuts $500 billion from the program over the next decade. When trying to repeal the Affordable Care Act this past year, congressional members proposed cutting Medicaid by $700 billion, the same program that cut six out of ten seniors' nursing home uses.

Nearly two-thirds of California seniors depend on Social Security for at least half of their annual income, an average of $21,300. With cuts to Social Security, millions of seniors would struggle to make ends meet. So when we discuss balancing the budget, we need to speak the truth: that this tax plan has ballooned the deficit for the purpose of delivering billions of dollars to the top 1 percent while putting access to affordable health care and a shot at a decent retirement at risk for anyone else.

So, Dr. Hall, my question is: Based on your updated budget outlook, can you tell me whether the effects of this tax bill, either directly or indirectly, impact the future solvency of Medicare and Social Security?

Dr. HALL. Well, certainly anything that adds to the deficit and the debt is going to have an impact on things going forward. If we get a little boost in economic growth, that might extend the exhaustion dates. But the basic problem is still there, and the basic issue of the debt getting to an unsustainable level is maybe more intense than it was before.

Senator HARRIS. And will you agree that it is going to have a disproportionate impact on senior Americans?

Dr. HALL. I mean, certainly changes in Medicare and that sort of thing would have a disproportionate effect. I guess it depends upon how Congress decides to deal with the problem.

Senator HARRIS. All right. Thank you.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Merkley.

Senator MERKLEY. Thank you very much for coming and bringing your expertise to bear on our economic situation.

I was looking at numbers from the Joint Committee on Taxation, which laid out that $17 out of every $20 in the benefits from the tax reductions goes to richer Americans, or roughly 84 percent. That did not include the estate tax, by the way, which was specifically excluded, which goes 100 percent to the very richest Americans.

What is your analysis of the percent of the tax benefits that go to those who earn more than $100,000?

Dr. HALL. We have not updated those numbers. In this baseline we have not sort of tried to reproduce that. So I could not tell you anything different than what JCT has on the topic.

Senator MERKLEY. Do you have any reason to think JCT is far off the mark?

Dr. HALL. No, I do not.

Senator MERKLEY. And would you agree that if you include the estate tax, the numbers would be even worse?

Dr. HALL. That sounds right.

Senator MERKLEY. Well, I think that is an important point because something that was sold as beneficial to the middle class is actually beneficial to the best-off. And that brings me to the second point, which is your analysis shows that from 10 months ago until now, the annual deficit has grown from an estimated $563 billion to an estimated $804 billion, or roughly a $241 billion increase from 10 months ago.

Dr. HALL. That is correct.

Senator MERKLEY. Okay. And if it extends it over 10 years, I think your numbers were about $1.6 trillion?

Dr. HALL. Yes.

Senator MERKLEY. Of just additional on top of the baseline that existed 10 months ago.

Dr. HALL. That is right.

Senator MERKLEY. And how much of that is the tax bill and how much of that is the spending bill?

Dr. HALL. That is a good question. The tax bill is a big part of that. I think the tax bill is—I am sorry. Let me look it up quickly.

Senator MERKLEY. You bet.

Dr. HALL. I can tell you the spending part of it. The spending part actually is 40 to 45 percent of that increase, so it actually is a pretty significant part. But the remainder is—and probably more than the remainder is the tax bill.

Senator MERKLEY. So a great share of the tax bill, even if you include some growth projections, is funded through borrowing?

Dr. HALL. Correct.

Senator MERKLEY. Okay. So essentially we have a bill that has borrowed from our children, because they are the ones that inherit the debt, to deliver the vast bulk of the benefits to the richest Americans.

Dr. HALL. That is a way of looking at it.

Senator MERKLEY. Well, not just a way of looking at it, but that is a fair reading of the numbers?

Dr. HALL. Well, obviously, it depends upon who winds up fixing the deficit, I suppose, as to who bears the burden about how Congress decides to deal with it. But delay is certainly pushing the burden back in time.

Senator MERKLEY. I want to point out a pattern that I found quite interesting. Under President Carter, we had essentially him closing out with the same deficit that existed the year before he took office despite the oil shocks, about $73 billion. Under President Reagan, the deficit increased from 73 to 149, or roughly doubling. Under President Bush, the first President Bush, we had another near doubling, going from 149 to 290. Under President Clinton, we had a reduction from 290 to a surplus of 236, so obviously a vast decrease in the deficit—in fact, a surplus. And so we were reducing our national debt. Under Bush the 2nd, we had an increase from 236 to 458, so another rough doubling. And under President Obama, the results of the recession his first year in office, $1.4 trillion in deficit reduced down to 584 when he left office.

Why is it that the deficit decreases under Democratic leadership and increases under Republican leadership?

Dr. HALL. I would not want to offer an opinion on that.

Senator MERKLEY. Have I read the numbers accurately?

Dr. HALL. That sounds right.

Senator MERKLEY. Well, I do think it is an important point to make because what we have seen for a pattern that has increased our debt vastly has been Republican leadership has repeatedly taken us deep into the red, Democratic leadership has reduced that damage, and yet all we hear from our Republican colleagues is how they are fiscally responsible. How can one square the rhetoric with the reality?

Dr. HALL. I would not want to offer an opinion.

Senator MERKLEY. It is not your responsibility to offer that, but I am glad you confirmed that my numbers were accurate.

I will just close by saying that our children are now financing the biggest theft of money delivered to the wealthy in America, and this is what you normally see in corrupt, irresponsible, Third World governments, not the United States of America.

Chairman ENZI. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair. Dr. Hall, good to be with you.

I want to just draw your attention to page 33 of the report, and I will just read a quote. I want to ask you about trade. Changes to trade agreements or tariff policies on the part of the United States and its trading partners that impede trade could have significant adverse effects on aggregate economic activity; whereas, the removal of trade barriers between the United States and its trading partners could improve aggregate economic conditions.

We had a hearing recently where the head of the Council on Economic Advisers Kevin Hassett appeared before us. It was immediately after President Trump had indicated he was going to impose tariffs on imported aluminum and steel. It was before any of the subsequent potential retaliation discussion back and forth.

I asked Kevin Hassett at the time, based on my understanding that the number of workers in American industries that make aluminum and steel is dramatically smaller than the number of workers that work in American industries that make things with aluminum and steel, I asked his economic opinion about whether the imposition of these tariffs would be a plus or minus for American workers, and he said that the economic literature would suggest that just looking at it that way, before you get into a retaliation discussion, it would likely have a negative effect on jobs. Do you agree with that?

Dr. HALL. I do.

Senator KAINE. And then if we get into the subsequent retaliation issues, the aluminum and steel issues matter at lot to Virginians because I have got, you know, Coors beer and Anheuser Busch, you know, big breweries that are buying aluminum for cans. And I also have a Dublin truck plant in Pulaski that is—it is the only manufacturer of, I am sorry, Volvo trucks in Dublin. Pulaski County, Virginia, is the only manufacturer. It is going to raise their costs, raise costs to consumers. So there is some effect just on the aluminum and steel issue in Virginia. But over the course of the last couple of weeks, I have been on recess traveling around, a lot of concern in Virginia on the ag side, the announcement by China that they would retaliate, especially with respect to things like soybeans and pork and some other agricultural products are very challenging to Virginians.

Talk a little bit about—and I do not know, have you at the CBO started to do any analysis of what either the tariff on aluminum and steel or more broadly, if retaliation were to occur, what would the effect on American workers and American farmers?

Dr. HALL. We have not, and, in fact, our economic forecast closed about mid-February, so we really have not taken any of that on board. Certainly that is the sort of thing we would pay attention to and see how things turn out and would be something we would include in our baseline economic forecast at a later date next time we do it or whenever significant changes are made.

Senator KAINE. You did generally agree with the Hassett conclusion that the import tariffs on aluminum and steel are likely to be more negative than positive on American workers. Do you have an opinion about if there are retaliatory tariffs against the United States in the ag sector, you know, is that going to be a net good or a net bad in terms of the workforce?

Dr. HALL. Well, to be fair, you know, the real solution, how it winds up is sort of how it winds up, you know, rather than just this one act like that. I do think a lot of the concerns—I find them interesting because they are the inverse of the benefits of freer trade. Having trade negotiations or trade agreements, the idea is that you can have lower prices, you can have lower cost of production, you can have access to the foreign markets with good trade agreements. So undoing those can have the reverse effect. But, again, to be fair, we have to sort of see where we wind up.

Senator KAINE. Some of the retaliation discussion is still kind of at the rhetorical level.

Dr. HALL. Right.

Senator KAINE. I guess the actual tariffs have been imposed on aluminum and steel, so that is real. But the retaliation discussion is a little bit rhetorical right now.

Dr. HALL. Right, right, and we do not really know what sort of tariff changes the U.S. is likely to make or may make going forward.

Senator KAINE. Well, I am just going to conclude and say I think it is interesting that the Constitution gives Congress really plenary power over trade in the Commerce Clause. We delegate to the President through fast-track, which I support, the ability to negotiate trade deals and then set up a process for bringing those back for a congressional up or down vote.

I think it is interesting that we want the say over a trade deal, but we allow Presidents to start trade wars without a vote of Congress, even though the Constitution suggests that trade is ultimately for Congress. I do not think a President should be able to do a trade deal or start a trade war without Congress giving it an imprimatur. And I hope to work with my colleagues to maybe come up with some improvements in the process so that there cannot be a unilateral executive decision to start a trade war when the Constitution reserves trade powers to Congress. But that is just my opinion. You need not comment.

Thank you, Mr. Chair.

Chairman ENZI. Thank you.

Senator Whitehouse.

Senator WHITEHOUSE. Well, Mr. Chairman, it looks like I am bringing up the rear here. It is just down to us and Dr. Hall.

Dr. Hall, you and I have talked before about the health care spending projections graph.

Dr. HALL. Right.

Senator WHITEHOUSE. And this is the one that I have used before. But guess what? We have a new one. A new year has gone by, and just for the record, back here when the Affordable Care Act passed, CBO did the yellow-line estimate of what mandatory, Federal health care spending was expected to look like. Then as time went on and we had the experience of the Affordable Care Act and we had whatever else took place, we got this actual result, which came in below what was expected. And then here there has been a new projection that is made going forward. So this is the old projection. This is the actual through this period. And this is the new projection.

Now, in the graph that I used to use all the time, this savings delta was $3.3 trillion in savings between the expected spending and the new projection. In this, the number goes up to $4.2 trillion. Now, I believe that about $300 billion of that relates to the repeal of the individual mandate, so you could back that out, but that still leaves $3.9 trillion in savings up from $3.3 trillion in savings just in the intervening year. And I think it is important to try to do whatever we can to figure out what is going on here.

So I ask you to keep working with us on that. This has a particular emphasis now because, as you know, there is a bicameral select committee working on trying to reform our budget process, and nobody has been more eloquent than Chairman Enzi in understanding how broken our existing budget process is. It is one of the areas where he and I have considerable common cause.

I think that one of the ways that we need to fix our existing broken budget process is that we need to have all of the elements that mathematically add to the debt to be considered in our budget process, so not just appropriated spending but also health care spending, also tax expenditures and also revenue. That is what mathematically leads to debt and deficit.

As a general proposition, do you agree with me that those are the four key elements that mathematically lead to our debt and deficits?

Dr. HALL. Yes.

Senator WHITEHOUSE. So if we are going to look at health care, we really need to start looking at ways to address this. And I completely disapprove of and will fight to my last breath to prevent attacking Medicare and Medicaid and other Federal programs and taking benefits away from people in order to achieve savings, because I think there are better ways to achieve savings. I think there are efficiencies that can be gained. We are seeing some remarkable results out of some of the accountable care organizations, and it is very hard to extrapolate from Coastal Medical in the State of Rhode Island, a provider practice that has now reduced its per patient per year cost by $700, while dramatically improving the experience and the care that their patients get, to $3.9 trillion in savings. But I suspect that there is something going on out there as we improve the payment system for the health care enterprise so that it is diverted less toward doing things to people and prescribing things for people and seeing people than it is to doing the things that keep people healthy so they do not need those things in the first place. And I just want to, first of all, ask if you concur with that as a general thought. And, second, will you keep working with us, and if there are any ways that we can be helpful, to try to figure out what is behind—you know, $3.9 trillion, that is a lot of money.

Dr. HALL. Right.

Senator WHITEHOUSE. And it ought to be a matter of real priority to try to figure out what is working that has made that difference in this period.

Dr. HALL. We are interested in that topic. We are interested. We are trying to do some work on that. I know you are interested beyond this, but if for no other reason, we keep getting the forecast wrong. We keep having to lower our estimate of health care cost growth, and if we understood that better, we could give you a better forecast of future costs.

So we are working on that. We would be happy to follow up and talk to you a little bit about what we are doing.

Senator WHITEHOUSE. I know my time has expired, but may I ask an additional question, Chairman?

Chairman ENZI. Sure.

Senator WHITEHOUSE. Does your work to look at that look at any—can you look kind of in any way down through to the experience of, say, a Coastal Medical or a Rhode Island Primary Care Physicians or a provider group where they are actually seeing that cost not just not go up so fast, they are actually driving the cost down for their patients. And maybe that is too big of an extrapolation, but what does that look like from your perspective?

Dr. HALL. We will have to do that. I think that is certainly where we start working on this, is talking with providers and their experiences to get an understanding of what is happening at individual providers and see if we can find some common factors in there. So that is certainly going to be part of our methodology.

Senator WHITEHOUSE. Great. Well, thank you, because, surely, Mr. Chairman, if we could save $700 per person per year on health care expense while providing better care for people, that would be a pretty serious win-win.

Chairman ENZI. Yes, it would, and I thank you for your comments at the last hearing regarding that and then sharing the information that you did with me. I will have to get together with you and ask a few questions about that, though, to get more detail on how it actually works. And I thank you for your work on the special budget task force as well. We are really relying on you. as you did working bipartisan before, to come up with some solutions that maybe we can fix that process and make this——

Senator WHITEHOUSE. Well, we are much inspired by you, Mr. Chairman, and Senator Perdue and I, who are both on this Committee, are doing our best to channel your concerns and your wishes into that process.

Chairman ENZI. I appreciate that. And I want to thank you, Dr. Hall, for your testimony today and for all of the documents that you oversee the preparation of, and 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, our witness has 7 days from receipt of the questions to respond with answers.

With no further business to come before the Committee, the hearing is adjourned.

[Whereupon, at 11:54 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

MAY 3, 2018

Answers to Questions for the Record Following a Hearing on *The Budget and Economic Outlook: 2018 to 2028* Conducted by the Senate Budget Committee

On April 11, 2018, the Senate Committee on the Budget convened a hearing at which Keith Hall, Director of the Congressional Budget Office, testified about The Budget and Economic Outlook: 2018 to 2028.[1] *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. It is available at* www.cbo.gov/publication/53800.

Chairman Enzi

Question. Following our last hearing in January, I submitted a question for the record where I requested that you provide an update on your analysis of the impacts on health insurance coverage as a result of the elimination of the individual mandate penalties. In response to my question, Dr. Hall, you stated that since that provision was enacted into law, CBO would describe any changes in the analytic methods used to estimate the individual mandate in its baseline projections this spring. I did not see a discussion of these changes in CBO's report. Does the new report include a description of changes to CBO's methodology for estimating the impact of the individual mandate on coverage? If not, please provide.

Answer. The baseline projections incorporate revised methods for estimating the effects of eliminating the penalties associated with the individual mandate. The revised methods yielded a smaller effect on health insurance coverage than CBO and the staff of the Joint Committee on Taxation (JCT) had previously estimated. (These methods and the projections of health insurance coverage themselves will be described in a forthcoming CBO report.) Relative to the estimated effect of the 2017 tax act (Public Law 115-97), the updated methodology used for the baseline projections has reduced the effect of eliminating the mandate penalties by about one-third.[2]

The updated methodology was developed after reassessing the decline in the number of uninsured people since 2012 and the reasons for that decline. CBO and JCT have long attributed only part of the decline to financial factors—specifically, the expansion of Medicaid coverage and subsidies for insurance obtained through the marketplaces. The agencies have attributed the rest of the decline to nonfinancial factors, including the simplification of procedures

1. See testimony of Keith Hall, Director, Congressional Budget Office, before the Senate Committee on the Budget, *The Budget and Economic Outlook: 2018 to 2028* (April 11, 2018), www.cbo.gov/publication/53721.
2. For more information on the agencies' prior estimate, see Congressional Budget Office, *Repealing the Individual Health Insurance Mandate: An Updated Estimate* (November 2017), www.cbo.gov/publication/53300.

for participating in Medicaid, the existence of the marketplaces, outreach and advertising, and market rules (such as the exclusion of coverage for preexisting medical conditions). Other nonfinancial factors are related to the individual mandate, such as changes in people's tendency to comply with laws, people's attitudes about health insurance, and people's greater responsiveness to penalties than to subsidies.[3] CBO and JCT revised their methodology for estimating the effects of eliminating the mandate penalty in three ways:

- The total effect of all nonfinancial factors is smaller;

- The nonfinancial factors besides those associated with the mandate explain a greater share of the total effect of all nonfinancial factors; and

- The effects of nonfinancial factors associated with the individual mandate persist more over the coming decade now that the mandate has been in place for four years, and they do not dissipate as much when the mandate penalty is eliminated.

Each of those revisions reduced the agencies' estimates of the effects of eliminating the mandate penalty. Those revisions were based in part on CBO's own analysis of changes over time in the number of uninsured people using data from the National Health Interview Survey (NHIS). CBO and JCT now use the NHIS as their primary benchmark for that number; previously, they relied more heavily on estimates from the Medical Expenditure Panel Survey—Household Component.[4] The revisions also incorporated information from analysts at other organizations.[5]

Question. It has come to my attention that shortly after passage of the Bipartisan Budget Act of 2018 CBO realized its estimate of a provision related to the Medicare Part D 'donut hole' was incorrect. Where is the correction featured in the new report? Please describe the budgetary effects of this provision of law as now incorporated in the most recent baseline.

Answer. Section 53116 of the Bipartisan Budget Act of 2018 (P.L. 115-123) requires manufacturers of brand-name prescription drugs to provide a 70 percent discount to certain beneficiaries of Medicare Part D for brand-name prescription drugs purchased while those

3. For additional information, see Alexandra Minicozzi, Unit Chief, Health Insurance Modeling Unit, Congressional Budget Office, "Modeling the Effects of the Individual Mandate on Health Insurance Coverage" (presentation at a meeting of CBO's Panel of Health Advisers, Washington, D.C., September 15, 2017), www.cbo.gov/publication/53105.

4. CBO now uses the NHIS as the benchmark because the NHIS has a larger sample size and is available more quickly. Also, the question asked in the survey about insurance status at a point in time has a shorter recall period and can be used to estimate averages during the year that more closely correspond to the concept of average enrollment underlying CBO's projections.

5. See Ashley Kirzinger and others, "Kaiser Health Tracking Poll–March 2018: Non-Group Enrollees," *Kaiser Family Foundation* (April 3, 2018), https://tinyurl.com/y9osz5pm; John Hsu and others, "Eliminating the Individual Mandate Penalty in California: Harmful But Non-Fatal Changes in Enrollment and Premiums," *Health Affairs Blog* (March 1, 2018), https://tinyurl.com/ybmbbob9; S&P Global Ratings, "U.S. Tax Reform: Repeal of the Health Insurance Mandate Will Save Less Than Expected, and Will Not Support the Current Insurance Market" (November 16, 2017); Paul Spitalnic, *Estimated Financial Effect of the "American Health Care Act of 2017"* (Centers for Medicare & Medicaid Services, Office of the Actuary, June 13, 2017), https://go.usa.gov/xQWfR; and Linda J. Blumberg, Matthew Buettgens, and John Holahan, *Implications of Partial Repeal of the ACA Through Reconciliation* (Urban Institute, December 2016), https://tinyurl.com/yb4oeiy9.

beneficiaries are in the coverage gap (also known as the "doughnut hole"). The coverage gap refers to a range of spending for prescription drugs in which Part D beneficiaries who were not enrolled in the low-income-subsidy program were responsible for paying 100 percent of the cost of their prescriptions when the Part D benefit was originally implemented.

When the legislation was being considered, CBO estimated that provision would reduce net Medicare spending for Part D by $7.7 billion over the 2018–2027 period.[6] CBO subsequently learned of a relevant analysis by the Centers for Medicare & Medicaid Services and incorporated that analysis in its projections for the April 2018 Medicare baseline. The current baseline incorporates an estimate that, compared with prior law, section 53116 will reduce net Medicare spending for Part D by $11.8 billion over the 2018–2027 period.

CBO describes changes in its projections between the June 2017 and April 2018 baselines in Appendix A of *The Budget and Economic Outlook: 2018 to 2028*. Those changes are categorized as legislative, economic, or technical. The $4 billion change in the projected effect of section 53116 is included in the $186 billion reduction in projected Medicare spending stemming from technical factors; it accounts for about 2 percent of that reduction.

Ranking Member Sanders

Question. There is robust economic literature, from the OECD and elsewhere, depicting a causal relationship between widening economic inequality and slower economic growth. It is a simple fact that the Republican tax cut bill will increase income inequality: As mentioned in today's hearing, in 2027, 83 percent of the benefits of the Republican tax cut will go to the top 1 percent of income earners and 60 percent of the benefits will go to the top 0.1 percent, according to the Tax Policy Center.[7] In general, do CBO's macroeconomic models account for slower growth due to widening inequality? Does this version of CBO's *Outlook* incorporate the widening income inequality that will result from the Republican tax cut bill into its projection of economic growth? If so, how?

Answer. The distribution of income across households is an important consideration in CBO's analyses of the economic effects of fiscal policies in the short run. For example, in CBO's assessment, increases in disposable income boost purchases more for lower-income households than for higher-income households. That is because, at least in part, a larger share of people in lower-income households are liquidity-constrained (in other words, unable to make purchases because of a lack of cash).

CBO's models incorporate the effecrs of trends in income inequality through their reliance on estimates of trends in the economy during recent decades, when such inequality has been increasing, but they do not include a channel of influence through which specific changes

6. In the table that CBO produced before enactment, that effect was combined with estimated savings for section 53113 (which modified payment rules for biosimilar drugs), resulting in a combined estimate of $10.1 billion in federal savings over the 2019–2027 period. See Congressional Budget Office, *Estimated Direct Spending and Revenue Effects of Division E of Senate Amendment 1930, the Bipartisan Budget Act of 2018* (February 2018), www.cbo.gov/publication/53557.

7. See Urban-Brookings Tax Policy Center, *Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act* (December 18, 2017), https://tinyurl.com/y86ve723.

in inequality of after-tax income affect economic growth in the long run. Despite a large body of academic papers examining the effect of income inequality on the economy, there is not yet a consensus in CBO's view as to a clear causal link from inequality to growth rates within the U.S. economy. Some studies find that higher inequality is associated with higher growth in the short term. Studies by the International Monetary Fund and the Organisation for Economic Co-operation and Development, among others, find a statistical link between higher inequality and lower growth based on comparisons across a wide spectrum of countries. No studies establish a robust, causal link from inequality to long-run growth rates that is applicable to the U.S. economy.

Nonetheless, some traditional economic insights remain part of the debate.

- Inequality may provide important incentives for investment in skills and knowledge or for entrepreneurship and innovation.
- Efforts to reduce inequality that distort market incentives may slow economic growth.
- Inequality of income is often correlated with underinvestment in human capital. In particular, unequal access to quality education reduces investments in people, from early childhood development through access to higher education, which hinders long-term economic growth.

CBO will continue to monitor new research (in universities, think tanks, and other organizations) that is looking for specific links between inequality and economic growth.

Senator Corker

Question. *The Budget and Economic Outlook* states that $669 billion will be added to the deficit over the next decade because of the increased spending resulting from the Bipartisan Budget Act of 2018 (BBA18) and the Consolidated Appropriations Act of 2018 (Table A-1, page 94). Outside organizations, including the Committee for a Responsible Federal Budget, have estimated that if the temporary provisions in BBA18 were made permanent, it could increase the deficit by $2.1 trillion over ten years, including debt service. What would the impact on the deficit be if the spending levels set by BBA18 were continued through 2027?

Answer. In CBO's baseline projections, future discretionary funding is projected by taking the amounts appropriated for 2018 and adjusting them for inflation for future years. Those amounts are then reduced as required to meet the caps on funding established by the Budget Control Act of 2011 (as amended) for 2019, 2020, and 2021. Beyond 2021, funding is projected to increase with inflation from the 2021 capped amounts.

CBO analyzed an alternative under which funding would be continued at the amounts appropriated for 2018, including adjustments for inflation, with no reductions to comply with the caps set for 2019, 2020, and 2021. Discretionary outlays under that scenario would increase relative to CBO's current baseline by $1.5 trillion over the 2019–2027 period, and additional debt-service costs would be $193 billion.

Senator Harris

Question. As the CBO's *Outlook* notes, health care costs are expected to increase over the coming years as the aging population grows and more eligible individuals enroll in Medicare. The *Outlook* also notes that the repeal of the individual mandate is likely to make it so that younger and healthier people with lower health care costs will have fewer incentives to remain in health care markets. Those who have higher health care costs will be more likely to stay in health care markets, which will increase the cost of health insurance premiums and contribute to the growing cost of health care for Americans. How would getting more Americans enrolled in health insurance plans, as the individual mandate in the Affordable Care Act sought to do, help keep health care costs down over the long term?

Answer. The effects of having more people covered by health insurance on national health expenditures would depend on how that coverage came about. In general, people use more health care when they have insurance, and that use tends to increase expenditures. However, changes that increased coverage could also reduce expenditures if people used their coverage to stay healthy and prevent or delay the onset of some chronic diseases. For example, regular check-ups and prenatal care can reduce expenditures on premature births. Increased coverage could also spur greater competition between insurers, lowering expenditures.

Question. One of the biggest impediments that we face to getting more folks participating in the labor market is housing. Even if an economy is adding jobs, if we don't have stable housing for folks, then we are going to have a hard time getting them in the workforce. It's a big problem in California right now, where people are having to commute from far away from their job in order to find a place where they can affordably live. This problem is playing out in communities across the country and will be an impediment to growing our economy. Has CBO conducted, or would it be able to conduct, an analysis of how policies designed to provide more affordable housing can lead to more robust participation in the workforce?

Answer. CBO has reviewed research on the effects of housing assistance on work.[8] Housing assistance provides recipients with incentives that influence their willingness to work, in terms of both employment and the number of hours worked. Some incentives may discourage work and others may facilitate it. Recent studies of housing assistance indicate that recipients of housing vouchers tend to work less, on net.

One set of incentives tends to reduce the amount of time that people work. Housing assistance allows recipients of such benefits to maintain their standard of living while working less, an incentive known as the income effect. Because an increase in a household's income from working is partially offset by a reduction in the value of their housing benefits, housing assistance may also make spending time on activities other than work more desirable, which is termed the substitution effect. For example, if the monthly labor income of a household increased by $100, its housing benefits would be reduced by $30—the equivalent of a

8. See Congressional Budget Office, *Federal Housing Assistance for Low-Income Households* (September 2015), www.cbo.gov/publication/50782.

30 percent marginal tax on earnings from work.[9] (Other policies might also affect people's effective marginal tax rate.) Because, on net, additional work provides less income than it would have otherwise, households have less incentive to work than they would have if they were not receiving assistance.

In other ways, though, housing assistance may facilitate work. By providing a more stable housing arrangement for people with low income, for example, housing assistance might encourage employment. Assistance might also facilitate work by freeing resources that might otherwise be spent on rent to instead cover child care and transportation expenses. In addition, housing assistance can help people in low-income households move to areas closer to potential employers or to areas where neighhors can provide more contacts to potential employers.

Senator Johnson

Question. CBO writes, "The ACA requires insurers to offer CSRs to eligible people who purchase silver plans through the marketplaces and requires the federal government to reimburse insurers for those costs. CSRs take the form of reduced deductibles, copayments, and other means of cost sharing. Section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, which specifies rules for constructing the baseline, requires CBO to assume full funding of such entitlement authority." What is the budgetary effect of removing direct payments for CSRs from the baseline for estimating spending on premium tax credit subsidies, as CBO has done? What legal basis did CBO rely on for this change in its baseline? How can this be reconciled with OMB's earlier announced decision to keep CSR payments in its baseline?

Answer. In light of the Administration's change in policy, CBO's baseline projection reflects the manner in which insurers are currently reimbursed for the cost of providing cost-sharing reductions (CSRs) to eligible enrollees. That projection is in compliance with Section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 because the CSR entitlement is assumed to be fully funded. The obligations stemming from the entitlement are projected to be satisfied by higher premiums and larger premium tax credit subsidies instead of by direct payments (as in previous baselines).

CBO's projections of the federal budget deficit reflect higher premium tax credits and other effects that would not be included if the baseline incorporated the counterfactual assumption that CSRs are funded by appropriations. All else being equal, CBO's baseline treatment shows higher total costs of providing subsidies for insurance purchased through the marketplaces than the Office of Management and Budget's treatment, which continues to assume a direct appropriation for CSRs.

In recent cost estimates for legislation that would appropriate funding for the payment of CSRs, CBO and JCT estimated that the appropriations would not affect direct spending or revenues because such payments were already in CBO's baseline projections.[10] After consulting with the hudget committees about the baseline and about cost estimates relative

9. The marginal tax rate is the percentage of an additional dollar of earnings that is paid in taxes or offset by reductions in benefits from government programs. For a detailed discussion of how increases in earnings can cause reductions in assistance (provided through cash and in-kind benefits) to people of reduced means, see Congressional Budget Office, *Effective Marginal Tax Rates for Low- and Moderate-Income Workers* (November 2012), www.cbo.gov/publication/43709.

10. See Congressional Budget Office, cost estimate for the Bipartisan Health Care Stabilization Act of 2018 (March 19, 2018), https://www.cbo.gov/publication/53666.

to that baseline, the agency will continue that practice. For legislation that would change the means of funding the CSR entitlement, CBO will estimate that it would not affect the federal deficit—because the obligations stemming from the entitlement can be fully satisfied through either a direct payment or higher premiums and larger premium tax credit subsidies. However, if legislation was enacted that appropriated funds for direct payments for CSRs, the agency would update its baseline projections to reflect lower premium tax credits and other effects.

Question. Previously, Dr. Hall testified before the House Budget Committee that the CBO had been treating CSR payments as an entitlement, and would continue to do so unless directed otherwise. Was CBO directed to alter its baseline treatment of CSR payments, as CBO has done? If so, by whom?

Answer. CBO continues to treat CSR payments as an entitlement, and they are fully funded by larger premium tax credits. The decision to revise the baseline treatment of their means of financing was made by CBO after consultation with the House and Senate Budget Committees.

Question. What are the components and component spending estimates for the $44 billion net increase in estimated spending for health insurance subsidies and related spending (Table A-1) for coverage purchased through the marketplaces over the 2018–2027 period, in total, and by year?

Answer. The components of the preliminary $44 billion net increase in outlays for health insurance subsidies and related spending resulting from technical changes are provided below (see the table). The estimates are preliminary. CBO will publish estimates incorporating the effects of recently proposed rules affecting health insurance markets and other updates later this spring.

Increases or Decreases (-) in Outlays for Health Insurance Subsidies and Related Spending From Technical Changes Between September 2017 and April 2018

	By Fiscal Year, in Billions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–2022	2018–2027
Premium Tax Credit Outlays, Cost-Sharing Reductions, and Outlays for the Basic Health Program	-3	-4	-7	3	10	9	8	9	10	13	-1	48
Marketplace Grants to States	*	0	0	0	0	0	0	0	0	0	*	*
Payments for Risk Adjustment	1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-2	-5
Payments for Reinsurance	*	*	0	0	0	0	0	0	0	0	*	*
Total, Health Insurance Subsidies and Related Spending	**-2**	**-5**	**-8**	**2**	**9**	**9**	**8**	**8**	**9**	**13**	**-3**	**44**

Components may not add to totals because of rounding; * = between zero and $500 million.

Senator Kaine

Question. In CBO's report, *The Budget and Economic Outlook: Fiscal Years 2018-2028*, CBO writes: "Changes to trade agreements or tariff policies on the part of the United States and its trading partners that impede trade could have significant adverse effects on aggregate economic activity, whereas the removal of trade barriers between the United States and its trading partners could improve aggregate economic conditions." Recently, the Trump Administration announced an intent to implement over the next year anywhere from $50-150 billion in import tariffs on goods ranging from steel and aluminum to intellectual property, which would have an adverse effect on farmers, manufacturers, workers, and consumers. Since the tariffs have been announced after CBO generated its budget and economic outlook, the effect of these trade policies is not reflected in this report. What would be the economic effect of protectionist trade policies, including tariffs, on the following indicators: economic activity (GDP and GNP); inflation; consumer prices; employment; and trade?

Answer. CBO does not have any specific estimates of the economic effects of protectionist trade policies. Those effects can vary widely depending on the specific provisions of each policy, the countries whose imports are affected, and the products that are targeted. Those differences make it difficult to characterize the broad effects of all protectionist trade policies.

In general, however, by reducing competition and domestic productivity, protectionist trade policies probably reduce real (inflation-adjusted) domestic economic output and income in the long run. In addition, higher import tariff rates tend to lessen imports by boosting domestic prices on imported products. Consequently, import tariffs tend to reduce the purchasing power of consumers and businesses. The effect of tariffs on aggregate employment is less certain.

Senator Van Hollen

Question. Table B-2 of CBO's new budget and economic outlook presents estimates for economic effects of the new tax law. This includes estimates for the change in real gross domestic product (GDP) and real gross national product (GNP). Both of these measure our economy, but as you confirmed during the hearing, GNP is better for measuring the income that actually flows to the people of the United States. In Table B-2, CBO's estimate for the increase in GDP is significantly larger than its estimate for the increase in GNP. You confirmed that the reason for this difference is that some of the income from the increased economic activity is flowing to foreigners instead of U.S. residents. When the tax plan is fully implemented in 2028, Table B-2 estimates that GDP will be 0.5% higher as a result of the 2017 tax law, but GNP will only be 0.1% higher. Given these numbers, is it correct that roughly 80% of the income from the increased economic activity associated with the 2017 tax law flows to foreigners in 2028?

Answer. CBO reported in its *Budget and Economic Outlook* that the tax act is estimated to raise real GDP by 0.5 percent and real GNP by 0.1 percent in 2028. Based on those estimates, the increase in net real income accruing to foreign investors and businesses in that year is roughly 80 percent of the increase in GDP, or (1–0.1/0.5)*100.[11]

There are two caveats to that estimate. First, the calculation used the ratio of two numbers that were rounded to a single decimal. Using more precise estimates of the real effects on GDP and GNP, which CBO had not previously published, the increase in net real income accruing to foreign investors and businesses in 2028 is 71 percent of the increase in GDP. Second, that share fluctuates substantially from year to year in CBO's estimates, and 2028 is not representative of the entire period; it averages 43 percent from 2018 to 2028.

In CBO's estimates, the share is higher after 2025 in part because the lower tax rates on individual income expire and the subsequent effects on the supply of labor—and therefore on real GDP—are smaller, but the difference between the effects on GDP and on GNP changes little. CBO has not analyzed the effects of the tax act after 2028.

Senator Warner

Question. In the CBO report, you included an "alternative fiscal scenario." This alternative fiscal scenario assumes that all the tax cuts which expire in the next ten years are extended, ACA tax provisions which have been delayed continue to be delayed, and that discretionary spending grows at the rate of inflation from fiscal year 2018 levels, among other policies currently in place. Under this alternative fiscal scenario, CBO estimates that publicly held debt will be larger than the entire U.S. economy by 2028, as the debt-to-GDP ratio hits 105 percent. In the alternative fiscal scenario, revenues only average 17 percent of GDP over the ten year window, and presumably would climb only marginally higher in the ensuing years. Any reasonable plan to stabilize the debt would necessarily require some additional revenues as part of a larger package, otherwise major programs would face draconian cuts. Should there be no additional increase in revenues, could you please identify: what share of Medicare spending would need to be cut to stabilize the debt starting in 2028 under the alternative fiscal scenario, assuming no other changes in spending; what share of Medicaid spending would need to be cut to stabilize the debt starting in 2028 under the alternative fiscal scenario, assuming no other changes in spending; what share of Social Security spending would need to be cut to stabilize the debt starting in 2028 under the alternative fiscal scenario, assuming no other changes in spending; and what share of discretionary spending would need to be cut to stabilize the debt starting in 2028 under the alternative fiscal scenario, assuming no other changes in spending?

Answer. Because CBO had little time to incorporate the effects of recent legislation into its projections, it has not been feasible to perform the analysis necessary to produce the 30-year budget projections needed to answer those questions. Those extended baseline projections are scheduled to be completed later this year.

11. For additional information, see Congressional Budget Office, letter to the Honorable Chris Van Hollen about the effects of the 2017 tax act on income accruing to foreign investors (April 18, 2018), www.cbo.gov/publication/53772.

Question. CBO estimates that interest expense will be $915 billion in 2028, and will increase from 1.4 percent of GDP in 2017, to 3.1 percent of GDP in 2028. Even this significant growth in interest expense may be an underestimate, as the alternative fiscal scenario would put the total interest in 2028 at $992 billion, above 3.3 percent of GDP. It will have surpassed Medicaid, defense spending, and non-defense discretionary spending, with only Social Security and Medicare costing more than net interest. Assuming the alternative fiscal scenario continues beyond 2028, would you expect interest expense to continue to increase as a percentage-of-GDP in later decades, taking up a larger and larger share of federal expenditures? While interest rates have been relatively stable, significant debt levels make interest rate risk an even greater threat. For fiscal year 2018 and fiscal year 2028, under your traditional projections and the alternative fiscal scenario, what would be the additional interest expense if interest rates were one percentage point higher than what you have projected?

Answer. Interest expenses are expected to continue to increase as a percentage of GDP beyond 2028 under the alternative fiscal scenario, but CBO has not completed those estimates. Because CBO had little time to incorporate the effects of recent legislation into its projections, it has not been feasible to update the analysis of how economic projections might affect budget projections that is needed to answer questions about different interest rates. That update is scheduled to be completed later this year.

Question. The Republican tax bill appears to create a "sugar high," pushing growth into the next few years, with growth in later years falling below prior expectations. Would we expect more consistent, robust, and sustainable growth if the tax bill created lower marginal tax rates, but did so in a revenue-neutral fashion through base broadening, and was fully permanent, rather than having a significant number of expiring provisions due to use of the reconciliation process, allowing passage with only Republican votes?

Answer. All things being equal, permanent tax law changes that did not increase the budget deficit would have larger and more sustained effects than temporary provisions; CBO's projections accounted for the temporary nature of various provisions of the tax act as well as the effects of higher budget deficits. In CBO's projections, the lower individual and corporate tax rates—coupled with special investment provisions (such as bonus depreciation)—generate positive incentives that boost labor supply, investment, and real GDP, with the largest effects occurring by 2022. Over the later years of the projection period (2026 through 2028), the positive effects on labor, investment, and real GDP wane as temporary provisions expire. (The lower individual income tax rates expire at the end of 2025, and the bonus depreciation provision phases out from 2023 to 2026.) Some beneficial effects remain by the end of the projection period from the permanent reduction in the corporate income tax rate. Throughout the projection period, and as described in Appendix B of the *Budget and Economic Outlook*, the positive effects on investment and real GDP are limited by the crowding out of private investment resulting from higher federal budget deficits. A revenue-neutral tax reform that did not boost budget deficits would not have the negative effects from such crowding out.

Question. In the CBO report's discussion of the international tax provisions, specifically the Global Intangible Low-Taxed Income (GILTI) and the Foreign Derived Intangible Income (FDII), it states: "[t]he GILTI and FDII provisions affect corporations' decisions about where to locate tangible assets. By locating more tangible assets abroad, a corporation is able to reduce the amount of foreign income that is categorized as GILTI. Similarly, by locating fewer tangible assets in the United States, a corporation can increase the amount of U.S. income that can be deducted as FDII. *Together, the provisions may increase corporations' incentive to locate tangible assets abroad.* (Like profit shifting, such decisions change the locations of reported profits—but they are not classified as profit shifting, because they involve actual economic activity rather than simply reporting.)" *(emphasis added)* Could you please expand on what the economic effects for the U.S. would be if businesses are incentivized to put more tangible assets abroad?

Answer. On net, in CBO's estimates, the 2017 tax act makes the United States a more attractive location for investment. With respect to the international provisions of the tax act, there is a great deal of uncertainty about how companies will respond. The tax on GILTI and the deduction for FDII provide an additional incentive to locate high-return assets in the United States, but it is possible that, for some companies, those provisions may encourage some new foreign investment in tangible assets. However, the international provisions are only one of many factors that a company must consider when deciding where to locate its investments.

Fiscal policies that encourage U.S. businesses to locate their tangible assets abroad reduce domestic investment, potential output, and demand for labor. The effect of those policies on national income is uncertain. However, those effects are not consistent with CBO's projection of the overall economic effects of the tax act.

Senator Wyden

Question. Box B-1 of the *Outlook* (pg. 109) states that multinational corporations "have held a substantial fraction of their undistributed funds as long-term Treasury securities, CBO estimates." Could CBO provide a point estimate, or range of estimates, for the fraction of MNCs' undistributed funds that have been held in long-term Treasury securities?

Answer. CBO does not have the necessary information to provide a point estimate for the fraction of undistributed funds held as long-term Treasury securities. CBO's estimate that a "substantial fraction" is held as long-term Treasury securities is informed by descriptions contained in the financial statements of companies that held large balances of undistributed foreign earnings and other studies of those companies.[12] For some companies, the descriptions state that some of the undistributed foreign earnings are beld in U.S. Treasury securities but do not state exactly how much. For other companies, the descriptions state only that the majority of undistributed foreign earnings are invested in highly rated U.S.

12. See, for example, Senate Committee on Homeland Security and Governmental Affairs, Permanent Subcommittee on Investigations, *Offshore Funds Located Onshore, Majority Staff Report Addendum to Repatriating Offshore Funds: 2004 Tax Windfall for Select Multinationals* (December 14, 2011), https://go.usa.gov/xQWGB; and Liz McCormick and Molly Smith, "Beware the $500 Billion Bond Exodus," *Bloomberg* (January 17, 2018), https://tinyurl.com/ycgfxrtw.

dollar-denominated securities. U.S. Treasury securities make up a substantial fraction—over one-third—of highly rated fixed-income securities denominated in U.S. dollars.[13] The prevalence of those two types of descriptions indicates to CBO that U.S. Treasury securities make up a substantial fraction of the undistributed funds.

Question. In Chapter 4 of the *Outlook* (pg. 89), CBO and JCT estimate that extending the expiring provisions in the 2017 tax act would increase deficits on net by $650 billion over the decade, excluding added debt-service costs. How much would debt-service costs total on this $650 billion deficit increase from extending expiring provisions in the 2017 tax act?

Answer. Under that scenario, additional debt-service costs would total $31 billion over the 2019–2028 period.

Question. In Chapter 3 of the *Outlook*, CBO reduces its projection of individual income tax revenues by $16 billion for 2018 due to "a downward revision to estimates of wages and salaries in that year." How large was this downward revision for 2018 wages and salaries, relative to CBO's June 2017 projection?

Answer. A large downward revision to the historical level of wages and salaries that the Bureau of Economic Analysis (BEA) published after the completion of CBO's June 2017 projection caused BEA's current estimate of wages and salaries for the first half of 2017 to be $206.9 billion (or 2.4 percent) lower than in CBO's June 2017 estimate for the same period.

The implications of last July's downward revision to BEA's historical estimates of wages and salaries carry on into the second half of 2017 and into 2018. As a result, CBO's latest projection of wages and salaries for 2018 is still $153.3 billion (or 1.7 percent) lower than the agency projected in June 2017, even though CBO now anticipates that the tightness of labor markets revealed in recent data on employment and unemployment will result in stronger growth in wages and salaries during 2018.

13. Securities Industry and Financial Markets Association, "US Bond Market Issuance and Outstanding." That calculation is based on $14.5 trillion in U.S. Treasury bonds outstanding and $41 trillion in total U.S. bond market debt outstanding.

GAO'S ANNUAL REPORT ON ADDITIONAL OPPORTUNITIES TO REDUCE FRAGMENTATION, OVERLAP, AND DUPLICATION IN THE FEDERAL GOVERNMENT

WEDNESDAY, MAY 23, 2018

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, Boozman, Sanders, Van Hollen, and Harris.

Staff present: Elizabeth McDonnell, Republican Staff Director; and Warren Gunnels, Minority Staff Director.

OPENING STATEMENT OF CHAIRMAN ENZI

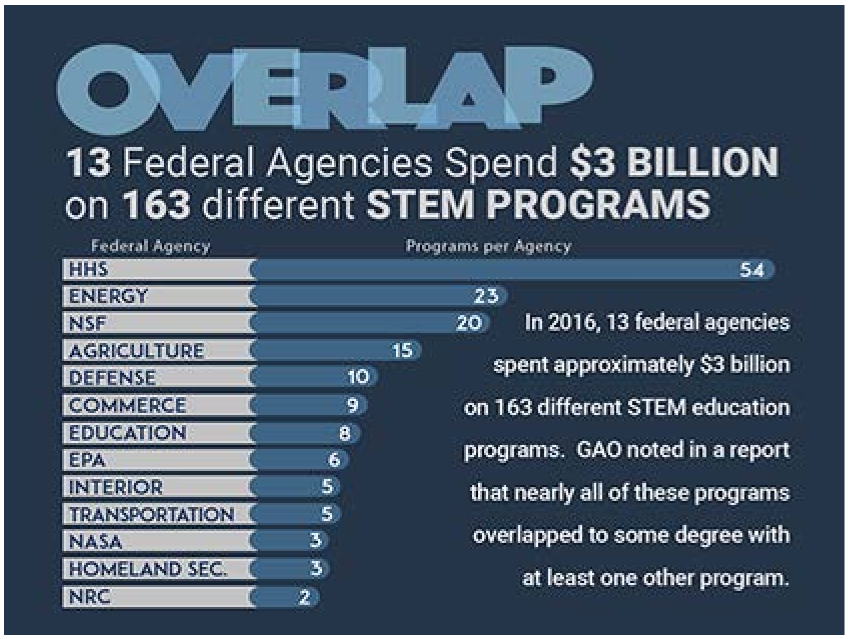
Chairman ENZI. I will go ahead and call to order this hearing of the Senate Budget Committee. Good morning and welcome. I call this hearing to order so that we can focus on the Government Accountability Office's annual report to Congress on reducing Government fragmentation and redundancy. I like that word "fragmentation."

By acting on the recommendations in this report, Congress and Federal agencies have the potential to improve Government performance and stewardship of taxpayer dollars. This is a goal I believe both parties share, and I hope we can work together to advance solutions to the problems identified in this report.

It is no secret that the Federal Government spends beyond its means. Our national debt has eclipsed $21 trillion, and the Congressional Budget Office projects annual deficits will soon return to more than $1 trillion.

Key to addressing this chronic overspending is diligent oversight of the programs, agencies, and activities currently being funded. That means routinely reviewing programs and reauthorizing, reforming, and eliminating them as appropriate. It also means getting appropriations bills done on time and not resigning ourselves to massive catch—all spending bills that are subject to little review from the body.

GAO's annual report on fragmentation, overlap, and duplication is one tool on which Congress can and should rely as we undertake this work. Each year GAO calls attention to the numerous examples of inefficiency and redundancy across Government. One example is the graduate science, technology engineering, and math, or STEM, education. GAO began highlighting the duplication in these programs in its 2012 report and does so again this year. In 2016, 13 Federal agencies spent approximately $3 billion on 163 different STEM education programs. You can see how many agencies are engaged in STEM education on this chart that is on the screens.

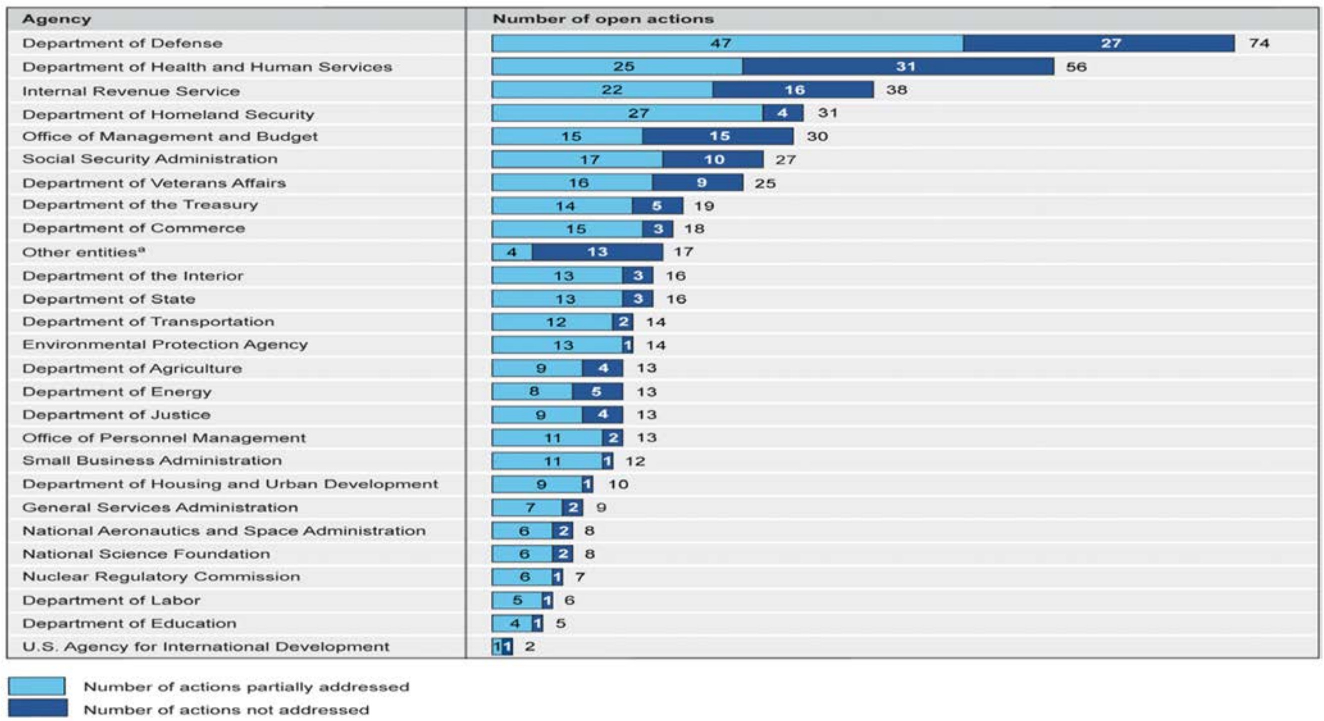


GAO noted that nearly all of these programs overlap to some degree with at least one other program. A key feature of GAO's report is that it does not just highlight problems; it identifies solutions. Since GAO began issuing this report in 2011, it has identified more than 700 actions across 278 programs that Congress and the executive branch could take to make the Federal Government more efficient and effective. Of those recommendations, 551 have been partially or fully addressed by executive or legislative action. GAO estimates these transactions have saved the Federal Government $178 billion.

But as GAO's 2018 report indicates, more work can be done, and I would direct your attention to this chart, which is probably too small to read, but it is duplicated in the testimony that we have, too. It provides a breakdown of partially addressed and unaddressed agency-specific actions since GAO began producing this report. The light blue color represents those that have been partially addressed while dark blue represents those that have been unaddressed.

As the chart shows, the Department of Defense leads the pack with the most pending recommendations followed by the Department of Health and Human Services, the Internal Revenue Service, and so on down the list. I wanted to highlight this chart as a reminder that Congress must be diligent in its oversight efforts.

Not Addressed and Partially Addressed Actions per Agency, Since 2011



Source: GAO. | GAO-18-571T

As I have said before, I want to work with members of this Committee to make our Government more efficient and responsive to all Americans. If there are issues in this report you would like to address, let us work together. Tackling Government inefficiency and overspending is not an easy task. I believe the issues identified in the GAO's report, which we will talk about this morning, represent a good place to start.

Our witness, the U.S. Comptroller General, will provide additional information about the report and GAO's recommendations. Additionally, GAO's subject matter experts are in attendance this morning, prepared to answer any specific questions from Committee members.

I might mention, though, that the National Defense Authorization Act is also being marked up at this same time this morning, and a number of members of the Committee are on that, so we will make sure that they pay some special attention to this report and this testimony.

Welcome to all of you, and I look forward to the discussion.

Senator Sanders.

OPENING STATEMENT OF SENATOR SANDERS

Senator SANDERS. Thank you, Mr. Chairman, for holding this hearing and thank you, Mr. Dodaro, for being with us today.

I know that my friend, the Chairman, has long been concerned about the deficits and the national debt facing this country, and I would just remind folks that the recent tax bill that was passed, supported, I believe, by almost every Republican, will increase the national debt by $1.9 trillion, and that at a time of massive income and wealth inequality, 83 percent of those tax benefits by the end of the 10-year period go to the top 1 percent. So some of us do not take my Republican colleagues all that seriously now when they talk about the need to deal with the national debt.

But, Mr. Chairman, the point of this discussion today, this hearing, is a very important one, and that is that a budget as large as the Federal Government's, there is no question but there is an enormous amount of waste, fraud, abuse, duplication, and I think it is a good idea that we take a look at how we can deal with those issues.

One of the agencies that I think—and I suspect you, Mr. Chairman, will agree with me—deserves to have people take a hard look at is, in fact, the Pentagon where over half of our discretionary spending goes. That is kind of the elephant in the room. And this year we are spending $700 billion on the military, more than the next ten countries combined. I mean, it is a good debate that we do not have enough of, how much we should be spending on the Defense Department. Everybody believes in a strong defense, but when is enough enough?

Meanwhile, while we spend so much on defense, we have tens of millions of people in this country with no health insurance, parents cannot find affordable child care, hundreds of thousands of kids cannot afford to go to college, and we have people talking about making cuts in programs for working people but expanding military spending by $165 billion over 2 years.

But I think—I appreciate very much, Mr. Chairman, the hearing that you held in March on the need for an audit of the Department of Defense, and I think there is widespread agreement that there is something wrong when the Pentagon is the only Federal agency in the country that has not been able to pass an independent audit 28 years after Congress required it to do so. And I appreciate you holding a hearing and focusing attention on that.

Twenty-eight years does seem to be enough time for the Pentagon under Democratic and Republican leadership to maybe get its act together and give us an audit, and we hope that we will have some success in seeing that soon.

Further, Mr. Chairman, as the GAO has told us, there are massive cost overruns in the Defense Department's acquisition budget that we have got to address. According to GAO, the Pentagon's $1.66 trillion acquisition portfolio currently suffers from more than $537 billion in cost overruns, with much of the cost of the cost growth taking place after production. So this is a huge issue that I think requires bipartisan analysis. I do not think anybody thinks it is a great idea to see these huge cost overruns.

GAO tells us that "many DoD programs fall short of cost, schedule, and performance expectations, meaning DoD pays more than anticipated, can buy less than expected, and in some cases delivers less capability to the warfighter." You are a former mayor, I am a former mayor, and I think, you know, when we let out contracts, we held the contractors accountable. I would presume it is the same thing in Wyoming as it is in Vermont. If somebody says they are going to do something for $2 million and then they say, "Oh, it is going to end up costing $4 million," that is not acceptable. But I think there has not been that type of oversight over the Department of Defense that needs to take place.

Another major subject that we should be looking at today is defense contractor fraud. Today, Mr. Chairman, about half of the Pentagon's $700 billion annual budget goes directly into the hands of private contractors. It is a whole huge issue. I think many people think when we spend money on defense, it goes to the soldiers and the planes. But a lot of that money goes to private contractors. Meanwhile, over the past two decades, virtually every major defense contractor in the United States has paid millions of dollars in fines and settlements for misconduct and fraud, at the same time while making huge profits on these Government contracts.

In 2011, I requested a report from the Pentagon on this very issue. Incredibly, that report showed that hundreds of defense contractors and their parent corporations that had defrauded the United States military or settled allegations of fraud received more than $1.1 trillion in Pentagon contracts over the previous decade.

For example, since 1995, Boeing, Lockheed Martin, and United Technologies have paid nearly $3 billion in fines or related settlements for fraud or misconduct. Three billion dollars, collectively. Yet those three companies received about $800 billion in defense contracts over the past 18 years.

Finally, Mr. Chairman, we need to take a serious look at the excessive and obscene executive compensation of defense contractors. It is an issue I raised at that hearing on the need for an audit. You have defense contractors which, for all intents and purposes, they are private companies, profit-making companies, but they are really agencies of the U.S. Government because almost all their funding comes from the United States Government.

Last year the CEOs of Lockheed Martin and Raytheon, two of the top four U.S. defense contractors, were each paid over $20 million in total compensation. Moreover, more than 90 percent of the revenue from those companies came from worldwide defense spending. So you have companies in which 70 percent of their revenue comes from the U.S. Government, at least from the Department of Defense, and then they pay CEOs 400 times what the Secretary of Defense makes. I do think that is an issue that we may want to look at, because it is not only the money that goes to the CEOs, it sets a pattern. If you can have a company paying its CEO 400 times, or whatever it is, what the Secretary of Defense gets, it tells you or it should tell us that these guys are not terribly serious about taxpayer dollars.

So those are some of my concerns that I will be raising, Mr. Dodaro. Thanks for being here. Mr. Chairman, thanks for holding the hearing.

Chairman ENZI. Thank you, Senator Sanders. When you mentioned the mayor thing, I was recalling my mayor days when we worked on cost overruns, because I told my project engineers that if the bid came in above their estimate, they would have to do the job for what they said it would cost.

Senator SANDERS. Right. And we did something similar, and I think mayors all over this country look at it, and we should ask why the DoD does not.

Chairman ENZI. There is no extra fund to dip into if you do not have the money. Hopefully the people that are not here that are at that markup are making note of that anyway.

Our witness today is Gene Dodaro. He is the Government Accountability Office—and actually holds the title of Comptroller General of the United States. Mr. Dodaro testifies frequently before Congress. I am pleased to welcome him back to this Committee. GAO has done great work over the years identifying waste, fraud, and abuse in Federal spending and has been a great service to this Committee in its oversight of Federal spending and the budget. He is the eighth Comptroller General of the United States. He was confirmed in December 2010 after serving as Acting Comptroller General since March 2008. He has been with the GAO for more than 40 years. He served for 9 years as the Chief Operating Officer, the No. 2 leadership position at the agency. Prior to that, he headed GAO's Accounting and Information Management Division, which specialized in financial management, computer technology, and budget issues.

Comptroller General, please begin.

STATEMENT OF THE HONORABLE GENE L. DODARO, COMPTROLLER GENERAL, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; ACCOMPANIED BY MICHAEL SULLIVAN, DIRECTOR, DEFENSE WEAPON SYSTEM ACQUISITIONS

Mr. DODARO. Thank you very much, Mr. Chairman. Good morning to you, Ranking Member Senator Sanders. Good to see both of you again. I appreciate the opportunity to be here today to discuss our eighth annual report on this topic of overlap, fragmentation, and duplication in the Federal Government. We also add our ideas for cost savings and revenue enhancements, which we think the Congress should consider as well.

In the first 7 years on this effort, we identified 724 recommendations in this area. So far, as of March, 52 percent were fully implemented, 24 percent were partially implemented, and as a result of the actions by Congress and by the executive branch, financial benefits have either occurred or will accrue of $178 billion. And I believe much more savings could be realized by addressing our open recommendations.

This year, we identified 68 new recommendations for congressional consideration in addition to the 724 we already identified.

For example, the Department of Defense could save over $500 million over 5 years by eliminating unnecessary overlap and duplication among U.S. distribution centers that provide goods to servicemembers.

The Department of Energy could potentially reduce risk and save potentially tens of billions of dollars by testing and using alternative approaches for low-level treatmenting nuclear waste at the Hanford site in Washington.

The Department of Veterans Affairs could save tens of millions of dollars in purchasing medical and surgical supplies by using best practices that private sector hospitals use in that area.

Also, the Coast Guard could save millions of dollars by closing unnecessary overlapping and duplicative search and rescue stations. They have already identified ways that they could do that.

So there are many opportunities yet to provide savings. We have 365 open recommendations of where savings could be still yet realized. And many of these, I would point out, are in both the Defense Department and the Department of Health and Human Services, Mr. Chairman, which you identified in your opening statement. One of the reasons there are so many recommendations open in those two areas is that is where the money is. Medicare, Medicaid, and other programs are over $1 trillion a year right now, and we have a number of recommendations that we think could save tens of billions of dollars in Medicare and Medicaid expenditures; and also at the Defense Department; and we think there are also opportunities for IRS to take actions that could result in additional revenue collections that should be implemented as well.

So I appreciate very much you holding this hearing and providing a platform for discussing these issues, which are very important, and I look forward to responding to your questions. Thank you.

[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 23, 2018

GOVERNMENT EFFICIENCY AND EFFECTIVENESS

Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits

Statement of Gene L. Dodaro
Comptroller General of the United States

GAO-18-571T

GAO Highlights

Highlights of GAO-18-571T, a testimony before the Committee on the Budget, U.S. Senate

May 2018

GOVERNMENT EFFICIENCY AND EFFECTIVENESS

Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits

Why GAO Did This Study

The federal government faces a long-term, unsustainable fiscal path based on an imbalance between federal revenues and spending. While addressing this imbalance will require fiscal policy changes, in the near term opportunities exist in a number of areas to improve this situation, including where federal programs or activities are fragmented, overlapping, or duplicative.

To call attention to these opportunities, Congress included a provision in statute for GAO to identify and report on federal programs, agencies, offices, and initiatives—either within departments or government-wide—that have duplicative goals or activities.

GAO also identifies areas that are fragmented or overlapping and additional opportunities to achieve cost savings or enhance revenue collection. GAO's 2018 annual report is its eighth in this series (GAO-18-371SP).

This statement discusses

- new areas identified in GAO's 2018 annual report;
- the progress made in addressing actions GAO identified in its 2011 to 2017 reports; and
- examples of open actions directed to Congress or executive branch agencies.

To identify what actions exist to address these issues, GAO reviewed and updated prior work, including recommendations for executive action and matters for congressional consideration.

View GAO-18-571T. For more information, contact Jessica Lucas-Judy at (202) 512-9110 or lucasjudyj@gao.gov or J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

What GAO Found

GAO's 2018 annual report identifies 68 new actions that Congress or executive branch agencies can take to improve the efficiency and effectiveness of government in 23 new program areas. For example:

- The Department of Defense (DOD) could potentially save approximately **$527 million over 5 years** by minimizing unnecessary overlap and duplication in its U.S. distribution centers for troop support goods.
- The Department of Energy may be able to reduce certain risks and save **tens of billions of dollars** by adopting alternative approaches to treat a portion of its low-activity radioactive waste at its Hanford Site.
- The Department of Veterans Affairs could potentially save **tens of millions of dollars** when acquiring medical and surgical supplies by better adhering to supply chain practices of leading hospitals.
- The Coast Guard should close its boat stations that provide unnecessarily duplicative search and rescue coverage to improve operations and potentially save **millions of dollars**.

Significant progress has been made in addressing many of the 724 actions that GAO identified from 2011 to 2017. As of March 2018, Congress and executive branch agencies have fully or partially addressed 551 (76 percent) of these actions. This has resulted in about $178 billion in financial benefits, of which $125 billion has been realized and at least an additional $53 billion is estimated to accrue. These estimates are based on a variety of sources that considered different time periods, assumptions, and methodologies. GAO estimates that tens of billions of additional dollars could be saved should Congress and executive branch agencies fully address the remaining 365 open actions, including the 68 new ones identified in 2018.

Further steps are needed to fully address these remaining actions. For example:

- Congress and the Internal Revenue Service could realize **hundreds of millions of dollars** in savings and increased revenues by enhancing online services and improving efforts to prevent identity theft refund fraud.
- Medicare could save **$1 to 2 billion annually** if Congress equalized the rates paid for certain health care services, which often vary depending on where the service is performed.
- DOD could achieve billions of dollars in savings over the next several years by continuing to employ best management practices on its weapon systems acquisition programs.
- Congress could consider modifying how Medicare pays certain cancer hospitals to achieve almost **$500 million annually** in program savings.
- The Social Security Administration could help prevent the loss of billions of dollars by preventing overpayments to beneficiaries of the Disability Insurance program and improper waivers of beneficiaries' overpayment debt.
- Congress could consider modifying tobacco tax rates to eliminate significant tax differentials between similar products to address future revenue losses caused by manufacturers and consumers substituting tobacco products. Federal losses ranged from $2.6 to 3.7 billion between April 2009 and February 2014.

Chairman Enzi, Ranking Member Sanders, and Members of the Committee:

The federal government faces an unsustainable long-term fiscal path based on an imbalance between federal revenue and spending, primarily driven by health care spending and net interest on the debt.[1] Addressing this imbalance will require long-term changes to both spending and revenue and difficult fiscal policy decisions. In the near term, however, opportunities exist to take action in a number of areas to better manage fragmented, overlapping, or duplicative federal agencies or programs; achieve cost savings; or enhance revenues.

To call attention to these opportunities, Congress included a provision in statute for us to identify and report to Congress on federal programs, agencies, offices, and initiatives—either within departments or government-wide—that have duplicative goals or activities.[2] These reports are issued annually to the House and Senate.[3]

In our first seven annual reports issued from 2011 to 2017, we presented 724 actions in 278 areas for Congress or executive branch agencies to reduce, eliminate, or better manage fragmentation, overlap, or duplication; achieve cost savings; or enhance revenue.[4] To date, Congress and executive branch agencies have partially or fully addressed 551 (76 percent) of the actions we identified from 2011 to 2017, resulting

[1]GAO, *Financial Audit: Fiscal Years 2017 and 2016 Consolidated Financial Statements of the U.S. Government*, GAO-18-316R (Washington, D.C.: Feb. 15, 2018); and *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). GAO's analysis of the federal fiscal outlook can be found at http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview.

[2]Pub. L. No. 111-139, § 21, 124 Stat. 8, 29 (2010), *codified at* 31 U.S.C. § 712 note.

[3]Specifically, these reports are issued to the Senate Committees on Appropriations, Budget, and Homeland Security and Governmental Affairs and the House Committees on Appropriations, Budget, and Oversight and Government Reform.

[4]See GAO's Duplication and Cost Savings webpage for links to the 2011 to 2017 annual reports: http://www.gao.gov/duplication/overview.

in about $178 billion in financial benefits. We estimate that tens of billions more dollars could be saved by fully implementing our open actions.[5]

Our 2018 report, which we released on April 26, 2018, presents 68 new actions across 23 new program areas for Congress or executive branch agencies to reduce, eliminate, or better manage fragmentation, overlap, and duplication and achieve other financial benefits.[6] My testimony today describes (1) new issues identified in our 2018 annual report; (2) the progress made in addressing actions identified in our past reports; and (3) examples of open actions directed to Congress or executive branch agencies.

My comments are based upon our 2018 annual report, as well as our update on the progress made in implementing actions that we have suggested in our previous annual reports. These efforts are based on work we previously conducted in accordance with generally accepted government auditing standards. More details on our scope and methodology can be found in the full report.

Figure 1 outlines the definitions we use for fragmentation, overlap, and duplication for this work.

[5]In calculating our total estimated realized and potential financial benefits, we relied on individual estimates from a variety of sources, which considered different time periods and utilized different data sources, assumptions, and methodologies. Realized benefits have been rounded down to the nearest $1 billion. Estimated potential benefits are subject to increased uncertainty, depending on whether, how, and when they are addressed, and are presented using a notional statement of magnitude. These totals represent a rough estimate of financial benefits.

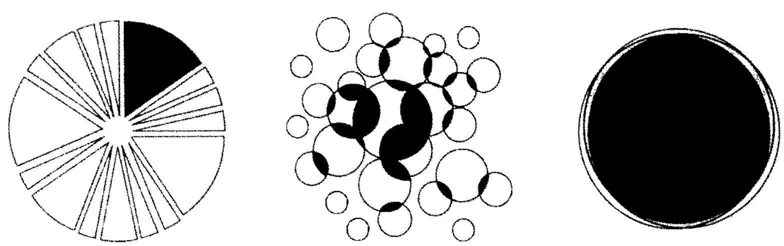
[6]Of the 68 new actions, 7 were added to six existing areas. We also added 1 action to the *Action Tracker* that was inadvertently not included in the 2017 report to the Agencies' Use of Strategic Sourcing area (see 2013, Area 23). See GAO, *2018 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, GAO-18-371SP (Washington, D.C.: Apr. 26, 2018).

Figure 1: Definitions of Fragmentation, Overlap, and Duplication

Fragmentation refers to those circumstances in which more than one federal agency (or more than one organization within an agency) is involved in the same broad area of national need and opportunities exist to improve service delivery.

Overlap occurs when multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries.

Duplication occurs when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries.



Source: GAO. | GAO-18-571T

On April 26, 2018 we released the latest updates to our *Action Tracker* (see sidebar). Our tracker includes a downloadable spreadsheet (available in XLSX or CSV formats) that users can sort and filter based on their specific needs or interests. For example, areas and actions can be sorted by the year identified, mission area name, implementation status, and implementing entities (Congress or specific agencies).

GAO's online *Action Tracker*

GAO's *Action Tracker*, a publicly accessible website, allows Congress, executive branch agencies, and the public to track the government's progress in addressing the issues we have identified. GAO updates the *Action Tracker* twice a year, in the spring and fall.

Click here to access GAO's online *Action Tracker* and downloadable spreadsheet (available in XLSX or CSV formats).

Source: GAO. | GAO-18-571T

New Opportunities Exist to Improve Efficiency and Effectiveness across the Federal Government

Over 25 of the 68 new actions we identified in our annual report concern fragmentation, overlap, or duplication in government missions and functions (see table 1).[7]

[7]The 68 new actions do not include 6 actions in four areas that agencies addressed before we issued our annual report. Specifically, the Department of State addressed 3 actions related to Iraqi and Syrian Cultural Property Protection (see 2018, Area 24), the Department of Transportation (DOT) addressed 1 action related to DOT Operational Improvements (see 2018, Area 25), the Department of Veterans Affairs addressed 1 action related to VA Human Capital Challenges (see 2018, Area 6), and the U.S. Agency for International Development addressed one action related to Combating Wildlife Trafficking (see 2018, Area 11). We added these actions to the *Action Tracker* with a status of "addressed."

Table 1: New Fragmentation, Overlap, and Duplication Areas Identified

Mission	Area
Agriculture	1. **Imported Seafood Oversight:** Improved coordination between the Food and Drug Administration and the Food Safety and Inspection Service on the oversight of imported seafood would help the agencies better manage fragmentation and more consistently protect consumers from unsafe drug residues.
Defense	2. **Defense Distribution Centers:** By minimizing unnecessary overlap and duplication and more efficiently using its U.S. distribution centers to store and process goods for troop support, such as clothing and weapon systems repair parts, the Department of Defense could potentially save approximately **$527 million over 5 years**.
	3. **GPS Modernization:** To reduce the risk of unnecessary duplication, the Department of Defense should assign a single organization responsibility for ensuring that common solutions for Global Positioning System receiver card modernization efforts are collected and shared among hundreds of programs. Receiver card modernization for a small portion of weapon systems is estimated to cost $2.5 billion through fiscal year 2021.
General government	4. **Federal Use of Identity Theft Services:** The Office of Management and Budget should explore options to address the risk that federal agencies may offer duplicative identity theft services in response to data breaches, potentially saving **millions of dollars annually** in unnecessary expenditures.
Health	5. **Graduate Medical Education Funding:** The Department of Health and Human Services should coordinate with federal agencies, including the Department of Veterans Affairs, to improve the effectiveness and oversight of fragmented federal funding for physician graduate medical education, which cost the federal government $14.5 billion in 2015.
	6. **VA Human Capital Challenges:** The Veterans Health Administration should strengthen its human resources internal control practices and its employee performance management processes to address fragmentation across the agency and improve its ability to serve veterans.
Homeland security/law enforcement	7. **Coast Guard Boat Stations:** The Coast Guard should close its boat stations that provide unnecessarily duplicative search and rescue coverage to improve operations and potentially save **millions of dollars**.
	8. **National Institute of Standards and Technology Security Program Management:** By addressing fragmentation in their physical security management structure, the Department of Commerce and the National Institute of Standards and Technology could improve their physical security program.
Income security	9. **Reviews of SSA Disability Appeals:** The Social Security Administration should evaluate its quality assurance reviews of decisions on appealed disability claims, which cost at least $11 million in fiscal year 2016, to reduce or better manage overlap between the types of reviews.
	10. **Supplemental Security Income:** To better manage fragmentation in service delivery, the Social Security Administration should explore options for better connecting transition-age youth receiving Supplemental Security Income to vocational rehabilitation services.
International affairs	11. **Combating Wildlife Trafficking:** Federal agencies that combat wildlife trafficking should clarify roles and responsibilities in Southeast Asia to better manage fragmentation and have more reasonable assurance that they can effectively marshal the contributions of all agencies.
Science and the environment	12. **High-Containment Laboratories:** The Federal Select Agent Program needs to better coordinate workforce planning across its two agencies to help address fragmentation in oversight of high-containment laboratories.
Training, employment, and education	13. **STEM Education Programs:** Meeting requirements to assess the 163 federal science, technology, engineering, and mathematics education programs could create opportunities to better manage fragmentation and overlap and enhance the effectiveness of the portfolio.

Source: GAO. | GAO-18-571T

In addition, our 2018 report presents over 30 new opportunities for Congress or executive branch agencies to reduce the cost of government operations or enhance revenue collections for the U.S. Treasury across 10 areas of government (see table 2).

Table 2: New Cost Savings and Revenue Enhancement Opportunities Identified

Mission	Area
Defense	14. **Foreign Currency Fluctuation:** The Department of Defense needs to more efficiently and effectively manage foreign currency funds to potentially save **millions of dollars**.
	15. **Supply Operations at Military Depots:** The Department of Defense could improve the efficiency and effectiveness of supply operations at Army and Marine Corps depots and Navy shipyards and save **tens of millions of dollars**.
Economic development	16. **Fiscal Management of the Universal Service Fund:** By addressing weaknesses in the management and oversight of the Universal Service Fund, the Federal Communications Commission could eliminate **at least $1 million annually** in fees paid to a private bank to manage investments.
Energy	17. **DOE's Treatment of Hanford's Low-Activity Waste:** The Department of Energy may be able to reduce certain risks and save **tens of billions of dollars** by adopting alternative approaches to treat a portion of its low-activity radioactive waste.
General government	18. **Employment Taxes:** Analyzing and using results from the Internal Revenue Service's National Research Program employment tax study could help the agency identify and pursue **millions of dollars annually** in additional revenue owed.
	19. **Tax Fraud and Noncompliance:** The Internal Revenue Service should fully assess the benefits and costs of using its existing authority to hold additional taxpayer refunds as well as extending the date for releasing those refunds until it can verify wage information on most returns later in the filing season, which could protect **millions of dollars annually**.
Health	20. **Premium Tax Credit Improper Payments:** The Centers for Medicare & Medicaid Services and the Internal Revenue Service could save money by strengthening controls over the Premium Tax Credit for health insurance, which cost about $35 billion for fiscal year 2017.
	21. **VA Medical Supplies Procurement:** The Department of Veterans Affairs could potentially save **tens of millions of dollars** when acquiring medical and surgical supplies by better adhering to supply chain practices of leading hospitals.
Homeland security/law enforcement	22. **Bureau of Prisons Health Care Costs:** The Federal Bureau of Prisons could improve the oversight and management of its health care costs to more efficiently and effectively acquire health care goods and services and potentially save **millions of dollars annually**.
Income security	23. **Railroad Retirement Board Continuing Disability Reviews:** The Railroad Retirement Board could reduce overpayments by **millions of dollars** and better target resources by using more timely earnings data and reallocating resources used for high-risk continuing disability reviews to more effective efforts.

Source: GAO. | GAO-18-571T

In addition to these new areas, we identified seven new actions that relate to six existing areas presented in our 2011 to 2017 annual reports (see table 3).[8]

Table 3: New Actions Added to Existing Areas in 2018

Mission	New action (area name links to *Action Tracker*)	Year introduced (year links to report)
Agriculture	**Crop Insurance**: In July 2017, GAO identified a new action that Congress can take to reduce the cost of delivering the federal crop insurance program by **hundreds of millions of dollars annually**.	2013
Defense	**Defense Virtual Training**: In September 2017, GAO identified a new action to help the Marine Corps better manage fragmentation in its virtual training program.	2016
	Navy Shipbuilding: In March 2017, GAO identified a new action to help the Navy improve its use of incentives in shipbuilding.	2017
General government	**Federal Vehicles**: In April 2017, GAO identified two new actions to help the federal government better manage its fleet of retained vehicles.	2016
Homeland security/law enforcement	**Security of Federal Facilities**: In February 2017, GAO identified a new action to better manage fragmentation among federal agencies to address risks to federal courthouse security.	2016
Information technology	**Information Technology Investment Portfolio Management**: In September 2016, GAO identified a new action to improve federal agencies' efforts to complete software application inventories, which could further contribute to the **billions of dollars** of potential savings previously identified.	2014

Source: GAO. | GAO-18-571T

Since our 2018 report was issued, we reported in April 2018 that four of the Centers for Medicare & Medicaid Services' (CMS) Medicare prior authorization programs potentially reduced spending by as much as $1.9 billion from September 2012 through March 2017.[9] However, most of these programs, which ensure that Medicare coverage and payment rules have been met before the agency pays for selected items and services, such as certain wheelchairs, are either paused or will end in 2018. CMS does not have plans to extend these programs or expand the use of prior authorization to additional items and services.

We recommended that CMS should take steps, based on results from evaluations, to continue prior authorization. The Department of Health and Human Services (HHS) neither agreed nor disagreed with the recommendation but said it would continue to evaluate prior authorization

[8] See appendix IV of GAO-18-371SP for more information.

[9] GAO, *Medicare: CMS Should Take Actions to Continue Prior Authorization Efforts to Reduce Spending*, GAO-18-341 (Washington, D.C.: Apr. 20, 2018).

programs and take our findings and recommendations into consideration in determining next steps. We believe continued use of prior authorization for certain items and services—determined by lessons learned from existing prior authorization programs—could significantly reduce unnecessary Medicare spending.

Congress and Executive Branch Agencies Continue to Address Actions That Span the Federal Government

We monitor the progress that Congress and executive branch agencies have made in addressing the issues we identified in each of our last seven annual reports. As shown in table 4, Congress and executive branch agencies have made consistent progress in addressing many of the actions we identified from 2011 to 2017. As of March 2018, 376 (52 percent) of the actions we identified from 2011 to 2017 have been fully addressed. See our online *Action Tracker* for the status of all actions.

Table 4: Status of 2011 to 2017 Actions Directed to Congress and the Executive Branch, as of March 2018

Status	Number of congressional actions (percentage)[a]	Number of executive branch actions (percentage)[b]	Total (percentage)
Addressed	30 (31%)	346 (55%)	376 (52%)
Partially addressed	11 (11%)	164 (26%)	175 (24%)
Not addressed	44 (45%)	78 (12%)	122 (17%)
Other[c]	12 (12%)	39 (6%)	51 (7%)
Total	**97 (100%)**	**627 (100%)**	**724 (100%)**

Source: GAO. | GAO-18-571T

Note: Due to rounding, the total percentages do not add up to exactly 100 percent.

[a]In assessing actions suggested for Congress, GAO applied the following criteria: "addressed" means relevant legislation has been enacted and addresses all aspects of the action needed; "partially addressed" means a relevant bill has passed a committee, the House of Representatives, or the Senate during the current congressional session, or relevant legislation has been enacted but only addressed part of the action needed; and "not addressed" means a bill may have been introduced but did not pass out of a committee, or no relevant legislation has been introduced. At the beginning of a new congressional session, GAO reapplies the criteria. As a result, the status of an action may move from partially addressed to not addressed if relevant legislation is not reintroduced from the prior congressional session.

[b]In assessing actions suggested for the executive branch, GAO applied the following criteria: "addressed" means implementation of the action needed has been completed; "partially addressed" means the action needed is in development, or started but not yet completed; and "not addressed" means the administration, the agencies, or both have made minimal or no progress toward implementing the action needed.

[c]Of the 51 "other" actions, 34 are categorized as "consolidated or other" and 17 as "closed-not addressed." Actions categorized as "consolidated or other" and "closed-not addressed" are no longer assessed. In most cases, "consolidated or other" actions were replaced or subsumed by new actions based on additional audit work or other relevant information. Actions are generally "closed-not addressed" when the action is no longer relevant due to changing circumstances.

Billions in Financial Benefits Due to Actions Taken by Congress and Executive Branch Agencies

The progress Congress and executive branch agencies have made in addressing our open actions has resulted in $178 billion in financial benefits, including roughly $125 billion in financial benefits from 2010 through 2017, with at least an additional $53 billion in estimated benefits projected to accrue in 2018 or later.[10] Table 5 highlights examples of these results.

Table 5: Examples of Addressed or Partially Addressed Actions with Associated Cost Savings and Revenue Enhancements

Area name (links to *Action Tracker*)	Actions taken	Financial benefit
Farm Program Payments (2011/Area 35)	Congress passed and the President signed the Agricultural Act of 2014, which eliminated direct payments to farmers.[a]	Savings of approximately **$44.5 billion** from fiscal year 2015 through fiscal year 2023, of which **$14.8 billion** has accrued and **$29.7 billion** is expected to accrue in fiscal year 2018 or later, according to the Congressional Budget Office (CBO).
Weapon Systems Acquisition Programs (2011/Area 38)	Congress passed and the President signed the Weapon Systems Acquisition Reform Act of 2009, which implemented a number of GAO's recommendations for how the Department of Defense (DOD) develops and acquires weapon systems. GAO highlighted the need for additional action in this area in its 2011 report. Since then, DOD has followed more best practices for these acquisitions.[b]	Savings of approximately **$36 billion** from 2011 through 2015, according to GAO analysis.
Domestic Ethanol Production (2011/Area 13)	Congress allowed the Volumetric Ethanol Excise Tax Credit to expire at the end of 2011, which eliminated duplicative federal efforts directed at increasing domestic ethanol production and reduced revenue losses.[c]	Reduced revenue losses by **$29 billion** in fiscal years 2012 through 2016, according to GAO analysis.
Passenger Aviation Security Fees (2012/Area 48)	Congress passed the Bipartisan Budget Act of 2013 which modified the passenger security fee from its current per enplanement structure ($2.50 per enplanement with a maximum one-way-trip fee of $5.00) to a structure that increases the passenger security fee to a flat $5.60 per one-way-trip.[d]	Increased revenue of about **$12.9 billion** in fee collections over a 10-year period beginning in fiscal year 2014 and continuing through fiscal year 2023.
Tax Policies and Enforcement (2015/Area 17)	Congress amended the audit procedures applicable to certain large partnerships to require that they pay audit adjustments at the partnership level.[e]	Increase revenue by **$9.3 billion** from fiscal years 2019 to 2025, according to the Joint Committee on Taxation.

[10] In calculating these totals, we relied on individual estimates from a variety of sources, which considered different periods and utilized different data sources, assumptions, and methodologies. These totals represent a rough estimate of financial benefits and have been rounded down to the nearest $1 billion.

Area name (links to *Action Tracker*)	Actions taken	Financial benefit
Real Estate-Owned Properties (2014/Area 18)	The Department of Housing and Urban Development made improvements to increase the recoveries from disposing of properties it receives when loans default, such as by selling these loans and increasing property inspections and oversight of contractors disposing of these properties.	Savings of up to **$4.7 billion** from July 2013 through June 2017, according to GAO analysis.
Combat Uniforms (2013/Area 2)	The Army chose not to introduce a new family of camouflage uniforms into its inventory.	Cost avoidance of about **$4.2 billion** over 5 years, of which **$3.4 billion** has accrued since fiscal year 2014 and **$0.8 billion** is expected to accrue in fiscal year 2018, according to agency estimates.
Federal Data Centers (2011/Area 15)	The 24 federal agencies participating in the Office of Management and Budget's (OMB) data center consolidation and optimization efforts have taken steps to consolidate over 5,800 data centers as of August 2017.	Cost savings and avoidances of **$3.9 billion** from fiscal years 2011 through 2018, based on GAO analysis of agency reported data. This includes about **$345.4 million** expected to accrue in fiscal year 2018, according to agencies' plans.
Agencies' Use of Strategic Sourcing (2013/Area 23)	The Department of Veterans Affairs evaluated strategic sourcing opportunities and set goals and metrics such as increasing managed spending for information technology (IT) products and services.	Cost avoidance of about **$3.6 billion** from fiscal years 2013 through 2015, according to agency estimates.
Overseas Defense Posture (2012/Area 37)	United States Forces Korea conducted a series of consultations with the military services to evaluate the costs and benefits associated with tour normalization, and DOD decided not to move forward with the full tour normalization initiative because it was not affordable.	Savings of an estimated **$3.1 billion** from fiscal years 2012 through 2016, according to agency estimates.
Homeland Security Grants (2012/Area 17)	Congress limited preparedness grant funding until the Federal Emergency Management Agency completes a national preparedness assessment of capability gaps.[f]	Savings of **$2.6 billion** from fiscal years 2011 through 2013, according to GAO analysis.
Treasury's Foreclosure Prevention Efforts (2016/Area 17)	The Department of the Treasury (Treasury) updated its analysis of estimated future expenditures for the Making Home Affordable program, reducing the estimated lifetime cost of the program.	Savings of **$2 billion** as a result of deobligating funds in February 2016, according to agency estimates.
Information Technology Investment Portfolio Management (2014/Area 24)	Eight agencies completed efforts to migrate commodity IT areas to shared services in response to OMB's 2012 guidance to review their portfolios and identify duplicative, low-value, and wasteful investments, contributing to savings.	Savings of about **$1.8 billion** from fiscal years 2012 through 2016, according to agency estimates.
DOD's Business Systems (2011/Area 8)	DOD canceled the Air Force's Expeditionary Combat Support System because of significant cost and schedule overages.	Savings of about **$1.6 billion** from fiscal years 2013 through 2025, according to GAO analysis of agency estimates. This includes about **$985 million** expected to accrue in fiscal year 2018 or later.

Area name (links to *Action Tracker*)	Actions taken	Financial benefit
Strategic Petroleum Reserve (2015/Area 15)	The Department of Energy (DOE) completed a long-term strategic review of the Strategic Petroleum Reserve in August 2016, as Congress required in 2015.	DOE reported savings of **$1.2 billion** from selling crude oil from the reserve in fiscal year 2017 and 2018, with potential for over **$8.4 billion** in total sales through 2025 according to CBO.
Federal Payments for Hospital Uncompensated Care (2017/Area 25)	The Department of Health and Human Services began to align Medicare Uncompensated Care payments with hospitals' actual uncompensated care costs starting in fiscal year 2018 instead of basing these payments on hospitals' Medicaid workload.	Financial benefits of about **$752 million** in fiscal year 2018 from better use of Medicare funds, according to GAO analysis.

Source: GAO. | GAO-18-571T

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, CBO, and the Joint Committee on Taxation. Some estimates have been updated since GAO's 2017 report to reflect more recent analysis.

[a] Pub. L. No. 113-79, § 1101, 128 Stat. 649, 658 (2014).

[b] Pub. L. No. 111-23, 123 Stat. 1704 (2009).

[c] 26 U.S.C. § 6426(b)(6).

[d] Pub. L. No. 113-67, § 601(b), 127 Stat. 1165, 1187 (2013)

[e] Bipartisan Budget Act of 2015, Pub. L. No. 114-74, § 1101, 129 Stat. 584, 625–638 (2015).

[f] Pub. L. No. 112-10, § 1632, 125 Stat. 38, 143 (2011); Pub. L. No. 112-74, 125 Stat. 786, 960-62 (2011); Pub. L. No. 113-6, 127 Stat. 198, 358-60 (2013); Pub. L. No. 113-76, 118 Stat. 5, 261-62 (2014).

These financial benefits continue to grow as we identify and document additional agency actions that respond to our recommendations. For example, in recent months CMS has formalized changes to its oversight of spending allowed for large Medicaid demonstrations, which allow states to test new ways to deliver or pay for care. These demonstrations, by HHS policy, should not raise federal costs over what the program would have cost without the demonstration—that is, they should be budget neutral. But our past work has shown that the spending HHS had authorized for these demonstrations was much higher than what was justified, as HHS had allowed states to use questionable methods when proposing spending for their demonstrations.

CMS's new policy partially responds to a longstanding recommendation we have made to better ensure that valid methods are used to demonstrate budget neutrality. We anticipate that CMS's recent actions could potentially reduce the federal government's liability for Medicaid by billions, or tens of billions, annually.

While not all actions result in financial benefits to taxpayers, all of our suggested actions, when implemented, can result in other benefits—for instance, they make government more efficient or eliminate, reduce, or improve management of fragmented, overlapping, or duplicative programs. For example, such benefits can be seen in the results of our work on the government's acquisition of space programs. For over two decades, we and others have reported on problems caused by fragmented leadership and a lack of a single authority in oversight of these multibillion dollar programs.

In 2012, we made a recommendation aimed at strengthening leadership and authority of space systems acquisitions. In response, in 2017 the President revived the National Space Council to provide a coordinated process for developing and monitoring the implementation of national space policy and strategy. Separately, in the National Defense Authorization Act for Fiscal Year 2018, Congress made changes to certain DOD space leadership positions and required the department to conduct a review and identify a recommended organizational and management structure for its national security space components, and submit related reports. The act also required DOD to contract with a federally funded research and development center not closely affiliated with the Air Force to develop a plan to establish a separate military department responsible for DOD national security space activities.[11] These actions could reduce fragmentation and speed decision making in the development of a substantial investment in space systems.

Action on Remaining and New Areas Could Yield Significant Additional Benefits

While Congress and executive branch agencies have made progress toward addressing the 798 total actions we have identified since 2011, further steps are needed to fully address the 365 actions that are partially addressed or not addressed.[12] We estimate that tens of billions of dollars in additional financial benefits could be realized should Congress and executive branch agencies fully address open actions.[13] In addition to producing financial benefits, these actions make government more efficient; improve major government programs or agencies; reduce the

[11]Pub. L. No. 115-91, § 1601(c), (d), 131 Stat. 1283, ___ (2017).

[12]The 798 total actions include the 68 new actions identified in this report and six new actions that were addressed before this report was issued.

[13]In calculating this estimate, we relied on individual estimates from a variety of sources, which considered different time periods and utilized different data sources, assumptions, and methodologies. These estimates are subject to increased uncertainty, depending on whether, how, and when they are addressed. This amount represents a rough estimate of financial benefits.

risk of mismanagement, fraud, waste, and abuse; and increase assurance that programs comply with laws and funds are legally spent.

Significant Open Actions Directed to Congress

Congress has used our work to identify legislative solutions to achieve cost savings, address emerging problems, and find efficiencies in federal agencies and programs. Our work has contributed to a number of key authorizations and appropriations. In addition, congressional oversight of agencies' efforts has been critical in realizing the full benefits of our suggested actions addressed to the executive branch, and it will continue to be critical in the future.

In our 2011 to 2018 annual reports, we directed 100 actions to Congress, including the 3 new congressional actions we identified in 2018. Of the 100 actions, 58 remain open (11 of which were partially addressed and 47 were not addressed or new) as of March 2018. Table 6 highlights areas with significant open actions directed to Congress. Appendix I has a full list of all open congressional actions.

Table 6: Examples of Areas with Open Actions Directed to Congress

Annual report (year links to report)	Area description (area number links to *Action Tracker*)
2018	**DOE's Treatment of Hanford's Low-Activity Waste (Area 17):** Congress should consider granting the Department of Energy (DOE) authority to manage certain portions of Hanford's tank waste as a waste type other than high-level waste, which would allow DOE to use alternative waste treatment approaches and could reduce certain risks and save **tens of billions of dollars**.
2017	**Use of the Do Not Pay Working System (Area 11):** The Office of Management and Budget (OMB) needs to develop a strategy and additional guidance on the use of the Do Not Pay working system, and Congress should consider amending the Social Security Act to explicitly allow the Social Security Administration (SSA) to share its full death file through the system to reduce improper payments and mitigate the risks associated with potential duplication.
2016	**Treasury's Foreclosure Prevention Efforts (Area 17):** Congress could rescind and direct **$4.8 billion** to other priorities upon the Department of Treasury's review of potential unexpended balances and deobligation of excess funds for the Making Home Affordable Program.
2016	**Medicare Payments by Place of Service (Area 30):** Medicare could save **$1 to 2 billion annually** if Congress were to equalize the rates Medicare pays for certain health care services, which often vary depending on where the service is performed.[a]
2015	**DOD US Family Health Plan (Area 6):** To potentially save **millions of dollars** and eliminate duplication within the Department of Defense's (DOD) health care system, Congress should terminate the statutorily required US Family Health Plan because it offers military beneficiaries the same health care benefit offered by other DOD health care contractors within many of the same geographic service areas.
2015	**Medicare Payments to Certain Cancer Hospitals (Area 19):** To achieve almost **$500 million annually** in program savings, Congress should consider modifying how Medicare pays certain cancer hospitals.

Annual report (year links to report)	Area description (area number links to *Action Tracker*)
2014	**Disability and Unemployment Benefits (Area 8):** Congress should consider passing legislation to prevent individuals from collecting both full Disability Insurance benefits and Unemployment Insurance benefits that cover the same period, which could save almost **$2.5 billion** over 10 years in the Social Security Disability Insurance program, according to OMB.
2014	**Advanced Technology Vehicles Manufacturing Loan Program (Area 13):** Unless DOE can demonstrate demand for new Advanced Technology Vehicles Manufacturing loans and viable applications, Congress may wish to consider rescinding all or part of the remaining **$4.3 billion** in credit subsidy appropriations.
2013	**Crop Insurance (Area 19):** To achieve up to **$1.4 billion annually** in cost savings in the crop insurance program, Congress could consider limiting the subsidy for premiums that are provided on behalf of individual farmers—as it limits the amount of payments to individual farmers in many farm programs—or reducing the subsidy or some combination of limiting and reducing these subsidies.
2013	**Tobacco Taxes (Area 31):** Federal revenue losses ranged from as much as $2.6 to $3.7 billion between April 2009 and February 2014 because manufacturers and consumers substituted higher-taxed smoking tobacco products with similar lower-taxed products. To address future revenue losses, Congress should consider modifying tobacco tax rates to eliminate significant tax differentials between similar products.
2011	**Social Security Offsets (Area 80):** SSA needs data on pensions from noncovered earnings to better enforce offsets and ensure benefit fairness, which could result in estimated savings of **$2.4 to $7.9 billion** over 10 years if enforced both retrospectively and prospectively, according to the Congressional Budget Office and SSA. Congress could consider giving the Internal Revenue Service the authority to collect the necessary information. Estimated savings would be less if SSA only enforced the offsets prospectively as it would not reduce benefits already received.

Source: GAO. | GAO-18-571T

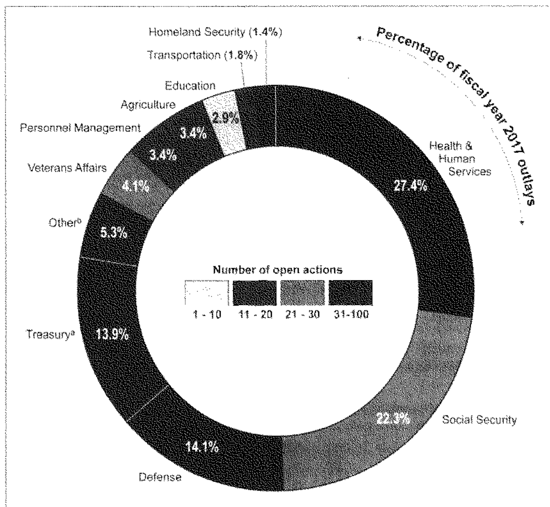
Note: The estimates in this report are from a range of sources, including GAO, executive-branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated since GAO's 2017 report to reflect more recent analysis.

[a]In 2015, Congress took some steps to address this by excluding services furnished by off-campus hospital outpatient departments from this higher payment, effective January 1, 2017. However, this exclusion will not apply to services furnished by providers billing as hospital outpatient departments prior to enactment of the legislation—that is, all providers billing as hospital outpatients during GAO's study—who would continue to be paid under higher rate or to services provided by on-campus hospital outpatient departments. Congress later added providers meeting a mid-build requirement to the list of providers to which the exclusion would not apply.

Significant Open Actions Directed to Executive Branch Agencies

In our 2011 to 2018 annual reports, we directed 698 actions to executive branch agencies, including 65 new actions identified in 2018. Of the 698 actions, 307 remained open as of March 2018. Of these open actions, 164 were partially addressed and 143 were not addressed or new. While these open actions span the government, a substantial number of them are directed to seven agencies that made up 83 percent—$3.7 trillion—of federal outlays in fiscal year 2017 and have the largest number of open actions (see figures 2 and 3).

Figure 2: Fiscal Year 2017 Outlays and Number of Open Actions since 2011, by Agency



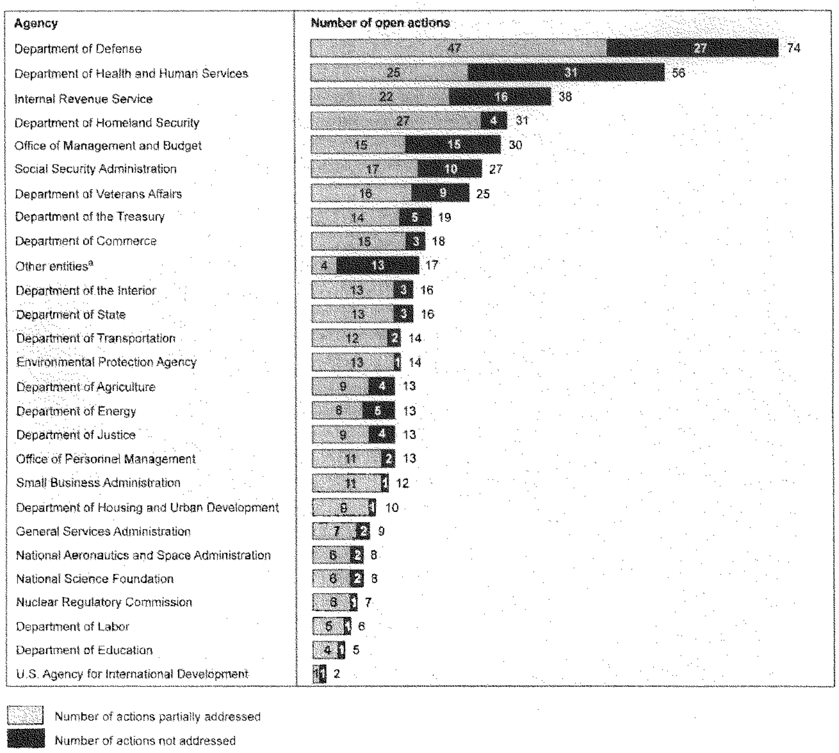
Notes: Number of open actions includes actions that are partially addressed and not addressed.

[a]Treasury's percentage of fiscal year 2017 outlays includes interest payments on the national debt as well as costs associated with administering Bureaus including the Internal Revenue Service.

[b]Other agencies include all federal agencies with fiscal year 2017 outlays not listed above

As shown in figure 3, seven agencies have at least 25 open actions.

Figure 3: Number of Not Addressed and Partially Addressed Actions since 2011, by Agency



Source: GAO. | GAO-18-571T

Notes: Action status is as of March 2018. Individual actions are counted multiple times when they are directed to more than one federal department or agency. As a result, the number of open actions shown in this figure totals 514 instead of 307, the latter of which is the total number of open actions directed to the executive branch as of March 2018.

The number of actions "partially addressed" means the action needed is in development or started but not yet completed. The number of actions "not addressed" means the administration, the agencies, or both have made minimal or no progress toward implementing the action needed. Actions that were introduced in this 2018 annual report are counted as "not addressed."

[a]"Other entities" reflects open actions directed to the following federal entities: The Executive Office of the President, National Security Council, Office of the Director of National Intelligence, Office of National Drug Control Policy, Office of Science and Technology Policy, Homeland Security Council, Consumer Financial Protection Bureau, Federal Reserve, U.S. Commission on International Religious Freedom, National Telecommunications and Information Administration, Railroad Retirement Board, the Committee on Science, Technology, Engineering, and Mathematics Education and the Federal Communications Commission.

The following sections highlight examples of open actions across those seven major agencies.

More Efficiently Targeting Defense Resources

In our 2011 to 2018 reports, we directed 176 actions to DOD in areas that center on DOD's effectiveness in providing the military forces needed to deter war and to protect the security of the United States. As of March 2018, 74 of these 176 actions remained open. DOD represented about 14 percent of federal spending in fiscal year 2017, with outlays totaling about $635.5 billion. Our work suggests that effectively implementing these open actions, including those related to areas listed in table 7, could yield substantial financial benefits and improve DOD's effectiveness.

Table 7: Examples of Areas with Open Actions Directed to the Department of Defense

Annual report (year links to report)	Area description (area number links to *Action Tracker*)
2018	**Defense Distribution Centers (Area 2):** By minimizing unnecessary overlap and duplication and more efficiently using its U.S. distribution centers to store and process goods for troop support, such as clothing and weapon systems repair parts, the Department of Defense (DOD) could potentially save approximately **$527 million over 5 years**.
2017	**DOD Commissaries (Area 16):** By managing its commissaries more efficiently, DOD could position itself to better achieve its cost savings target of $2 billion.
2013	**Agencies' Use of Strategic Sourcing (Area 23):** Selected agencies—including DOD—could better leverage their buying power and achieve additional savings by directing more procurement spending to existing strategically sourced contracts and further expanding strategic sourcing practices to their highest spending procurement categories. GAO originally estimates that savings of 1 percent from selected agencies' procurement spending alone would equate to over $4 billion. Resulting action from one of these agencies (the Department of Veterans Affairs) has already resulted in $3.6 billion in savings.
2012, 2015	**DOD Headquarters Reductions and Workforce Requirements (Areas 34, 14):** DOD could potentially save **$9.4 billion** by identifying further opportunities for consolidating or reducing the size of headquarters organizations to meet their assigned missions through periodic reassessments of its workforce requirements.
2011	**Weapon Systems Acquisition Programs (Area 38):** Continuing to employ best management practices could help DOD save money on its weapon systems acquisition programs. Given the trillion-dollar size of the portfolio, GAO estimates potential savings from addressing the remaining actions could be in the **billions of dollars over the next several years**.

Source: GAO. | GAO-18-571T

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated since GAO's 2017 report to reflect more recent analysis.

Improving the Efficiency of Health Care Programs

In our 2011 to 2018 reports, we directed 111 actions to HHS in areas that contribute to HHS's mission to enhance the health and well-being of Americans. HHS provides health coverage for over 145 million Americans through three principal programs—Medicare, Medicaid, and the Children's Health Insurance Program—as well as the health-insurance marketplaces. HHS also operates other public health-related agencies such as the Food and Drug Administration, the Centers for Disease Control and Prevention, and the National Institutes of Health.

HHS represented about 27 percent of the fiscal year 2017 federal budget, with outlays totaling about $1.2 trillion. As of March 2018, 56 of HHS's 111 actions remained open. Our work suggests that effectively implementing these actions, including those related to areas listed in table 8, could reduce costs, provide services more efficiently, and yield substantial financial benefits.

Table 8: Examples of Areas with Open Actions Directed to the Department of Health and Human Services

Annual report (year links to report)	Area description (area number links to *Action Tracker*)
Medicare	
2015	**Medicare Postpayment Claims Reviews (Area 7):** To prevent inappropriate duplicative postpayment claims reviews by contractors, the Centers for Medicare & Medicaid Services (CMS) should monitor the Recovery Audit Data Warehouse—the database developed in part to prevent duplicative reviews.
2012	**Medicare Advantage Payments (Area 45):** To help ensure appropriate payments to Medicare Advantage plans, CMS should take steps to improve the accuracy of the adjustment made for differences in diagnostic coding practices between Medicare Advantage plans and traditional Medicare providers, which could result in savings of **billions of dollars.**
Medicaid	
2017	**Medicaid Personal Care Services Data (Area 26):** CMS needs timely, complete, and consistent data on Medicaid personal care services so it can effectively monitor these services, which could lead to savings of **tens of millions of dollars annually.**
2016	**Medicaid Payments to Institutional Providers (Area 29):** CMS should take steps to improve the oversight of state Medicaid payments to institutional providers and better ensure that the federal government does not provide funds for excessive state payments made to certain providers, which could result in savings of **hundreds of millions of dollars annually.**
2014, 2016	**Demonstration Spending (Areas 21, 27):** Federal spending on Medicaid demonstrations could be reduced by **billions of dollars** if the Department of Health and Human Services improved the process for reviewing, approving, and making transparent the basis for spending limits approved for Medicaid demonstrations, including better ensuring that valid methods are used to demonstrate budget neutrality and implemented other actions and recommendations, such as establishing specific criteria for assessing whether demonstration spending furthers Medicaid objectives.

Source: GAO. | GAO-18-571T

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated since GAO's 2017 report to reflect more recent analysis.

Enhancing Federal Revenues

In our 2011 to 2018 reports, we directed 91 actions to the Internal Revenue Service (IRS) in areas that contribute to effectively and efficiently providing high-quality service to taxpayers and enforcing the law with integrity and fairness to all. As of March 2018, 38 of these 91 actions remained open. The funding of the federal government depends largely upon IRS's ability to collect taxes legally owed. Our work suggests that effective implementation of our open actions, including those related to areas listed in table 9, could increase revenues through better compliance or reduce costs.

Table 9: Examples of Areas with Open Actions Directed to the Internal Revenue Service

Annual report (year links to report)	Area description (area number links to *Action Tracker*)
2018	**Employment Taxes (Area 18):** Analyzing and using results from the Internal Revenue Service's (IRS) National Research Program employment tax study could help the agency identify and pursue **millions of dollars annually** in additional revenue owed.
2018	**Tax Fraud and Noncompliance (Area 19):** IRS should fully assess the benefits and costs of using its existing authority to hold additional taxpayer refunds as well as extending the date for releasing those refunds until it can verify wage information on most returns later in the filing season, which could protect **millions of dollars annually.**
2017	**Refundable Tax Credits (Area 24):** IRS could potentially realize **hundreds of millions of dollars** in cost savings by improving the administration of three large refundable tax credits (the Earned Income Tax Credit; the Additional Child Tax Credit, which is sometimes combined with its nonrefundable counterpart, the Child Tax Credit; and the America Opportunity Tax Credit).
2016	**Identity Theft Refund Fraud (Area 22):** IRS and Congress could potentially save **billions of dollars** in fraudulent refunds by improving the agency's efforts to prevent refund fraud associated with identity theft.
2014	**Online Taxpayer Services (Area 17):** IRS could potentially realize **hundreds of millions of dollars** in cost savings and increased revenues by enhancing its online services, which would improve service to taxpayers and encourage greater tax-law compliance.
2013, 2015	**Tax Policy and Enforcement (Areas 22, 17):** By using more-rigorous analyses to allocate enforcement resources and using data to improve management of enforcement programs such as large partnership and correspondence audits, among other things, the IRS can increase revenue collections by **hundreds of millions of dollars.**

Source: GAO. | GAO-18-571T

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated since GAO's 2017 report to reflect more recent analysis.

Improving the Efficiency and Effectiveness of Homeland Security Operations

In our 2011 to 2018 reports, we directed 79 actions to the Department of Homeland Security (DHS) in areas that contribute to the effective implementation of its mission. In fiscal year 2017, DHS spent about $63.6 billion, about 1.4 percent of federal outlays. As of March 2018, 31 of the 79 actions to DHS remained open. Fully implementing these actions, including those related to areas listed in table 10, could result in financial benefits and substantial improvements in agency operations.

Table 10: Examples of Areas with Open Actions Directed to the Department of Homeland Security

Annual report (year links to report)	Area description (area number links to *Action Tracker*)
2018	**Coast Guard Boat Stations (Area 7):** The Coast Guard should close its boat stations that provide unnecessarily duplicative search and rescue coverage to improve operations and potentially save **millions of dollars**.
2012	**Border Security (Area 47):** The Department of Homeland Security's (DHS) future acquisitions of border surveillance technology could be better informed by using performance metrics to assess the contributions of existing surveillance technologies.
2012	**Domestic Disaster Assistance (Area 51):** The Federal Emergency Management Agency could reduce the costs to the federal government related to major disasters declared by the President by updating the principal indicator on which disaster funding decisions are based and better measuring a state's capacity to respond without federal assistance.
2012	**Homeland Security Grants (Area 17):** DHS needs better project information and coordination among four overlapping grant programs and needs to establish a framework for assessing preparedness capabilities to identify gaps and prioritize investments.

Source: GAO. | GAO-18-571T

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated since GAO's 2017 report to reflect more recent analysis.

Advancing the Implementation of Government-Wide Policies and Performance

Many of the results the federal government seeks to achieve require the coordinated effort of more than one federal agency, level of government, or sector. OMB manages and coordinates many government-wide efforts. In our 2011 to 2018 reports, we directed 66 actions to OMB in areas to improve the efficiency and effectiveness of government-wide programs and activities. As of March 2018, 30 of the 66 actions to OMB remained open. Fully implementing these actions, including those related to areas listed in table 11, could yield significant financial benefits and substantial program improvements across government.

Table 11: Examples of Areas with Open Actions Directed to the Office of Management and Budget

Annual report (year links to report)	Area description (area number links to *Action Tracker*)
2018	**Federal Use of Identity Theft Services (Area 4):** The Office of Management and Budget (OMB) should explore options to address the risk that federal agencies may offer duplicative identity theft services in response to data breaches, potentially saving **millions of dollars annually** in unnecessary expenditures.
2014	**Information Technology Investment Portfolio Management (Area 24):** OMB and multiple agencies could help the federal government realize **billions of dollars** in savings by taking steps to better implement PortfolioStat, a process to help agencies manage their information technology investments.
2013	**Geospatial Investments (Area 11):** Better coordination among federal agencies that collect, maintain, and use geospatial information could help reduce duplication in geospatial investments and provide the opportunity for potential savings of **millions of dollars**.
2012	**Federal User Fees (Area 43):** Regularly reviewing federal user fees and charges can help Congress and federal agencies identify opportunities to address inconsistent federal funding approaches and enhance user financing, thereby reducing reliance on general fund appropriations.
2011	**Tax Expenditures (Area 17):** Periodic reviews could help identify ineffective tax expenditures and redundancies in related tax and spending programs, potentially reducing revenue losses by **billions of dollars**.
2011	**Government-Wide Improper Payments (Area 46):** Efforts to address the reported estimate of about $141 billion in government-wide improper payments for fiscal year 2017 could result in significant cost savings.

Source: GAO. | GAO-18-571T

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated since GAO's 2017 report to reflect more recent analysis.

More Efficiently Administering Services to Retirees and Citizens with Disabilities

In our 2011 to 2018 reports, we directed 32 actions to the Social Security Administration (SSA) in areas that contribute to SSA providing financial assistance to eligible individuals through Social Security retirement and disability benefits and Supplemental Security Income (SSI) payments. As of March 2018, 27 of these 32 actions remained open.

In fiscal year 2017, SSA spent about $1 trillion, roughly 22 percent of federal outlays. While most of SSA's funding is used to pay Social Security retirement, survivors, and disability benefits from the Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund, our work suggests that effective implementation of these actions, including the examples listed in table 12, could result in significant benefits.

Table 12: Examples of Areas with Open Actions Directed to the Social Security Administration

Annual report (year links to report)	Area description (area number links to *Action Tracker*)
2018	**Supplemental Security Income (Area 10):** To better manage fragmentation in service delivery, the Social Security Administration (SSA) should explore options for better connecting transition-age youth receiving Supplemental Security Income to vocational rehabilitation services.
2016	**Disability Insurance Overpayments (Area 32):** To help prevent the loss of billions of dollars, SSA should take steps to prevent overpayments to beneficiaries of the Disability Insurance program and improper waivers of beneficiaries' overpayment debt.
2016	**Disability Reviews (Area 33):** SSA may increase federal savings realized as a result of disability reviews by further considering factors that affect individuals' expected lifetime benefits when prioritizing its reviews of Disability Insurance and Supplemental Security Income cases.
2012	**Social Security Benefit Coordination (Area 27):** Benefit offsets for related programs help reduce the potential for overlapping payments but pose administrative challenges.

Source: GAO. | GAO-18-571T

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated since GAO's 2017 report to reflect more recent analysis.

Improving Support and Services for Veterans

In our 2011 to 2018 reports, we directed 54 actions to the Department of Veterans Affairs (VA) in areas that contribute to VA effectively and efficiently achieving its mission to promote the health, welfare, and dignity of all veterans by ensuring that they receive medical care, benefits, and social support. As of March 2018, 25 of these 54 actions remained open. In fiscal year 2017, VA spent about $183.0 billion—about 4 percent of federal outlays—for veterans' benefits and services. Our work suggests that effective implementation of these actions, including those related to areas listed in table 13, could yield cost savings and efficiencies that would improve the delivery of services to the nation's veterans and their families.

Table 13: Examples of Areas with Open Actions Directed to the Department of Veterans Affairs

Annual report (year links to report)	Area description (area number links to *Action Tracker*)
2018	**VA Human Capital Challenges (Area 6):** The Veterans Health Administration should strengthen its human resources internal control practices and its employee performance management processes to address fragmentation across the agency and improve its ability to serve veterans.
2018	**VA Medical Supplies Procurement (Area 21):** The Department of Veterans Affairs (VA) could potentially save **tens of millions of dollars** when acquiring medical and surgical supplies by better adhering to supply chain practices of leading hospitals.
2017	**Department of Veterans Affairs Medical Facility Construction (Area 20):** VA could better avoid cost increases and schedule delays on its medical facility construction projects by improving management of facility construction.
2013	**Information Technology Operations and Maintenance (Area 30):** Strengthening oversight of federal agencies'—including VA's—major information technology investments in operations and maintenance provides opportunity for savings of **billions of dollars** across the federal government.
2012	**Military and Veterans Health Care (Area 15):** The Departments of Defense (DOD) and Veterans Affairs (VA) need to improve integration across care coordination and case-management programs to reduce duplication and better assist service members, veterans, and their families.

Source: GAO. | GAO-18-571T

Note: The estimates in this report are from a range of sources, including GAO, executive branch agencies, the Congressional Budget Office, and the Joint Committee on Taxation. Some estimates have been updated since GAO's 2017 report to reflect more recent analysis.

We will continue to look for additional or emerging instances of fragmentation, overlap, and duplication and opportunities for cost savings or revenue enhancement. Likewise, we will continue to monitor developments in the areas we have already identified. We stand ready to assist this and other committees in further analyzing the issues we have identified and evaluating potential solutions.

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 or our April 26, 2018 report, please contact J. Christopher Mihm, Managing Director, Strategic Issues, at (202) 512-6806 or mihmj@gao.gov, and Jessica Lucas-Judy, Director, Strategic Issues, at (202) 512-9110 or lucasjudyj@gao.gov. Contact points for the individual areas listed in our 2018 annual report can be found at the end of each area in GAO-18-371SP. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement.

Appendix I: Open Congressional Actions, by Mission

In our 2011 to 2018 annual reports, we directed 100 actions to Congress, of which 58 remain open. Of the 58 open congressional actions, 11 are partially addressed and 47 are not addressed or new, as of March 2018. See table 14.

Table 14: Open Congressional Actions Related to Fragmentation, Overlap, Duplication, Cost Savings, or Revenue Enhancement, 2011-2018

Mission	Annual report	Area	Action summary
Agriculture	2013	Agricultural Quarantine Inspection Fees (Area 18)	Congress should consider taking steps to allow the Secretary of Agriculture to set fee rates to recover the full costs of the Agricultural Quarantine Inspection program.
		Crop Insurance (Area 19)	Congress may wish to consider either limiting the amount of premium subsidies that an individual farmer can receive each year as it limits the amount of payments to individual farmers in many farm programs or reducing premium subsidy rates, or both limiting premium subsidies and reducing premium subsidy rates. Implementing this action could result in **$1.4 billion annually** in cost savings, according to GAO analysis.
			Congress should consider repealing the 2014 farm bill requirement that any revision to the standard reinsurance agreement not reduce insurance companies' expected underwriting gains, and directing the Risk Management Agency to, during the next renegotiation of the agreement, (1) adjust the participating insurance companies' target rate of return to reflect market conditions and (2) assess the portion of premiums that participating insurance companies retain and, if warranted, adjust it. Implementing this action could result in **hundreds of millions** of dollars in savings annually, according to GAO analysis.
	2011	Food Safety (Area 1)	Congress should consider commissioning the National Academy of Sciences or a blue ribbon panel to conduct a detailed analysis of alternative food safety organizational structures.
			Congress should consider formalizing the Food Safety Working Group through statute to help ensure sustained leadership across food safety agencies over time.
Defense	2013	Joint Basing (Area 20)	Congress should consider directing the Assistant Secretary of Defense for Energy, Installations, and Environment, in collaboration with the military services and joint bases, to evaluate the purpose of the program and determine whether the current goals, as stated in the 2005 Base Realignment and Closure Commission recommendation, are still appropriate, or whether goals should be revised; communicate these goals to the military services and joint bases, and adjust program activities accordingly; provide direction to the joint bases on requirements for meeting program goals, including determining reporting requirements and milestones; and determine any next steps for joint basing, including whether to expand it to other installations.
	2012	Stabilization, Reconstruction, and Humanitarian Assistance Efforts (Area 6)	Congress should consider amending the legislation that supports the Overseas Humanitarian, Disaster, and Civic Aid-funded humanitarian assistance program—the Department of Defense's (DOD) largest humanitarian assistance program—to more specifically define DOD's role in humanitarian assistance, taking into account the roles and similar types of efforts performed by the civilian agencies.

Mission	Annual report	Area	Action summary
Economic development	2016	Treasury's Foreclosure Prevention Efforts (Area 17)	Congress should consider rescinding any excess Making Home Affordable (MHA) balances that the Department of the Treasury (Treasury) deobligates and does not move into the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (Hardest Hit Fund). Implementing the actions in this area could result in $4.8 **billion** in savings, according to GAO analysis. The agency estimated $4.8 billion in potential excess funds, $2 billion of which Treasury deobligated in February 2016. As of March 1, 2018, Treasury had not deobiligated MHA funds beyond the $2 billion that it transferred to the Troubled Asset Relief Program-funded Hardest Hit Fund in February 2016. To the extent that Treasury identifies and deobligates any MHA funds that are likely to not be expended, these funds may then be available for Congress to rescind and use elsewhere for other priorities.
	2011	Essential Air Service (Area 42)	Congress may wish to consider revising the program's operating requirements for providing air service to communities to improve efficiency and to better match capacity with community use. This action is partially addressed. Congress has taken some action to address this action, such as revising the program's operating requirements most recently in the Consolidated Appropriations Act, 2018. However, opportunities still exist to address this action, such as allowing flexibility in the number of flights provided.
			Congress may wish to consider assessing multimodal solutions, such as more cost-effective bus service to hub airports or air taxi service, to provide communities alternatives to Essential Air Service.
Energy	2018	DOE's Treatment of Hanford's Low Activity Waste (Area 17)	Congress should consider clarifying, in a manner that does not impair the regulatory authorities of the Environmental Protection Agency and the state of Washington, Department of Energy's (DOE) authority at Hanford to determine, in consultation with the Nuclear Regulatory Commission, whether portions of the supplemental low-activity waste can be managed as a waste type other than high-level waste. Implementing this action could result in savings of **tens of billions of dollars** from 2018 to 2061, according to GAO analysis.
	2015	U.S Enrichment Corporation Fund (Area 16)	Congress may wish to permanently rescind the entire $1.6 billion balance of the U.S. Enrichment Corporation Fund. Implementing this action could result in savings of **$1.6 billion**, according to GAO analysis.
	2014	Advanced Technology Vehicles Manufacturing Loan Program (Area 13)	Congress may wish to consider rescinding all or part of the remaining $4.3 billion in credit subsidy appropriations, unless the DOE can demonstrate a demand for new Advanced Technology Vehicles Manufacturing loans and viable applications. Implementing this action could result in a one-time savings of up to **$4.3 billion**, according to a DOE estimate.
	2011	Federal Fleet Energy Goals (Area 12)	Changes in existing laws could streamline the requirements and provide fleet managers with more flexibility in meeting goals.
		Oil and Gas Resources (Area 45)	Congress may need to take action to require the Department of the Interior (Interior) to establish an annual production incentive fee or similar fee for nonproducing leases.

Mission	Annual report	Area	Action summary
			Congress may wish to provide additional guidance or take additional actions to direct Interior to improve its oversight of federal lands and waters and the revenues derived from production of oil and gas if Interior chooses not to take any action on its study examining how other oil and gas resource owners select fiscal parameters for leasing and adjusting oil and gas royalty rates. Implementing the actions in this area could result in additional revenue of **$1.7 billion**, according to Interior estimates.
General government	2017	Use of the Do Not Pay Working System (Area 11)	Congress should consider amending the Social Security Act to explicitly allow the Social Security Administration to share its full death file with Treasury for use through the Do Not Pay working system. As of March 2018, members of Congress have introduced the Stopping Improper Payments to Deceased People Act (HR.4929 and S.2374) that, if enacted into law, would address this issue. Sharing the full death file through the Do Not Pay working system would provide agencies with additional information and enhance efforts to identify and prevent improper payments to deceased individuals.
		Recovery Operations Center Closure (Area 10)	Congress may wish to consider directing the Council of the Inspectors General for Integrity and Efficiency to develop a legislative proposal to reconstitute the essential capabilities of the Recovery Operations Center to help ensure federal spending accountability.
	2016	Financial Regulatory Structure (Area 5)	Congress should consider whether additional changes to the financial regulatory structure are needed to improve (1) the efficiency and effectiveness of oversight; (2) the consistency of consumer and investor protections; and (3) the consistency of financial oversight for similar institutions, products, risks, and services. This action is partially addressed. As of March 2018, at least two bills, the Financial CHOICE Act of 2017 (H.R. 10) and the Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155) have been introduced in the 115th Congress that would change the financial regulatory structure, to some degree, to address fragmented and overlapping regulatory authorities, as GAO suggested in February 2016. GAO will continue to monitor the reform efforts to determine the extent to which they could help to address fragmentation and overlap between the federal financial regulatory agencies and reduce opportunities for inefficiencies in the regulatory process and inconsistencies in how regulators conduct oversight activities over similar types of institutions, products, and risks.
			Congress should consider whether legislative changes are necessary to align the Financial Stability Oversight Council's authorities with its mission to respond to systemic risks. This action is partially addressed. As of March 2018, two bills were introduced, the Financial CHOICE Act of 2017 (H.R. 10) and the Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155), which may alter the FSOC's authorities, but it is not clear to what extent the legislation would address GAO's February 2016 suggestion. GAO will continue to monitor the reform efforts to determine the extent to which they help to align FSOC's authorities with its mission to respond to systemic risks.
		Identity Theft Refund Fraud (Area 22)	Congress should consider providing the Secretary of the Treasury with the regulatory authority to lower the threshold for electronic filing of W-2s from 250 returns annually to between 5 to 10 returns, as appropriate. Implementing the actions in this area could result in savings of **billions of dollars**, according to GAO analysis.

Mission	Annual report	Area	Action summary
	2015	Consumer Product Safety Oversight (Area 4)	Congress should consider transferring the oversight of the markings of toy and imitation firearms in section 5001 of title 15 of the U.S. Code from the Department of Commerce's National Institute of Standards and Technology to the Consumer Product Safety Commission.
			Congress should consider establishing a formal comprehensive oversight mechanism for consumer product safety agencies to address crosscutting issues as well as inefficiencies related to fragmentation and overlap such as communication and coordination challenges and jurisdictional questions between agencies. Different types of formal mechanisms could include, for example, creating a memorandum of understanding to formalize relationships and agreements or establishing a task force or interagency work group. As a starting point, Congress may wish to obtain agency input on options for establishing more formal coordination.
		Tax Policies and Enforcement (Area 17)	Congress should consider revisiting the use of individual retirement accounts (IRA) to accumulate large balances and considering ways to improve the equity of the existing tax expenditure on IRAs. Options could include limits on (1) the types of assets permitted in IRAs, (2) the minimum valuation for an asset purchased in an IRA, or (3) the amount of assets that can be accumulated in IRAs and employer-sponsored plans that get preferential tax treatment.
			Congress should consider expanding the mandate that partnerships and S corporations electronically file their tax returns in order to cover a greater share of filed returns. Implementing the actions in this area could potentially enable IRS to collect **hundreds of millions of dollars** in additional revenue, according to GAO analysis.
	2012	Internal Revenue Service Enforcement Efforts (Area 44)	To help improve taxpayer compliance, Congress may wish to make owners of rental real estate subject to the same payment reporting requirements regardless of whether they engaged in a trade or business under current law.
			To help improve taxpayer compliance, Congress may wish to require payers to report service payments to corporations, thereby reducing payers' burden to determine which payments require reporting. Implementing the actions in this area could result in tax revenues of **billions** of dollars, according to GAO analysis of information from the Joint Committee on Taxation.

Mission	Annual report	Area	Action summary
	2011	Simple Tax Return Errors (Area 56)	Congress may want to consider granting the Internal Revenue Service (IRS) broader math error authority, with appropriate safeguards against misuse of that authority, to correct errors during tax return processing. This action is partially addressed. The Consolidated Appropriations Act, 2016 gave IRS additional math error authority, but limited to certain circumstances. Giving IRS broader math error authority with appropriate controls would enable IRS to correct obvious noncompliance, would be less intrusive and burdensome to taxpayers than audits, and would potentially help taxpayers who underclaim tax benefits to which they are entitled. If Congress decides to extend broader math error authority to IRS, controls may be needed to ensure that this authority is used properly such as requiring IRS to report on its use of math error authority. The administration also requested that Congress expand IRS's math error authority as part of the Service's Congressional Budget Justification and Annual Performance Report and Plan for fiscal year 2019. Specifically, the administration requested authority to correct a taxpayer's return in the following circumstances: 1) the information provided by the taxpayer does not match the information contained in government databases; 2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit; or 3) the taxpayer has failed to include with his or her return certain documentation that is required by statute. As of March 2018, the Congress had not provided Treasury with such authority.
		S Corporations (Area 63)	Congress could require S corporations to use information already available to them to calculate shareholders' basis as completely as possible and report it to shareholders and the IRS. Implementing this action could result in savings of **hundreds of millions** of dollars, according to GAO analysis.
		Research Tax Credit (Area 65)	Congress could eliminate the regular credit and add a minimum base amount (equal to 50 percent of a taxpayer's current spending) to the method for computing the alternative simplified credit.
		New Markets Tax Credit (Area 66)	Congress should consider offering grants in lieu of credits to Community Development Entities if it extends the program again. If it does so, Congress should require Treasury to gather appropriate data to assess whether and to what extent the grant program increases the amount of federal subsidy provided to low-income community businesses compared to the New Markets Tax Credit; how costs for administering the program incurred by the Community Development Financial Institutions Fund, Community Development Entities, and investors would change; and whether the grant program otherwise affects the success of efforts to assist low-income communities. One option would be for Congress to set aside a portion of funds to be used as grants and a portion to be used as tax credit allocation authority under the current structure of the program to facilitate comparison of the two program structures.
		Governmental Bonds (Area 67)	Congress should consider whether facilities, including hotels and golf courses, that are privately used should be financed with tax-exempt governmental bonds. Implementing this action could result in savings of **hundreds of millions** of dollars, according to GAO analysis.
Health	2016	Medicare Payments by Place of Service (Area 30)	Congress should consider directing the Secretary of Health and Human Services to equalize payment rates between settings for evaluation and management office visits and other services that the Secretary deems appropriate and return the associated savings to the Medicare program. Implementing this action could result in savings of **billions of dollars** annually, according to MedPAC and Bipartisan Policy Center estimates.

Mission	Annual report	Area	Action summary
	2015	DOD US Family Health Plan (Area 6)	Congress should terminate the Secretary of Defense's authority to contract with the US Family Health Plan (USFHP) designated providers in a manner consistent with a reasonable transition of affected USFHP enrollees into TRICARE's regional managed care program or other health care programs, as appropriate. Implementing this action could save **millions of dollars** from fiscal years 2019 to 2022, according to GAO analysis.
		Medicare Payments to Certain Cancer Hospitals (Area 19)	Congress should consider requiring Medicare to pay these prospective payment system (PPS)-exempt cancer hospitals (PCH) as it pays PPS teaching hospitals, or provide the Secretary of HHS with the authority to otherwise modify how Medicare pays PCHs, and provide that all forgone outpatient payment adjustment amounts be returned to the Supplementary Medical Insurance Trust Fund. Implementing this action could result in savings of almost **$500 million** annually, according to GAO analysis.
	2014	Medicaid Demonstration Waivers (Area 21)	Congress could consider requiring the Secretary of Health and Human Services to improve the Medicaid demonstration review process, through steps such as improving the review criteria, better ensuring that valid methods are used to demonstrate budget neutrality, and documenting and making clear the basis for the approved limits. GAO had previously recommended that the Department of Health and Human Services (HHS) take these actions. GAO elevated these actions for Congress to consider after HHS disagreed with the need to improve budget neutrality criteria, methods, and documentation of the basis for approved spending limits. Implementing the actions in this area could result in savings of **billions of dollars**, according to GAO analysis.
	2013	Medicaid Supplemental Payments (Area 26)	Congress should consider requiring the Administrator of the Centers for Medicare & Medicaid Services (CMS) to improve state reporting of non-Disproportionate Share Hospital (DSH) supplemental payments, including requiring annual reporting of payments made to individual facilities and other information that the agency determines is necessary to oversee non-DSH supplemental payments. This action is partially addressed. In January 2017, a bill, H.R. 541, was introduced in the House of Representatives which, if enacted, would require annual state reporting of non-DSH supplemental payments made to individual facilities. However, as of March 2018, Congress has not enacted legislation to require such reporting. In addition, CMS has taken some action, including issuing a State Medicaid Director Letter requiring annual reporting of certain Medicaid supplemental payments and awarding a contract to review Medicaid supplemental payment information submitted by states.
			Congress should consider requiring the CMS Administrator to clarify permissible methods of calculating non-DSH supplemental payments. This action is partially addressed. In January 2017, a bill, H.R. 541, was introduced in the House of Representatives which, if enacted, would require CMS to issue guidance to states that identifies permissible methods for calculating non-DSH supplemental payments to providers. However, as of March 2018, Congress has not enacted legislation to require CMS to issue such guidance. In addition, CMS has taken some action, including issuing a State Medicaid Director Letter requiring states to submit non-DSH supplemental payment information and awarding a contract to review Medicaid supplemental payment information submitted by states.

Mission	Annual report	Area	Action summary
			Congress should consider requiring the CMS Administrator to require states to submit an annual independent certified audit verifying state compliance with permissible methods for calculating non-DSH supplemental payments. Implementing these three actions could result in savings in the **hundreds of millions of dollars**, according to GAO analysis.
	2011	Medicare's Health Care Payment (Area 74)	Congress could exempt from the budget neutrality requirement savings attributable to policies that reflect efficiencies occurring when services are furnished together. This action is partially addressed. The Consolidated Appropriations Act of 2016 revised the payment reduction for the professional component of multiple diagnostic imaging services from 25 percent to 5 percent beginning on January 1, 2017, and exempted the reduced expenditures attributable to this multiple procedure payment reduction (MPPR) from the budget neutrality provision. MPPRs or other policies that may result in a reduction to payments for the technical component for diagnostic cardiovascular and ophthalmology services continue to be subject to budget neutrality for 2016. Unless Congress exempts from the budget neutrality requirement savings realized from the implementation of all MPPRs or other policies that reflect efficiencies occurring when services are furnished together, these savings will not accrue to the Medicare program.
Homeland security/law enforcement	2012	Homeland Security Grants (Area 17)	Congress may want to consider requiring the Department of Homeland Security (DHS) to report on the results of the Federal Emergency Management Agency's (FEMA) efforts to identify and prevent unnecessary duplication within and across its preparedness grant programs, and consider these results when making future funding decisions for these programs.
			Once FEMA has completed its assessment, Congress may wish to consider limiting the use of federal preparedness grant programs to fund only projects to fill identified, validated, and documented capability gaps that may (or may not) include maintaining existing capabilities developed.
		Immigration Inspection Fee (Area 49)	Congress may wish to require the Secretary of the Department of Homeland Security (DHS) to adjust the air passenger immigration inspection fee as needed so that collections are aligned with total inspection costs, if it is determined that total immigration fee collections do not cover total immigration inspection costs. Implementing this action could increase annual fee revenue by **tens of millions of dollars**, according to GAO analysis of fiscal year 2012 data. This action is partially addressed. As of March 2018, Congress had not enacted legislation, as GAO suggested in February 2012, to adjust the air passenger immigration fee. However, Immigration and Customs Enforcement (ICE) and Customs and Border Protection (CBP) have identified the extent to which collections are aligned with total immigration inspection costs.
			Congress may wish to require the Secretary of DHS to direct U.S. Immigration and Customs Enforcement and Customs and Border Protection to establish a regular schedule to review and coordinate on the costs of their respective air passenger immigration inspection activities, and revise the proportion of the fee received by each agency accordingly.
Income security	2018	Railroad Retirement Board Continuing Disability Reviews (Area 23)	Congress should consider granting the Board access to the HHS's quarterly earnings information from the National Directory of New Hires database. Implementing this action could result in savings of **millions of dollars** annually, according to GAO analysis.

Mission	Annual report	Area	Action summary
	2014	Disability and Unemployment Benefits (Area 8)	Congress should consider passing legislation to require the SSA to offset Disability Insurance benefits for any Unemployment Insurance benefits received in the same period. Implementing this action could save about **$2.5 billion dollars** over 10 years, according to an OMB estimate.
		Federal Employees' Compensation and Unemployment Benefits (Area 9)	Congress should consider granting the Department of Labor (DOL) the additional authority to access wage data to help verify claimants' reported income and help ensure the proper payment of benefits.
		Veterans' and Survivors' Benefits (Area 23)	Congress should consider passing legislation that would establish a look-back and penalty period for claimants who transfer assets for less than fair market value prior to applying for pension benefits. Implementing this action could save about **$4 million** annually, according to a Congressional Budget Office estimate. This action is partially addressed. As of March 2018, there has been no legislative action taken in the current Congress. In the 113th Congress, the House of Representatives passed H.R. 2189, which contained language to establish a 3-year look-back and penalty period for the VA pension program. However, the bill was not ultimately enacted. Additionally, in January 2015, the Department of Veterans Affairs (VA) proposed regulations establishing a look-back and penalty period for the VA pension program. In February 2018, VA officials told GAO the regulations were undergoing legal review as part of the final concurrence process.
	2011	Social Security Offsets (Area 80)	Congress could consider giving the IRS the authority to collect the information that the Social Security Administration (SSA) needs on government pension income to administer the Government Pension Offset and the Windfall Elimination Provision accurately and fairly. Implementing this action could result in savings between **$2.4 billion to $7.9 billion** over 10 years, if enforced both retrospectively and prospectively, based on estimates from the CBO and SSA.
Information technology	2014	Interoperable Radio Communications Systems (Area 10)	Congress should consider requiring DHS, the Department of Justice (DOJ), and Treasury to collaborate on the development and implementation of a joint radio communications solution that specifically requires the departments to establish an effective governance structure that includes a formal process for making decisions and resolving disputes, define and articulate a common outcome for this joint effort, and develop a joint strategy for improving radio communications. This action is partially addressed. Legislation has been enacted to provide funding for, among other things, the development of a nationwide, interoperable broadband network that is aimed at improving interoperable radio communications among public safety officials. However, the use of the broadband network by public safety users will be voluntary. In addition, DHS, DOJ, and Treasury officials indicated that once mission-critical voice capabilities have been developed for the broadband network, they will determine whether they will use the network for that purpose. Therefore, until the three departments make a decision to use the nationwide public safety broadband network to support mission critical voice capabilities, it is uncertain if the legislation will address these agencies' fragmented approaches to improving interoperable radio communications. As of March 2018, there has been no legislative action taken in the current Congress.

Mission	Annual report	Area	Action summary
	2013	Dissemination of Technical Research Reports (Area 10)	Congress should consider examining the appropriateness and viability of the fee-based model under which the National Technical Information Service (NTIS) currently operates for disseminating technical information to determine whether the use of this model should be continued. This action is partially addressed. As of March 2018, there has been no legislative action taken in the current Congress. Several bills were introduced during the 115th Congress, including H.R. 3354, S.1662, that had the potential to address this action. However, these bills were not ultimately enacted. Additionally, the Department of Commerce Appropriations Act, 2015, 2016, and 2017, limited instances where NTIS could charge customers fees for reports. This limitation continues in effect under the Consolidated Appropriations Act, 2018.
		Geospatial Investments (Area 11)	Congress should consider assessing the impact of the disclosure restrictions of Section 9 of Title 13 and Section 412 of Title 39 of the U.S. Code in moving toward a national geospatial address database. If warranted, Congress should consider revising those statutes to authorize the limited release of addresses, without any personally identifiable information, specifically for geospatial purposes. Such a change, if deemed appropriate, could potentially result in significant savings across federal, state, and local governments. Implementing the actions in this area could result in savings of **millions of dollars**, according to GAO analysis.
International affairs	2016	Cargo Preference for Food Aid (Area 36)	While recognizing that cargo preference serves policy goals established by Congress with respect to the U.S. merchant marine, including maintenance of a fleet capable of serving as a naval and military auxiliary in time of war or national emergency, Congress should consider clarifying cargo preference legislation regarding the definition of "geographic area" to ensure that agencies can fully utilize the flexibility Congress granted to them when it lowered the cargo preference for food aid requirement. Implementing this action could potentially result in **millions of dollars** in savings, according to GAO analysis.
	2013	Tobacco Taxes (Area 31)	Congress, as it continues oversight of the Children's Health Insurance Program Reauthorization Act (CHIPRA), may wish to consider equalizing tax rates on roll-your-own and pipe tobacco.
			Congress, as it continues oversight of CHIPRA, may wish to consider, in consultation with Treasury options for reducing tax avoidance due to tax differentials between small and large cigars. Federal revenue losses were as much as $2.6 to $3.7 billion between April 2009 and February 2014, and Congressional action could address future revenue losses.
	2012	Overseas Administrative Services (Area 20)	Congress may wish to consider requiring agencies to participate in International Cooperative Administrative Support Services (ICASS) unless they provide a business case to show that they can obtain these services outside of ICASS without increasing overall costs to the U.S. government or that their mission cannot be achieved within ICASS.
	2011	Antidumping and Countervailing Duties (Area 81)	Congress could eliminate the retrospective component of the U.S. antidumping and countervailing duty system and, instead, treat the antidumping and countervailing duties assessed at the time the product enters the country as final.

Mission	Annual report	Area	Action summary
Social services	2012	Housing Assistance (Area 28)	Congress may wish to consider requiring the Departments of Agriculture (USDA) and Housing and Urban Development (HUD) to examine the benefits and costs of merging those programs that serve similar markets and provide similar products. As a first step, Congress could consider requiring USDA and HUD to explore merging their single-family insured lending programs and multifamily portfolio management programs, taking advantage of the best practices of each and ensuring that targeted populations are not adversely affected.

Source: GAO. | GAO-18-571T

Notes: Unless otherwise indicated, actions in this table are not addressed, meaning that a bill may have been introduced but did not pass out of a committee, or no relevant legislation has been introduced. At the beginning of a new congressional session, we reapply the criteria. As a result, the status of an action may move from partially addressed to not addressed if relevant legislation is not reintroduced from the prior Congressional session.

As of March 2018, eleven actions are partially addressed. Partially addressed means a relevant bill has passed a committee, the House of Representatives, or the Senate, or relevant legislation has been enacted but only addressed part of the action needed. This table provides information on steps Congress took for actions that are considered partially addressed.

This table provides estimates of cost savings or increased revenue where such information was available. The potential cost savings for implementing individual actions are provided when known, or for implementing multiple actions in an area, when the savings are not attributable to a specific action.

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Chairman ENZI. Thank you. Particularly, thank you for the testimony, which is a summary of the full report, which we will be encouraging people to read.

We will now do rounds of questions, 5 minutes for questions—although that is not very strict for the two of us.

[Laughter.]

Chairman ENZI. And it will be in the order that people came. That will be easy to keep track of, too.

Before I start my questions, I would like to thank you again for the report, and, of course, what we need is action on the report. That is what you have been suggesting, and there is some action on it, but we will have to figure out if we can come up with some ways to accelerate that.

I am going to ask about the 160 housing programs, some health care improper payments, inefficient VA purchasing, the 163 STEM programs, identifying theft, duplication, disability claims, redundant reviews, and I know that instead of Washington, DC, bureaucracy, we need to get the money out to where the people are with the programs that they are designed to help. And your report is outstanding at that.

I will start with the housing one. You found that there are 160 housing-related programs that overlap, and the money could be saved by combining them. It is an area ripe for reform. As I said to HUD Secretary Carson when we met to discuss the issue, reform done right would mean less money going to overhead and more directed to providing assistance. What benefits can be recognized by streamlining duplicative, overlapping, and fragmented housing assistance programs? Has the GAO estimated how much could be saved by such streamlining?

Mr. DODARO. The benefits could be both cost savings and greater efficiencies as well as reducing the burden on both property holders and tenants. For example, the Department of Housing and Urban Development and the U.S. Agriculture Department both operate multi-family programs, housing programs in that area, but they set different requirements for both the property and tenant eligibility for those programs, and they manage the programs very differently. So if you are a property owner and you want to use a multi-family dwelling and arrangements with HUD or USDA, you end up dealing with two different sets of requirements. You also could have multiple inspections with different inspection standards, and this creates a lot of inefficiencies in those program activities.

In the single-family housing area, there are opportunities for their loan guarantee programs. A lot of them operate in similar markets, so they could be consolidated or at least improve the coordination among the programs, and this would provide further streamlining opportunities.

Now, we have not made estimates because there have not been specific proposals put forward by the executive branch. We have encouraged the executive branch agencies to come up with streamlining and consolidation options. In recent discussions I have had with OMB, they have said that they are using our prior work on overlap and duplication as input to the President's reorganization proposals that are due to be submitted sometime soon. So we will see if they have addressed these areas. I will continue my discussions with them.

Chairman ENZI. Thank you. Your report also states that the Centers for Medicare & Medicaid and the Internal Revenue Service can save money by strengthening controls related to improper payments for the premium tax credit. The Congressional Budget Office estimates that that cost is $605 billion over a 10-year period or about $60.5 billion a year. Why is it a challenge for these agencies to detect improper payments? What can the Federal Government do to achieve cost savings for improper payments?

Mr. DODARO. Well, first of all, we found that the Centers for Medicare & Medicaid Services as well as the IRS, who are both charged with different responsibilities under the Affordable Care Act for the premium tax credit, really did not design internal controls effectively in order to make sure they were only paying subsidies for eligible people, that people who are receiving the benefits of the advance premium tax credit were filing their tax returns as required and doing the necessary reconciliations between the two figures. And so we made several recommendations, eight to CMS and three to IRS, to design better internal controls so that they would operate their programs more effectively.

The only internal controls that we found effective at CMS, for example, were the controls they put in to make sure that the payments went out to the insurance companies. But in terms of reviewing eligibility and doing the reconciliations that were required, they were not effective.

Now, CMS has done a risk assessment that said that its advance premium tax credit program is at high risk of improper payments, but they need to follow-up. They have said they are not going to begin making estimates until 2022. I mean, that is not acceptable. That is too late. They need to move on that area, and I would encourage the Congress to weigh in there and provide support for that as well. IRS really did not do a good assessment. We have made suggestions to them to improve that effort.

Now, from a broad standpoint of improper payments across Government, what we found in 2017, 27 programs did not even report improper payment estimates even though they had determined that their programs were highly susceptible to problems or were required by law to report estimates, including the Temporary Assistance for Needy Families Program and the Supplemental Nutrition Assistance Program, SNAP. And both of those programs are large programs, and so the Congress needs to make sure agencies follow the process, make the estimates, have good corrective action plans.

One suggestion I have for the Congress that has not been acted upon yet that I would encourage Congress to consider is there is a Do Not Pay list that the Department of Treasury operates, and they are to check against several other databases before they make payments, one of which is the Death Master File from the Social Security Administration, because we and others have found in the past payments keep going even though people have been deceased, and that causes all sorts of problems. But the Social Security Administration does not provide the full Death Master File to the Treasury. They believe they are not permitted by law to do that. And I would encourage Congress to clarify that and to make that file available to the Treasury Department. It does not serve anybody's interest to send out improper payments when we know that they should not go out.

Chairman ENZI. Thank you. Excellent. My time has expired in the first round, so I will defer to Senator Sanders.

Senator SANDERS. Thank you, Mr. Chairman.

Given the fact that DoD spending is well more than half of discretionary spending, I think it is important that we focus on the elephant in the room, which is the Pentagon. You are talking to two ex-mayors, and when we would let out a contract for the streets to get repaved in Burlington, Vermont, and somebody said, "Well, we can do so many miles for $3 million," and they came back and said, "Well, actually it cost us $6 million, you owe us another $3 million," neither I nor the city council would have given them the light of day. "You said you could do it for $3 million. That is what you are going to get paid."

Mr. Chairman, similar in Wyoming?

Chairman ENZI. Absolutely.

Senator SANDERS. All right. So I want to know why it is that a handful of defense contractors—and we have relatively few of them—are able to run up over $537 billion in cost overruns. If somebody says if you go out to whatever degree we have competitive bidding—and I understand not everybody on the block builds F–35s, right? It is a little bit different than paving roads. I got that. But, nonetheless, if somebody says, "I am going to build you this weapons system for $5 billion," and then they come back and say, "Oh, I am sorry, it cost $10 billion," is there somebody at the Department of Defense that says, "Well, you are going to have to eat it, guys, because you told us you could do it for $5 billion"? Why do we run up $537 billion in cost overruns?

Mr. Chairman, is that a fair question?

Chairman ENZI. I think so.

Senator SANDERS. Okay. It is a bipartisan question then.

[Laughter.]

Mr. DODARO. All right. I will give you a bipartisan answer to the question. Then I will ask our expert in weapons acquisition issues to elaborate.

Senator SANDERS. Okay.

Mr. DODARO. Because he has studied all these programs over time.

Senator SANDERS. Good.

Mr. DODARO. Now, part of the problem is that the requirements are not set. If you were a mayor you would have exactly how many streets you want paved and what kind of material you want to use. This information would foster competitive bids.

Senator SANDERS. Yes.

Mr. DODARO. That does not happen in a lot of these contracts because the requirements keep changing, they are not set up front. The other thing is defense——

Senator SANDERS. Well, requirements keep changing. I understand that.

Mr. DODARO. Yes.

Senator SANDERS. I am not minimizing the complexity of weapons systems.

Mr. DODARO. Right.

Senator SANDERS. But, you know, I presume the DoD tells the contractor what they require, what they need. I mean, it is not quite a good enough answer to say requirements keep changing.

Mr. DODARO. Well, no——

Senator SANDERS. Is that a problem or is that the nature of the world there?

Mr. DODARO. Well, it is the way they operate.

Senator SANDERS. But should they be operating that way?

Mr. DODARO. Well, we have made suggestions on how they could improve their process for setting requirements and approving technologies to go into production. You know, you mentioned, as we did, a lot of the cost increases after production. What we have found is that a lot of times they will send things into production, even though the technologies are not mature enough, and so you discover new problems when you go into production that then have to be corrected, and then that requires a lot of additional money later, and——

Senator SANDERS. But, presumably, Mr. Dodaro, doesn't somebody at the DoD know that, know what you are talking about?

Mr. DODARO. They know it, but they have to make sure that they follow the process. We have made many recommendations for best practices——

Senator SANDERS. Let me interrupt you here just to ask you a simple question. Is this issue that we are focusing on—it seems to me to be a major issue when we talk about unnecessary expenditure of Federal funds. Am I right in saying that or not?

Mr. DODARO. It is a significant issue. It has been on our High-Risk List since 1990. So we have been focused on it. We have made recommendations. Congress passed major reform legislation in 2009 implementing many of our recommendations. We have seen improvements in weapons systems going into production post-2009 reforms that Congress passed and better performance in those areas. So there are a lot of systems that are still in the area, but I will let Mike explain.

It is an important issue. We have been focused on it. There have been some improvements, but more needs to be done.

Senator SANDERS. Okay.

Mr. DODARO. Mike.

Mr. SULLIVAN. Yes, Senator. So just to go back a little bit, it is a matter of, as the Comptroller General said, weapons systems are very complex, cutting edge, oftentimes bleeding edge kind of technologies. And in order to get the contracting world and the industrial base to sign up to do things, like a B–2 bomber when it was done or currently a Joint Strike fighter or the satellites. The federal government uses contracting methods that more or less open the door to a lot of cost inefficiency. It is called "cost-plus contracting" for development. And it more or less became the way to do business in the late 1970's——

Senator SANDERS. Does cost-plus, for the laymen here, mean I am going to give you a $2 billion estimate, but if it costs me more, I am going to bill you more? Is that what cost-plus——

Mr. SULLIVAN. Yes. Basically, it's "I will send you the bills."

[Laughter.]

Mr. SULLIVAN. And the plus part of that is actually an award fee. They put criteria in the contract, if they do this faster, they get extra money on top of that. It was a cultural issue—still is, basically the way that they do business——

Senator SANDERS. Did you say "cultural"?

Mr. SULLIVAN. Yes. It really——

Senator SANDERS. All right. Let me stop you.

A couple of years ago, Mr. Chairman, I had somebody from the DoD in the office, and he said—this is what he said. He said, "Look, the truth is"—this is 5 years ago——"we have a whole lot of money, and people were not watching that money very, very carefully." And when you talk about cost-plus, you and I are going to do business, I am going to tell you I am doing it for X, but, by the way, I am going to charge you more, and that is not a problem. That seems not a particularly efficient way to do business. Yes? Am I missing something?

Mr. SULLIVAN. It is—obviously if you have a urgent, urgent need and nobody knows how to do it, that is when you do this.

Senator SANDERS. Yes.

Mr. SULLIVAN. And that is how the Department operated when some of the Cold War weapons that the government bought that were not urgent needs, it did it that way. And so, for example, if you look at the B–2 bomber, the F–22, F–35, any of these big—I do Air Force work, so I look at that, but ships, same thing. They would go in with an—take the estimate that would call for—I think in the F–22 case, they probably estimated about $10 billion for the development cost, and it turned out to be over $20 billion. One of the reasons for that is, as complex as it was, when they wrote the requirements, they did not really do the due diligence that they need to do, the systems engineering, the prototyping you have to do ahead of time.

Senator SANDERS. Who, the contractor?

Mr. SULLIVAN. The contractor and the Government both. But, yes, the contractor accepted requirements that it did not really know how to do, and they do not do a lot of trading—you know, there is space before you start a program where you can look at cost——

Senator SANDERS. Let me interrupt you. You said this cultural thing. You know, the Chairman made a point. Again, you are talking to two ex-mayors. What you are really suggesting is they did not fully understand what they were getting into.

Mr. SULLIVAN. That is right.

Senator SANDERS. And, unfortunately, it was the taxpayer who had to pick up the difference.

Mr. SULLIVAN. That is right. The taxpayer——

Senator SANDERS. But in the world that we lived in, it would be the contractor would have to pick up—"Sorry you screwed up, guys. You have to eat it." Yes?

Mr. SULLIVAN. Yes.

Mr. DODARO. You might want to mention the tanker.

Mr. SULLIVAN. Okay, yes.

Mr. DODARO. There is one program that they are doing that now. I would ask Mike to explain that, where the contractor is picking up the tab for it.

Mr. SULLIVAN. Yes, it is the KC–46 tanker, which the Government really scrubbed the requirements, did a lot of cost and performance trade analysis before they let the bid for the contract. Boeing made the bid, and it was a fixed—price contract, which means anything over the bid, is Boeing's. As a matter of fact, right now the program is a little bit behind schedule. No real issues performance-wise, and it has gone above Boeing's cost estimate. It hit the ceiling, and Boeing is paying I think as much as $1 billion for that now.

Senator SANDERS. But isn't that a sensible way to proceed?

Mr. SULLIVAN. Yes. We think that is the way to do product development. We are talking about what procurement should be and it usually is fixed price. They sign fixed-price contracts for lots of the F–35s right now. It is in development where they use these contracting methods that really places all the cost risk on the Government.

Senator SANDERS. Yes, Okay. Thank you, Mr. Chairman.

Mr. SULLIVAN. But the tanker is an example of a direction they are moving in now.

Senator SANDERS. Good.

Chairman ENZI. To follow-up on that a little bit, I remember running into a guy that built office buildings, and he told me that what he really relied on, he did a nice tight bid, but then he always tried to encourage them to do some changes to their plans after the bid, and then he could charge extra for the changes. And, evidently, on the KC–46 we are not making a lot of changes then, so they cannot——

Mr. SULLIVAN. One of the keys was that the Government knew exactly what it wanted, did its homework up front, and there have been no increased requirements, so the contractor has not been able to reopen their contract.

Chairman ENZI. Thanks. I am going to switch to the Department of Veterans Affairs, the VA. They launched a new program to streamline the way its medical centers buy supplies for treating 7 million veterans. The GAO found that the VA lacked any overarching strategy, and the rollout of the program ran counter to practices of leading hospitals. As a result, the list of available products did not meet medical center needs, and the program has yet to achieve the key goals of cost savings and greater efficiency.

Can you tell me a little bit about if the VA is making any progress on establishing a formulary that meets veterans' needs and follows the practices of hospitals, for example?

Mr. DODARO. In the short term, what VA is trying to do now, from what we understand, is increase the number of items on the formulary from 8,000 to about 37,000 items, so to put more items available there. Now, one of the problems we found earlier is they had not selected all the proper items to put on the list, so hopefully they are doing a better job of doing that.

In the longer term, they are trying to come up with a whole new strategy, and part of that longer-term strategy will involve the clinicians, the people with the clinical skills who know what items they really need. This is one of the recommendations that we have made to them. My understanding is this week the House has passed legislation that would require VA to ensure that the clinicians are involved in deciding what items are needed.

What we found is because they were not involved earlier, even though they had this central formulary that was supposed to drive down cost, it did not include all the items that they needed, so they were using purchase cards and emergency purchasing services at the medical centers to get the supplies they needed, because it was not coming through this central purchasing authority.

So I would say they are in the very early stages of trying to address our recommendations and improve this process, but they still do not have a good long-term strategy.

Chairman ENZI. They are increasing it from 8,000 to 30,000 or—are they eliminating any?

Mr. DODARO. Yes, well, what I understand is they are focusing initially on items they know they need every month for surgical supplies and medical supplies. So these are known needs.

Now, the question is whether or not the data that they are drawing from is accurately showing what those needs are, because there are a lot of different purchasing vehicles. So we will go in, and we are going to follow-up, we are going to work with them and hopefully move them in the proper direction in this area. They are trying new approaches, and they just need to address the recommendations that we have made, and we are going to follow up.

Chairman ENZI. Okay. I appreciate that. Some helpful outside research.

Your report also states in regard to the Federal STEM education in 2016 that spending totaled almost $3 billion for 163 programs in 13 agencies and nearly all of those programs overlapped with at least one other program. We do need strong STEM programs in order to move forward as a country. What kind of checking are they doing to see if the programs are effective and to reassign them so that there is more direct oversight?

Mr. DODARO. They are not doing what was expected of them. There is a Committee on STEM Education that was created by the Congress and the Office of Science, Technology, and Policy in the White House that is required to review program evaluations that were supposed to be done on the STEM education programs and to document them and to evaluate how well they are performing in this portfolio of programs. And that has not been done, and we recommended that they go forward and do that.

Now, the Congress also passed additional legislation last year to require them to report on this analysis and to go forward. As a result, while some individual STEM programs have been evaluated, many have not, and there has not been this portfolio review done where it is documented and then there could be action taken to consolidate programs that may not be working effectively or eliminate some of the programs. So without that fundamental performance information on how well the programs are doing, they cannot make informed decisions on how to change the portfolio.

So they have agreed to implement all our recommendations, which should put them in a better position to be able to know which programs are working effectively or not, and then take appropriate action, which could include consolidating or eliminating some of the programs or redesigning them if they know what the design flaws would be.

Chairman ENZI. For over 25 years, I think we have had some requirements on the Government Performance and Results Act. Is anybody actually doing that?

Mr. DODARO. Some people are, but what we find in some cases where they are doing the evaluations, they are not using it to make decisions going forward. In this case, Congress set specific requirements for this Committee on STEM Education, and they have not fulfilled those responsibilities yet, and that is what we have recommended that they do. This is separate and apart from the Government Performance and Results Act. But it is consistent with that, Mr. Chairman, as you point out.

So there have been strides where there has been greater use of performance measures or greater development of performance measures, but what we find when we do surveys periodically of Government managers is that the results of those evaluations and studies are not being used as effectively as possible.

Chairman ENZI. Thank you.

Senator Sanders.

Senator SANDERS. Thanks.

The Chairman talked about VA, which is a huge $200 billion operation. The VA negotiates drug prices with the pharmaceutical industry, and if I am not mistaken, I think they pay the lowest prices in this country for prescription drugs, much lower than Medicaid or Medicare. Have you guys done any studies about how much savings would accrue to the taxpayers if all Government agencies paid the same amount of money as the VA did for prescription drugs?

Mr. DODARO. We have been asked to look at that issue and compare VA, Medicaid, Medicare. I do not have the information——

Senator SANDERS. By the way, the drug companies tried to keep this—what do you call it?—confidential, what is the—proprietary.

Mr. DODARO. Yes.

Senator SANDERS. And what you will find is they are all different prices. The same drug, the VA pays X dollars for it, Medicaid pays Y dollars for it.

Mr. DODARO. Yes, and DoD.

Senator SANDERS. DoD pays——

Mr. DODARO. Same thing. I would be happy to provide a summary of our work.

Senator SANDERS. All right. Let us work on that. Will you do me a favor?

Mr. DODARO. Sure.

Senator SANDERS. Let us talk about how we can go forward.

Mr. DODARO. Okay.

Senator SANDERS. I am curious about that.

Let me ask you just a question. My understanding is that since 1995 Boeing, Lockheed Martin, and United Technologies have paid nearly $3 billion in fines or related settlements for fraud or misconduct. That is a lot of money, and that is above—we are not talking about cost overruns here. This is illegal behavior. Do we have an epidemic of fraud and illegal behavior within the defense contractors industry?

Mr. DODARO. That is not an area we have looked into. I would be happy to consider what we could do to look at the information that you provided.

Senator SANDERS. You know, I am not aware that we have the most vigorous fraud enforcement—you know, people looking at these issues. But $3 billion from major contractors, it seems to me that we may have a serious problem above and beyond cost overruns.

Mr. DODARO. We will consider how we could take a look at that.

Senator SANDERS. Okay.

Mr. DODARO. And, also, you know, to look at that in perspective to other industries as well, too.

Senator SANDERS. Okay. Could we drop into your office and maybe chat about this?

Mr. DODARO. Sure.

Senator SANDERS. Okay. Let me get back to an issue that I raised a moment ago. You have major contractors like Lockheed Martin and Raytheon. They receive 90 percent of their revenue from national defense, 70 percent from the U.S. Government, 20 percent from other governments buying military equipment, and they pay their CEOs over $20 million in total compensation. I asked the DoD about that, and they wrote back and they said basically with regard to what companies decide to pay their executives and employees is within the purview of the owners or boards of directors and shareholders.

Do you think that if the U.S. Government provides 70 percent of the revenue for Lockheed Martin or Raytheon and they provide their CEO with 100 times more salary than the Secretary of Defense, is that a proper issue for the U.S. Government to look into?

Mr. DODARO. We were asked to look at this issue a few years ago, and based on our report, the Congress decided to set a cap on how much executive compensation could be charged to the Federal Government, and it was initially set at $487,000, and it is to be indexed over time. Currently, the current cap for 2017 was $1.1 million. Clarification: This limit, which was set by the Office of Federal Procurement Policy officially at $1,144,888, is the amount that contractors may charge the government for compensation costs—not only for executives but for all employees—incurred during 2018 for contracts that were awarded before June 24, 2014. The limit that contractors may charge the government for compensation costs incurred during 2018 for contracts awarded on or after June 2014 is $525,000. So, whatever they decide to pay their top executives, they can only charge the Federal Government about $1 million for contracts awarded prior to June 24, 2014 for compensation costs incurred during 2018; if the contract was awarded on or after June 24, 2014, however, contractors may only charge the government $525,000 for compensation costs incurred during 2018.

Senator SANDERS. They could add the other $19 million to the cost of their F–35s, can't they, pretty easily?

Mr. DODARO. Well, it is up to the Defense Department to scrub their analysis of the costs that they charge the Government and to be audited by the Defense Contract Agency and make sure they have proper cost accounting systems. But I am just saying what the requirement is.

Senator SANDERS. Okay. All right. Those are my questions, Mr. Chairman. And, Mr. Dodaro, we will give you a ring, and if you can come in, we can go over some of these things.

Mr. DODARO. Sure. I would be happy to discuss those issues.

Senator SANDERS. Okay. Thank you very much.

Mr. DODARO. You are welcome.

Senator SANDERS. Thanks for your good work.

Mr. DODARO. Sure. Thank you.

Chairman ENZI. Senator Boozman.

Senator BOOZMAN. Thank you, Mr. Chairman. And thank you very much for being here.

In your testimony, you discuss many of the challenges of the Veterans Health Administration that they face. Specifically, you mention issues with human capital, medical supplies procurement, IT operations, maintenance, and the list goes on and on. As a member of the Veterans' Affairs Committee, I noticed that the Department of Veterans Affairs was rather high on the list of agencies with not addressed or partially addressed actions.

Have you identified road blocks at the VA that have prohibited them from implementing your recommendations?

Mr. DODARO. No, Senator. I have made it a priority to meet with each Secretary of Veterans Affairs since I have been in this job. I met with Secretary Shinseki——

Senator BOOZMAN. You met with a bunch of them lately.

Mr. DODARO. Yes, McDonald and Shulkin, and I plan to meet with the new Secretary once there is one in place. And each time I met with them, I encouraged them to implement our recommendations. In many cases they agreed with the recommendation, but then it was not implemented. And I told them they are not getting the benefit of implementing the recommendations.

So with the last Secretary, Secretary Shulkin, we set up quarterly meetings. We were meeting with their staff to try to encourage them to implement the recommendations. So they are making some progress, and there is no real barrier. I am very concerned about the VA. I think it needs leadership. It has some of the most serious management problems in the Federal Government, and I look across the whole Federal Government. So I have made it a high priority. In 2015, added veterans' health care to the High-Risk List that we keep for Congress of the highest risks. The disability portion was already on the High-Risk List for many years. And we are looking now at veterans' health care and focused on contracting activities.

So they need some leadership. They need follow-through and some fundamental management reform.

Senator BOOZMAN. One of the issues is that not only—and, again, I am excited about the prospect of us confirming the President's nominee. I think he is going to do a very, very good job. But one of the problems I have got now is just the fact that there is just so many open spots, you know, in key leadership positions.

Mr. DODARO. That is an issue. They have somebody now finally at the VBA, and I am going to be meeting with Paul Lawrence and talking about our recommendations there. But they do not have somebody at the VHA and in other areas, the CIO. They have a big contract for the electronic health care records. So that is an issue. When I say leadership, I do not just mean the Secretary. I mean throughout the Department.

Senator BOOZMAN. Right, very much. In a related situation, according to GAO's report, Congress and the executive branch have not addressed or resolved approximately 25 percent of identified items. Why do so many items remain open? And approximately how much money could be saved by—what do you estimate are the dollars that could be saved by implementing GAO's open recommendations?

Mr. DODARO. These are recommendations across the board. We were talking about the open ones. For those Senator, I believe there are tens of billions of dollars that could be saved by implementing our recommendations. It depends on specifically what needs to be done, but easily tens of billions of dollars. And these would be savings that would generally not adversely affect the provision of services. Some of them are revenue enhancements that would bring in additional revenue that Congress could decide how to use. So there are lots of additional opportunities to save money.

Senator BOOZMAN. Very good. Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

It will be my turn again. Mr. Dodaro, the GAO report highlights millions of dollars in duplication of Federal agencies' provisions for identity theft services in response to the data breaches that we have had. The report notes that the Office of Management and Budget, OMB, is responsible for coordinating these services across agencies. What steps should OMB take to better coordinate the provision of identity theft services to ensure that agencies do not waste the taxpayers' dollars by offering duplicative theft help?

Mr. DODARO. Well, first, OMB should track and keep a central repository of all the Federal agencies' efforts to offer identity theft services to make sure that before an agency goes forward with a new decision, that they know to what extent the Federal Government has already provided services to specific populations.

Second, OMB should issue some guidance that should go to agencies about identifying alternatives to identity theft services such as credit freezes and fraud alerts that may be cheaper and more effective over time. What we found is that some of these identity theft services will cover some out-of-pocket costs. They will not actually cover, material losses if something happens where the information is inappropriately used. So there are typically only reimbursements—so far from what we have seen, a few thousand dollars that they are getting reimbursed, where it is costing millions of dollars to provide these services to the Government. So there may be a better cost-benefit analysis, and OMB should require agencies to conduct a cost-benefit analysis of alternatives before deciding how to move forward.

Now, OMB mentioned some concerns about keeping central data bases in terms of secrecy or privacy concerns, but we think that this could be overcome properly. This would be a better value to the Government.

Chairman ENZI. You are a wealth of information on this, and I have got another question or two, but Senator Grassley has joined us, and as head of Judiciary alone, he has got a really busy job, but he is also on a number of other committees, and he is probably one of the best attendees at any of them, so if you have got some questions.

Senator GRASSLEY. Thank you. We just finished five nominees just now, so I am glad to be able to get here. Thank you, and thank you for the good work you do.

You have identified ways to reduce fragmentation, overlap, and duplication. You report Congress and the executive branch have partially or fully addressed 76 percent of the action items identified in the 6 years of your report. That is 551 altogether. So that leaves 122. I hope this is not too difficult a question. Let us say you are not going to get all 122 items done. Could you tell me two or three that are the most important or urgent for Congress to take action on that you would suggest?

Mr. DODARO. Yes, Senator. To address that question, as an appendix to my testimony, there are 50 open matters for congressional consideration that I consider high priority, so they are spelled out in the appendix. For example, we have just one area alone we think could potentially save tens of billions of dollars, and that is to provide the Department of Energy the ability to consider alternative methods for treating nuclear waste at the Hanford site. Congress has already provided this authority for the Savannah River site, and we think these alternative methods can treat the waste faster—and this is low-activity waste. We are not talking about high-level waste, which Congress and Federal law requires to be vitrified or turned into glass before disposal. There is a cheaper method called "grouting" that can use a concrete-like mixture for low-activity waste. And if they are allowed to switch to this treatment method they could potentially save tens of billions of dollars. Environmental liabilities right now are estimated in the Federal Government to be almost half a trillion dollars. And we are spending tens of billions every year, and the liability keeps going up.

Then we have a number in the Medicare-Medicaid area. For example, there have been demonstration projects approved over the years where about one-third of total Medicaid spending right now has been provided through these demonstration projects, they were supposed to be budget—neutral. They are not, based on our analysis. So we think tens of billions of dollars could be saved by bringing them into a budget-neutral position.

On Medicare, for example, we think giving equal treatment to these cancer hospitals that they were initially developed in the 1980's when cancer therapies were first being developed. They are reimbursed at a different rate than if you go into a teaching hospital and receive the same cancer therapy. If you equalize the rates, you would save $500 million a year.

Also under Medicare, if you go in and see a doctor and if the doctor's practice is owned by a hospital, they get reimbursed at a higher rate than a doctor in a private practice not owned by a hospital. If you equalize those rates, you would save $1 billion to $2 billion a year.

So those are some of the areas, but we have many others.

Senator GRASSLEY. Okay. My last question. Since 2014, your organization has recommended that Congress enact legislation to better coordinate Social Security disability with unemployment. While proposals have been offered to address this issue over the years, enacting such a proposal has been met with resistance by some. Could you elaborate on why GAO sees this as a duplication meriting correction?

Mr. DODARO. Yes. Our work identified people that were receiving both benefits. Now, both benefits try to compensate you for not working, whether it is unemployment or disability insurance, and we believe that, people should have support if they have lost their income for a legitimate reason. But they should not receive both benefits at the same time. And so we think the Congress ought to consider rectifying that situation.

Senator GRASSLEY. Okay. Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

I want to ask a question, too, on the Social Security Administration because in your testimony it mentions that there are five quality assurance reviews of decisions on appealed disability claims and that it spent $11 million on those reviews in fiscal year 2016 alone. In December 2017, you found that some of these reviews may overlap and that the Social Security Administration has not evaluated the efficiency and effectiveness of the reviews.

Why does SSA have five different quality assurance reviews? And what is the agency doing, if anything, to streamline those reviews?

Mr. DODARO. This is a classic case of what we find when we find overlap and duplication, that these quality reviews were added for different purposes over time. The first quality reviews were done in 1940, so they have added these other programs to deal with different issues, and they have never really gone back and done a systematic look to see whether some of them could be consolidated.

They have agreed with our recommendations. They have already started taking some action to consolidate some of the reviews within a certain program office, and they are looking at how they can consolidate the reviews further over time. But this is a pattern we have seen. That is why you have 160 housing programs, why you have, 160-some STEM programs. They get added over time, and it is very rare something gets taken off the table. And that is the benefit of our recommendations.

Chairman ENZI. Nothing has quite as much longevity as a Federal government program.

[Laughter.]

Chairman ENZI. Well, I want to thank you for your outstanding answers. I remember when this was called the "Government Accounting Office," and I thought that it should have stayed that as an accountant.

[Laughter.]

Chairman ENZI. But after hearing your answers, I am glad that it went to "accountability." I think that is going to be much more effective than the other. I am fascinated with your vast knowledge. Your experience and years of doing this really show. I appreciated the comment you made earlier about prioritizing the suggestions that you have in order of dollars of savings. That shows that you are doing at your agency what you are requiring the others to do as well, and I appreciate that you meet with the different agencies, but that you also meet with the appropriators. I hope everybody is taking advantage of that.

You have some other expertise with you there as well, and I appreciate that. If you could supply the record with the full names of your experts for a part of the record today, too, that would be appreciated and helpful.

Mr. DODARO. I would be happy to do that, Mr. Chairman. We have terrific people at GAO.

Chairman ENZI. You must to produce these reports that you are putting out.

Mr. DODARO. And we still do all the accounting work.

[Laughter.]

Chairman ENZI. Yes. Your full statement, of course, will be included in the record, and my staff will be working to see if there are other contacts that we can make to get that information out to more people that can suggest to the decision maker the answers that you have suggested.

As information for 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. And under our rules, GAO has 7 days from the receipt of the questions to respond to the answers.

If there is no further business to come before the Committee, the hearing is adjourned.

[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:]

QUESTION FOR THE RECORD FROM SENATOR MURRAY

Question 1

One area where cross-agency collaboration has been lacking is improving the data collected on medical implants to both reduce patient harm and costs. While medical claims submitted to health plans-including Medicare-are increasingly used as a key pillar to create a learning healthcare system, claims lack information on the brand and model of medical implants, including artificial hips and cardiac stents. A new tool created by the Food and Drug Administration (FDA)—called the unique device identifier-indicates the brand and model of implants, and could be integrated in to claims data to support analyses on the long term safety of those products. The Office of the Inspector General of the Department of Health and Human Services (HHS OIG) has recommended adding device identifiers to claims after finding that the failure of just seven types of cardiac implants cost the Medicare program $1.5 billion and beneficiaries an additional $140 million in out-of-pocket costs to get care associated with those faulty products. The Medicare Payment Advisory Commission (MedPAC) has also recommended adding device identifiers to claims, as have dozens of health plans, hospital systems, clinical societies and other key organizations. While the FDA has indicated that adding device identifiers to claims is a key element of its device safety strategy, the Centers for Medicare & Medicaid Services-which supported this policy in the previous administration-has recently stated that it is still reviewing this proposed change. As part of GAO's forthcoming report on cross-agency collaboration, have you evaluated whether to join HHS OIG, MedPAC, FDA and many other organizations in recommending this common sense policy that can improve patient safety while reducing costs?

GAO Response

In our 2012 report on certain implantable medical devices, we noted several shortcomings that arose from Medicare not having information on the specific devices implanted in patients. [1] We stated that CMS generally intended to link payment to the quality and efficiency of care provided—a move toward value-based purchasing in Medicare—but that one of the principles of value-based purchasing is having good data on performance and that such data generally were lacking for specific brands of implantable medical devices. We reported that there were registries of postoperative outcomes for some cardiac devices, but none for orthopedic or spinal devices outside of specific organizations such as Kaiser Permanente. Furthermore, we stated that because hospital data currently were embedded in multiple data systems—such as medical records, operating room logs, purchasing department records, and billing systems—it could be difficult to match which device brand was used with a particular patient. Finally, we noted that efforts to improve information about patient safety and medical devices would be supported by the implementation of unique device identifiers and that the Food and Drug Administration Amendments Act of 2007 required

[1] GAO, Medicare: Lack of Price Transparency May Hamper Hospitals' Ability to Be Prudent Purchasers of Implantable Medical Devices, GAO–12–126 (Washington, DC.: Jan. 13, 2012).

the promulgation of regulations establishing a unique device identification system.

QUESTION 1-6 FOR THE RECORD FROM SENATOR VAN HOLLEN

Question 1

According to press reports, the Executive Branch may be withholding some of the funding that Congress has appropriated to the National Labor Relations Board (NLRB), which is the agency responsible for protecting the rights of workers in the private sector. At a hearing of the Senate Appropriations Subcommittee on the Legislative Branch on April 25, you indicated to me that the Government Accountability Office was looking into this as a potential impoundment of funding at the NLRB, which could be in violation of the Impoundment Control Act. Is GAO still examining whether there is an impoundment taking place at NLRB, and if so, when do you expect to report to Congress on this question?

GAO Response

Our work on the potential impoundment of funds at NLRB is ongoing. We expect to provide your staff with an update by the end of June 2018.

Question 2

In 2015, GAO recommended that Congress take action to limit the extent to which wealthy individuals could accumulate massive amounts of money in tax-advantaged retirement accounts such as IRA and 401(k) plans. These accounts are critical tools that help millions of middle-class families save for retirement, but some very wealthy individuals are abusing the rules for these accounts to turn them into a tax shelter with account balances that can reportedly exceed $100 million. Would President Obama's proposal to "Limit the total accrual of tax-favored retirement benefits" have addressed GAO's recommendation for this issue? [2] And did the recently enacted tax overhaul (Public Law 115–97) take any action to address this recommendation from GAO?

GAO Response

The Obama Administration proposal would have addressed one option that we suggested in that it would introduce an overall cap on retirement contributions and savings in tax-preferred accounts. [3] The Administration's Fiscal Year 2017 proposal was to limit additional contributions beyond the amount necessary to provide the maximum annual annuity permitted for a tax-qualified defined benefit plan. If a taxpayer reached the maximum permitted accumulation, no further contributions or accruals would be permitted, but the taxpayer's account balance could continue to grow with investment earnings and gains. At the time of proposal, the max-

[2] Department of the Treasury, "General Explanations of the Administration's fiscal year 2017 Revenue Proposals," February 2016, available at *https://www.treasury.gov/resource-center/tax-policy/Documents/GeneralExplanations-FY2017.pdf.*

[3] To promote retirement savings without creating permanent tax-favored accounts for a small segment of the population, GAO suggested that Congress should consider revisiting the use of IRAs to accumulate large balances and consider ways to improve the equity of the existing tax expenditure on IRAs. Other options could include limits on (1) the types of assets permitted in IRAs or (2) the minimum valuation for an asset purchased by an IRA. See GAO, Individual Retirement Accounts: IRS Could Bolster Enforcement on Multimillion Dollar Accounts, but More Direction from Congress Is Needed, GAO–15–16 (Washington, DC.: Oct. 20, 2014).

imum annual benefit was $210,000, and the Administration stated that the maximum permitted accumulation for an individual age 62 was approximately $3.4 million.

We have not assessed an approach for limiting contributions to defined contribution plans and individual retirement accounts (IRA) based on the actuarial equivalence calculations used for defined benefit plan accumulations.[4] However, according to Department of the Treasury's February 2016 estimates, the Administration's fiscal year 2017 proposal limiting the total accrual for tax-favored retirement benefits would have generated an estimated $30 billion from 2017 through 2026. In July 2016 using Congressional Budget Office economic assumptions, the Joint Committee on Taxation estimated that the Administration's 2017 proposal would have generated about $4.4 billion over the period.

In December 2017, Congress enacted and the president signed Public Law 115–97 which included significant changes to corporate and individual tax law.[5] In February 2018, the Internal Revenue Service announced that the recent tax legislation made no changes to the section of the tax law limiting benefits and contributions for retirement plans. Although the new law made changes to how cost of living adjustments are made, after taking the applicable rounding rules into account, the 2018 limit amounts remained unchanged.[6] For employer-sponsored defined benefit plans, benefits are limited to amounts needed to provide an annual benefit no larger than the lesser of a specific dollar amount or 100 percent of the participant's average compensation for the highest 3 consecutive calendar years.[7] Employer-sponsored defined contribution plans have annual contributions limits, and similar contribution limits exist for IRAs.[8] However, there is no total statutory limit on IRA accumulations or rollovers from employer-sponsored defined contribution plans.

Question 3

One of the issues this report examined is the Social Security Administration's lack of coordination with the Department of Education to monitor the extent to which individualized education programs (IEP) are being used to connect transition-age youth with disabilities with vocational rehabilitation services. Leveraging a student's IEP to link them with vocational rehabilitation transition services—as well as work incentives and benefits planning—could help create a continuum of services into adulthood to bolster employment and higher education outcomes in the long-term. But of course, in order for that to be a successful model, children on SSI need to have IEPs in the first place. According to a 2005 National Survey of SSI Children and Families from SSA, 32 percent of children on SSI did not have an IEP. As part of this review, did GAO

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[4] GAO, Tax Expenditures: Background and Evaluation Criteria and Questions, *GAO–13–167SP* (Washington, DC.: Nov. 29, 2012) outlines a series of questions and criteria—economic efficiency, equity, simplicity, transparency, and administrability—that can be used to evaluate the performance of a tax expenditure or a proposal to modify an existing tax expenditure.

[5] Pub. L. No. 115–97, 131 Stat. 2054 (Dec. 22, 2017).

[6] IRS Notice 2017–64.

[7] For 2018, the limit for an annual benefit from a defined benefit plan is $220,000.

[8] For 2018, the contribution limit on an employee's elective deferral is $18,500, and the overall defined contribution limit, which includes the total of all employer contributions and employee elective deferrals, is $55,000. For 2018, the maximum contribution for all traditional and Roth IRAs in total is $5,500.

examine how many children receiving SSI do not have IEPs at all? If so, does GAO have more recent data that you can share?

GAO Response

As part of our work, we made inquiries to determine whether we could match Social Security Administration (SSA) data on SSI recipients aged 14 to 17 with data on students with IEPs. [9] Because student files do not always include Social Security numbers, we were unable to identify a reliable source of IEP data to match with SSI recipient data to determine the extent to which youth receiving SSI have IEPs. Further, we learned that SSA only collects IEP information in certain cases—for example, when it is reviewing an SSI recipient for continued eligibility—and therefore lacks complete information to systematically determine whether youth receiving SSI have IEPs. As a result, we could not determine the proportion of youth on SSI who lacked an IEP.

Question 4

Once children on SSI have an IEP in place, I agree that we need to understand the extent to which IEPs are not being used to connect students with these services. From GAO's perspective, what value would this data provide?

GAO Response

While data on connections to vocational rehabilitation services made through IEPs may be useful for evaluating the effectiveness of IEPs, our work did not focus on this issue; rather we examined whether or not youth on SSI had IEPs that could connect them to vocational rehabilitation and found that data to make such determinations are unavailable. We recommended that SSA work with the Department of Education to determine the extent to which youth on SSI are not receiving transition services through schools that can connect them to vocational rehabilitation agencies and services. SSA partially agreed with this recommendation, noting some on-going collaborative efforts with Education and expressing concerns about the legality of sharing privacy data. However, SSA's current collaborative efforts with Education are not designed to determine the extent to which youth on SSI are receiving transition services through schools or being connected to vocational rehabilitation services. While we acknowledge that legal and privacy issues can present challenges to collaboration, we believe that SSA can explore approaches that take into account such legal issues.

Question 5

In its response to GAO's recommendation on IEPs and transition services, SSA stated that sharing the data necessary to identify students with SSI who are not receiving transition services in schools may raise privacy concerns. However, GAO noted that SSA has overcome privacy concerns and found work-arounds to share similar data in the past. Can you provide an overview of some of those situations and how those work-arounds could be applied to take action on this recommendation? In your view, is there anything that Congress can do—or should be doing—to help facilitate

[9] GAO, Supplemental Security Income: SSA Could Strengthen Its Efforts to Encourage Employment for Transition-Age Youth, GAO–17–485 (Washington, DC.: May 17, 2017).

SSA and the Department of Education's coordination and implementation of this recommendation?

GAO Response

SSA has addressed privacy concerns related to data sharing in the past through several methods. For example, as part of the Promoting the Readiness of Minors in Supplemental Security Income (PROMISE) initiative, SSA obtained consent from the youth and his or her parent or guardian to participate and assigned each youth a separate unique identification number for use instead of his or her Social Security number. In addition, at the time of our report, SSA was conducting an initiative to share encrypted data on SSA beneficiaries eligible for employment services with employment networks via secure messaging.[10] Such data could then be used by the employment network to conduct outreach to these beneficiaries.

SSA has the authority to implement our recommendations and Congress could help by highlighting our recommendation to SSA and the Department of Education.

Question 6

GAO's recommendation to SSA focused on better coordination on vocational rehabilitation services for transition-age children on SSI. Did GAO also examine the extent to which IEPs are integrating other goals around transition that are crucial for SSI beneficiaries, including work incentives and benefit planning?

GAO Response

Our work was mainly focused on SSA's efforts to encourage employment for youth on SSI, rather than on the effectiveness of the IEP transition process. We did review SSA efforts to administer work incentives with respect to youth on SSI, and its efforts to provide related information to youth on SSI and their families. Based on this work, we made two recommendations:

- We recommended that SSA determine why a large proportion of transition-age youth on SSI with reported earnings did not benefit from the Student Earned Income Exclusion (SEIE), SSA's primary work incentive for this population. SSA agreed with this recommendation, but as of June 15, 2018 has not reported taking any actions.
- We recommended that SSA analyze options for improving its communications with transition-age youth and their families about available SSA-administered work incentives and the implications that work earnings may have on the receipt of SSI benefits. SSA disagreed with our recommendation stating, in part, that it found no indication that staff are not providing youth with appropriate information, despite our findings that such information is not consistently provided. SSA also noted that a newly developed brochure provides information on work incentives. We acknowledged that the brochure is a positive step, but that it could contain additional information and that written communication may not be sufficient to convey such complex information.

[10] GAO, Supplemental Security Income: SSA Could Strengthen Its Efforts to Encourage Employment for Transition-Age Youth, GAO–17–485 (Washington, DC.: May 17, 2017).

GAO has conducted other work related to transition services for students with disabilities, for example,

- GAO–17–352—Youth with Autism: Federal Agencies Should Take Additional Action to Support Transition-Age Youth, and
- GAO–12–594—Students with Disabilities: Better Federal Coordination Could Lessen Challenges in the Transition from High School.

QUESTION FOR THE RECORD FROM SENATOR WARNER

Question 1

As you know, over the past few years agencies have been working to implement the DATA Act, a bill I authored back in 2011 and was signed into law in 2014. GAO has a critical role in overseeing implementation of that law as agencies seek to fully integrate their systems with the statutory requirements of the law. I have appreciated GAO's continued vigilance.

(a) Once fully implemented, how will the DATA Act help in addressing the issue at the core of this hearing—finding ways to make the Federal Government work more efficiently?

GAO Response

The DATA Act holds great promise for improving the efficiency and effectiveness of the Federal Government, and for addressing persistent government management challenges. Expanding the quality and availability of Federal spending data will better enable Federal program managers to make data-driven decisions about how they use government resources to meet agency goals. Reliable, detailed budget information is critical to estimate the cost savings that could be achieved should Congress or agencies take certain actions to address identified fragmentation, overlap, and duplication. Absent this information, Congress and agencies cannot make fully informed decisions on how Federal resources should be allocated and the potential budget trade-offs.

Moreover, implementation of the program inventory provisions of the GPRA Modernization Act of 2010, in tandem with DATA Act implementation, could also provide vital information to assist federal decision makers by enabling program managers to crosswalk spending data to individual programs.[11] A comprehensive list of federal programs along with related funding and performance information is necessary for improving the effectiveness of federal decision making, as well as for identifying potential fragmentation, overlap, or duplication among federal programs. Currently, there is not a comprehensive list of all federal programs and agencies often lack reliable budgetary and performance information about their programs. Without knowing the scope, cost, or performance of programs, it is difficult for executive branch agencies or Congress to gauge the magnitude of the federal commitment to a particular area of activity, or the extent to which associated federal programs are effectively and efficiently achieving shared goals.

(b) How will the DATA Act assist policymakers, watchdogs, and others identify duplication, and waste, fraud, and abuse?

[11] Pub. L. No. 111–352, § 7, 124 Stat. 3866, 3876 (Jan. 4, 2011) codified at 31 U.S.C. § 1122(a)(2). GPRAMA updated the Government Performance and Results Act of 1993 (GPRA), Pub. L. No. 103–62, 107 Stat. 285 (Aug. 3, 1993).

GAO Response

Our work examining fragmentation, overlap and duplication in federal government programs has demonstrated the need for more reliable and consistent federal data, which the successful implementation of the DATA Act should produce. As we have reported, better data and a greater focus on expenditures and outcomes are essential to improving the efficiency and effectiveness of federal efforts. The open data provisions of the DATA Act should also enhance the federal Government's emerging use of data analytics capabilities to conduct incisive analysis to support oversight, improve decision making by federal program managers, and foster innovation by making more federal data available to the public. This oversight will include, but not be limited to, the detection and prevention of fraud, waste and abuse, as well as analysis of improper payments.

Improper payments—payments that should not have been made or were made in incorrect amounts—remain a significant and pervasive government-wide issue. From fiscal years 2003 through 2017, improper payments have been estimated to total about $1.4 trillion government-wide.[12] For example, the size and diversity of the Medicaid program make it particularly vulnerable to improper payments. In fiscal year 2017, improper payments were an estimated $37 billion of federal Medicaid expenditures. As we have previously reported, a fundamental challenge to the oversight of the Medicaid program is the lack of complete, accurate, and timely data. This challenge has hindered the ability of the Centers for Medicare & Medicaid Services (CMS) to ensure the appropriate use of federal and state dollars for beneficiary care. Without reliable data, CMS is unable to effectively monitor who is providing services, or the type of services provided.[13]

[12] GAO, Improper Payments: Most Selected Agencies Improved Procedures to Help Ensure Risk Assessments of All Programs and Activities, GAO–18–36 (Washington, DC. Nov. 16, 2017) and Financial Audit: fiscal years 2017 and 2016 Consolidated Financial statements of the U.S. Government, GAO–18–316R (Washington, DC.: Feb. 15, 2018).

[13] GAO, Medicaid: Opportunities for Improving Program Oversight, GAO–18–444T (Washington, DC.: April 12, 2018).

AN UPDATE ON TRANSPARENCY AT THE CONGRESSIONAL BUDGET OFFICE

THURSDAY, SEPTEMBER 13, 2018

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

The Committee met, pursuant to notice, at 10:30 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Toomey, Gardner, Van Hollen, Merkley, Kaine, and Harris.

Staff Present: Elizabeth McDonnell, Republican Staff Director; and Joshua Smith, Minority Budget Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. Good morning, and welcome to the Senate Budget Committee hearing on the transparency efforts of the Congressional Budget Office. In many ways, this hearing is a follow-up to our January CBO oversight hearing at which Dr. Hall highlighted many new and expanded transparency initiatives at the agency.

More than 40 years since CBO's inception, Congress and the public have come to depend on CBO for its budget and economic analysis—analysis that we all agree must be timely, objective, accurate, and transparent. That means ensuring the agency's work is accessible and well understood.

While this Committee has conducted oversight of CBO's past performance, today is an opportunity to discuss what the agency is doing to improve congressional and public understanding of the processes and products moving forward. Testifying before the Committee today is CBO Director Keith Hall. In his role as Director, Dr. Hall is responsible for managing the operations of the Budget Office and its more than 200 full-time staff. Since taking the helm of CBO in April 2015, Dr. Hall has been committed to cultivating a culture there that, among other competing demands, prioritizes greater transparency.

Last month, the agency released a report that provided an update on the work it has undertaken as part of this effort, which we will be examining this morning. This report includes updates on CBO's numerous efforts to better explain analytical methods, to release relevant data, to compare agency estimates to actuals, to visualize data, and to conduct outreach.

Dr. Hall, thank you for being here. As you know, transparency of your office's analysis and operations has long been a priority of mine. I have raised the issue with you in previous hearings and in private meetings throughout your tenure. I am encouraged by the progress in this area that is detailed in the recent report and, in particular, the work CBO performed at my request. These items include an analysis comparing the agency's spending projections with the actual outcomes and the supplemental data CBO now releases on more than 1,000 appropriations with expired and expiring authorizations.

I was also pleased to see the release of the new interactive tools including one that allows the public to estimate the cost of customized plans for different military force structures, building upon a report the Committee requested several years ago. I look forward to hearing more about specific plans to bolster transparency at CBO and how the agency will track and evaluate the progress of its efforts going forward.

In addition to learning more about developments like these over the last year, I am especially interested in learning about CBO's plans for the future. In particular, I would like to know more about any plans for making CBO's models more available to the public, specifically in the area of health care. I am aware of the major work the agency is currently undertaking to develop a new health insurance simulation model. Certainly, there is no better area to focus on transparency than one as complicated and controversial as health care. And I would be interested in hearing about CBO plans to release details of this new model to the public to facilitate a broad peer review process prior to its implementation next spring.

Dr. Hall, I welcome your remarks about CBO's recent report on transparency as well as any thoughts you have on other issues I have raised. I have no doubt that CBO will continue to play a critical role in the support of the congressional budget process. In my view, efforts to increase transparency at CBO, where possible, will only help to protect and buildup on the agency's strong reputation and the credibility it has already established over the years.

I thank Dr. Hall for joining us today, and I look forward to our discussion following his testimony. But now I will give the floor to Senator Van Hollen for some comments from that side.

OPENING STATEMENT OF SENATOR VAN HOLLEN

Senator VAN HOLLEN. Thank you, Chairman Enzi, and thank you for holding this hearing. Today Ranking Member Sanders cannot be here, but he wanted me to extend his best wishes to you, Dr. Hall, and I want to thank you because I know that focusing on transparency was also one of your own initiatives, and I want to congratulate you on the progress that you have made in this area.

I do think that in the interest of transparency, it is worth highlighting some of the recent reports that CBO has come out with, including within the last 2 weeks, finding, Mr. Chairman, that for the first 11 months of fiscal year 2018 we are going to expect close to a $1 trillion deficit, specifically $895 billion just in the first 11 months of this fiscal year.

As we know, these soaring deficits are highly unusual given the fact that the economy has been growing for more than 9 years. Now, typically we see deficits shrink during strong economic times as the need for Government services decreases and tax revenues rise. In fact, in the year 2000, which is the last time the unemployment rate was at its current level of 3.9 percent, the Government ran a surplus, meaning tax revenue exceeded all Government spending. When you look under this, you find a number of elements, but one thing that jumped out in this most recent report is that corporate tax receipts have fallen by 30 percent in the aftermath of the passage of the Republican tax bill.

Now, I remember, Mr. Chairman, when lots of our Republican colleagues criticized the analysis and scoring from CBO and JCT with respect to the Republican tax plan because our Republican friends said that those corporate tax cuts were going to pay for themselves. And, in fact, just this week the Chairman of President Trump's Council of Economic Advisers, Kevin Hassett, made the bizarre claim that somehow the corporate tax cuts were paying for themselves, despite the obvious data, which is no longer a projection but real-world data, showing corporate tax payments have dropped by 30 percent.

I hope, Mr. Chairman, we will ask the OMB as well as some of the President's economists to present us with some of the background on their methodology, because that was sorely lacking during the discussion of the tax cut debate. We demand excellence from CBO, as we should, but it seems to me we should be getting more than one-page papers from the administration when they are talking about major tax changes. And now we know that CBO is right, and, in fact, if you look at the deficits that we are seeing today in real time, just last May the CBO projected pretty much the deficits that we are seeing right here in month 11 of this fiscal year.

The final point I would make, Mr. Chairman, is that while CBO clearly has a role to play in transparency, so do we as the Congress. The Congressional Budget Office needs both the time and the resources to do comprehensive analyses in a quick and transparent way. In fact, Director Hall testified before this Committee in January, and I quote, "There can be significant time and resources used to become more transparent."

CBO works as quickly as possible to produce scores while bill are being written and rewritten, and Congress often does not want to wait for the Congressional Budget Office to write out a full explanation before we rush to action and rush to vote. In fact, during the debate over repeal of the Affordable Care Act, several CBO scores for the Affordable Care Act repeal were simply tables with no narrative because—so we knew millions of Americans were going to lose coverage, but Congress did not give CBO the time to provide the full and transparent explanation about how those bills were going to impact the American people.

During the tax debate, we heard claims from our Republican friends that tax cuts for big corporations and wealthy households would pay for themselves with additional economic growth. In fact, I remember a big deal being made about the need for so-called dynamic scoring that takes into account economic growth when you do a tax analysis. But the House and the Senate both rushed to pass final legislation before the Joint Tax Committee could do a dynamic score that would analyze whether that claim was plausible. And, in fact, it was only after Congress passed the bill—because we rushed before the public could get the benefit of that analysis—only after Congress passed the bill that JCT published a dynamic score that found that the bill was nowhere close to paying for itself with economic growth, and later the Congressional Budget Office published a report finding that the tax bill would cost nearly $2 trillion even after taking into account the economic impact. That, of course, includes interest payments on the borrowing.

So I am really glad to see CBO do its job in working to increase transparency. But, Mr. Chairman, what we need is for Congress to increase our transparency and give CBO the time and the resources to do their job for the American people, and I look forward to this hearing.

Thank you.

Chairman ENZI. Thank you, Senator Van Hollen.

Our witness this morning is Dr. Keith Hall, the ninth Director of the Congressional Budget Office. He is no stranger to this Committee, having served as CBO Director since April 2015. Since that time, he has appeared before this Committee to discuss CBO's work and its projections of the Nation's fiscal situation many times. This morning, Dr. Hall will be talking with us about CBO's work over the last year and the goals he set for his critical, important agency. We look forward to receiving your testimony.

For the information of colleagues, Dr. Hall will take whatever time he needs, and then we will go to opening statements for questions.

So, 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, I am delighted to be here today to discuss transparency at the Congressional Budget Office. The transparency of our work has always been a priority of ours, and this year we have added and shifted resources to redouble our efforts in that area.

Transparency can mean many different things, so let me begin by highlighting CBO's three goals in being transparent:

First, we aim to enhance the credibility of our work by showing how it relies on data, professional research, and expert feedback.

Second, we seek to promote a thorough understanding of our analyses by sharing information in an accessible, clear, and detailed manner.

Third, we want to help people gauge how our estimates might change if policies or circumstances were different.

Over the past year, we undertook many activities supporting progress toward those three overarching goals. Almost all of CBO's employees spent part of their time on those activities, and last month, we published a report summarizing them. I would like to highlight a few, and I think there is a handout. I have got a little summary here—hopefully you have got them at your tables—of the accomplishments on transparency.

First, we created several interactive tools: one that lets users add or subtract brigades, ships, aircraft squadrons, or other units to see the effects on the squadrons, or other units to see the effects on the Department of Defense's total operation and support costs and the size of the military; one that shows how we project spending on discretionary programs; and one that allows users to enter alternative economic scenarios and see the budgetary results.

Second, we published information about important models that we use, including our microsimulation tax model, our long-term projections model, and our health insurance simulation model.

Third, we posted computer code to help analysts understand and replicate parts of our analyses in papers about the distribution of household income and about macroeconomic output.

Fourth, we published analyses of the accuracy of our spending estimates for fiscal year 2017 and of our projections of subsidies for health insurance under the Affordable Care Act.

And, fifth, we published a report on how we produce cost estimates, as well as a detailed description of our formal cost estimates and the information that they contain.

We also reached out to provide information about our work to congressional staff. Last week, for example, we answered questions at an "open house" for House staff convened by the House Budget Committee. Tomorrow, we are making a presentation to congressional staff—jointly with the Congressional Research Service—about CBO's baseline budget projections and how they are produced.

In addition, we have reached out to many experts for feedback on our analyses. For example, last week we announced the formation of a technical review panel to advise us on the development and testing of the next generation of our health insurance simulation model.

In response to interest expressed by the Congress, we plan during the next year to publish more overviews and documentation of some of CBO's major models and more detailed information, including computer code, about key aspects of those models. The models are used to simulate choices about health insurance, project long-term budget outcomes, forecast business investment, and estimate Medicare beneficiaries' costs. We also plan to update our template for cost estimates to make important information easier to find and read. And we will continue to evaluate previous estimates in order to improve future ones.

For example, we are currently examining how our estimate of the effects of the effects of the American Recovery and Reinvestment Act of 2009 on spending for the Supplemental Nutrition Assistance Program compares with what actually happened.

As we undertake these efforts, it will be important to understand which ones are particularly valuable and informative to Congress and which ones have less value. Being transparent has costs, and CBO must, in essence, make business decisions weighing the benefits and costs of devoting resources to different activities. We welcome your feedback about what you find most useful and your suggestions about other ways in which we can provide more information about our work.

Let me close by thanking you for your support and guidance. We have long relied on the budget committees to explain our role to Congress, to provide constructive feedback on how we can best serve Congress, and to provide us with guidance about legislative developments and congressional priorities.

Thank you.

THE PREPARED STATEMENT OF DR. HALL

Congressional Budget Office

Testimony

Transparency at CBO: An Update

Keith Hall
Director

Before the
Committee on the Budget
United States Senate

September 13, 2018

This document is embargoed until it is delivered at 10:30 a.m. (EDT) on Thursday, September 13, 2018. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

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1. Congressional Budget Office, *An Update on Transparency at CBO* (August 2018), www.cbo.gov/publication/54372.

2. Congressional Budget Office, "Interactives" (accessed September 6, 2018), www.cbo.gov/interactives.

3. Congressional Budget Office, "An Overview of CBO's Microsimulation Tax Model" (June 2018), www.cbo.gov/publication/54096, *An Overview of CBOLT: The Congressional Budget Office Long-Term Model* (April 2018), www.cbo.gov/publication/53667, and "The Health Insurance Simulation Model Used in Preparing CBO's 2018 Baseline" (February 2018), www.cbo.gov/publication/53592.

4. Bilal Habib, *How CBO Adjusts for Survey Underreporting of Transfer Income in Its Distributional Analyses*, Working Paper 2018-07 (July 2018), www.cbo.gov/publication/54234; and Robert Shackleton, *Estimating and Projecting Potential Output Using CBO's Forecasting Growth Model*, Working Paper 2018-03 (February 2018), www.cbo.gov/publication/53558.

5. Congressional Budget Office, *The Accuracy of CBO's Outlay Estimates for Fiscal Year 2017* (June 2018), www.cbo.gov/publication/53923, and *Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2018 to 2028* (May 2018), www.cbo.gov/publication/53826.

6. Congressional Budget Office, "CBO's Cost Estimates Explained" (September 2018), www.cbo.gov/publication/54437, and *How CBO Prepares Cost Estimates* (February 2018), www.cbo.gov/publication/53519.

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7. Congressional Budget Office, "CBO's Technical Review Panel for Its Health Insurance Simulation Model," *CBO Blog* (September 6, 2018), www.cbo.gov/publication/54436.

This testimony was prepared with contributions from Leigh Angres, Wendy Edelberg, Theresa Gullo, Mark Hadley, Deborah Kilroe, Jeffrey Kling, and Robert Sunshine. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the testimony contains no recommendations. Benjamin Plotinsky edited the testimony, and Casey Labrack prepared it for publication. An electronic version is available on CBO's website at www.cbo.gov/publication/54445.

Keith Hall
Director
September 2018

Chairman ENZI. Thank you, Dr. Hall.

Now we will turn to question. I think all the members of the Committee understand the process that we do with each member having 5 minutes for questions, beginning with myself and then Senator Van Hollen, unless you are replaced by Senator Sanders, and then alternating back and forth in order of arrival and seniority. If you have any questions, you can ask me about that. I will go ahead and begin the questions.

I appreciate the effort that you have gone to and the work that you have done. I know you are currently building a new health insurance simulation model that the agency plans to begin to use in early 2019. Can you discuss the most important differences between CBO's existing health care model and the new health care model the agency is building?

Dr. HALL. Well, sure. The model itself is going to be an upgrade and is going to be an update. We have changed some features of it that will allow us to actually assess some different health care changes. One of the most important things about it is that we are going to be able to use actual data in the model.

The previous health insurance model—in fact, even now—it does not really rely on a current data basis, so it actually has this interesting situation where it takes us from current situation back to pre-ACA and then forward back to our replacement, if we are looking at repeal and replace.

The new model will actually use—we start using 2015 data, actual data from the ACA operations, and so we think that will really help things, and we think that will make things more efficient going forward.

The other thing that is going to be really different is how we are creating it. We are doing it in a very transparent way. We are writing detailed documentation as we go, and we are doing something that is rather rare. We are actually making presentations on the model as we are producing it and getting feedback. We have done that a few times now, once publicly at the Bipartisan Policy Center, and then we have our technical advisory group, panel, and we are going to make a presentation to them and get some feedback from them. And, again, we are doing it while we are developing the model so that, one, we can incorporate comments into the model as we are producing it; but, two, it will add transparency. People will actually understand what we have done even before we start using the model. That is a really important feature for us.

Chairman ENZI. You mentioned soliciting feedback. Are there specific groups that you are working with to solicit that feedback? Or do you plan to release the model to the public prior to putting it to use? How does that part of the process work?

Dr. HALL. Well, we have already talked with the Bipartisan Policy Center. We have talked to a couple of other groups—the Urban Institute and the Rand folks, who have themselves done a lot of work on health care and health care modeling. It is a technical exercise, so we are looking for people who have actual modeling experience. And then we just released a list of names. If anyone takes a look on our web site, you see a list of names that we have added to our Technical Advisory Committee. You will see a very diverse group of people there, all of which have particular technical skills in the modeling. So we are pretty confident that we are going to have people who can make useful comments to us and give us real advice going forward.

When we first use the model, we will have some pretty detailed documentation out. And I think when we first use the model, we are going to use it next year for the baseline estimate. We are going to try to make—we are planning on making the code that is used to produce the baseline available as sort of a "show your work" sort of aspect to it. And in between the increased documentation and making some of that code available, I think we will already take a big step forward. Then we will sort of see what the feedback is like and see if we can provide other information on the model.

Chairman ENZI. Do you envision this getting like the military program where people can go in and add and subtract and have some instance feedback that way? I know it is more complicated than the military acquisitions.

Dr. HALL. No, I think for some models we can actually do that, and we do have plans on trying to become—change our modeling style that will encourage that.

The health care model itself may not be a good candidate for that. We can talk about it, but part of the trouble with the health care model is that it is just a piece of any analysis. There is so much individual input into it, and the output of the model is used in other models. That may not be as good a candidate for that. But we have other models which are pretty straightforward where the output of the model is what we, in fact, use in estimates, that we are going to try to do that with.

Chairman ENZI. Thank you. I will reserve the balance of my time. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. And, Mr. Director, again, thank you for your testimony.

I appreciate the analyses that CBO has done over the years. It is a fact that, you know, we do not always agree on the result, but I always appreciate the integrity of the process at CBO. And I am interested in making sure the public understands what your findings are.

We have a President that likes to tweet a lot about the most recent economic indicators. I do not think it surprised anybody that, after you do a $2 trillion tax cut, you are going to see some kind of sugar high reaction in the economy. The unusual thing about that tax cut is we usually reserve those stimulus efforts for times when the economy is really in bad shape, like we did in a positive way with the economic recovery bill and not when the economy is already on the upswing as it was when the President took office.

We all would like to see our economy continue to grow, and we know there are lots of elements to that, including the size of the work force and the number of people who are working, productivity. And I think we should focus on investments in things like infrastructure and education. But just providing sugar highs will not do it. And, in fact, I think if you could tell us, Director Hall, as the CBO looks forward in your projections, starting in the year 2020, is there any year in which the Congressional Budget Office projects that real economic growth will exceed 2 percent?

Dr. HALL. No, there is not. And the situation as we see it is that we have, in fact—we are, in fact, receiving quite a lot of stimulus in an economy that has got zero slack. And while we are going to see some significant growth for a couple of years, the pressure on interest rates and inflation and a number of things is going to cause the Fed to act and going to cause us to go through, frankly, a mini cycle. Not a business cycle, but a bit of a slowdown in growth. So we do, in fact, see growth slowing pretty significantly for 2 or 3 years as we sort of work through this extra stimulus and get back to a more sustainable, long-run growth rate.

Senator VAN HOLLEN. And I think that is the sober analysis. You know, economists I think across the spectrum agree that we are seeing a sugar high right now put on top of an economy that was already doing very well coming out of the deep recession in 2008 and had a steady climb. And, in fact, I know the President likes to talk a lot about economic growth during certain quarters. If you look from the period of 2009 to 2016, when President Obama was in the White House, did we see a lot of quarters where the growth exceeded 3 percent?

Dr. HALL. Yes, we did see a few.

Senator VAN HOLLEN. Yes. In fact, by my count there were eight quarters under President Obama. So looking from quarter to quarter is just a snapshot, isn't it?

Dr. HALL. That is right. That is right. And also at that time you have us coming out of a pretty severe recession, so you, in fact, expect to see above-trend growth, you know, as you do away with slack in the economy.

Senator VAN HOLLEN. Yes. The other thing I noticed was just today that the Bureau of Labor Statistics came out with their most recent report. One of the things we were told was that with the tax cut, as it accelerated, the economy gave a sugar high that all of a sudden regular folks were going to get an increase in their real wages, their purchasing power. But just today the Bureau of Labor Statistics has released its latest numbers showing that for production and supervisory workers, which represent eight out of ten workers in America, they have actually seen a slight decrease in their real wages over the last year, and that is a trend we have been seeing month after month.

Can you just talk a little bit about the difference between nominal wage increases and real wage increases? And when you are looking at your own pocketbook and your purchasing power, what is the most relevant figure for an American family?

Dr. HALL. Sure. One of the reasons that we look at real data is, of course, if you want nominal wages, you want them to grow at least as fast as inflation does. And so the real data does a nice comparison of how fast our—for example, with the wages, how fast are wages growing relative to prices. So it gives you a truer picture of whether you are having an increase in buying power going forward.

Senator VAN HOLLEN. And what these numbers tell us is that when it comes to real buying power, people are actually slightly worse off this month compared to this time last year, and that has been a continuing trend, at least for supervisory and non-production—production and supervisory workers.

Mr. Chairman, I thank you for the opportunity. Director Hall, thank you for your testimony. And, again, I think having CBO as the referee is really important. Thank you for your good work.

Chairman ENZI. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair, and thanks, Director Hall. I echo the comments from Senator Van Hollen. It is important to have you as the referee. I remember once sitting with President Obama at the White House and having him kind of muse, "I wonder why we have let CBO be the master arbiter of the economic effectiveness." And as Democrats, we often do not like the numbers you come up with and find cause to complain, but I am not aware of President Obama ever saying that we should get rid of the CBO, that we should not allow it to continue to operate or not at least take into account CBO analysis. I have noted a number of individuals, especially the OMB Director, describe CBO scoring of the House Republican health care bill as "absurd"; "the days of relying on some nonpartisan Congressional Budget Office to do that work for us has probably come and gone." And former Speaker Gingrich called for dismantling the CBO because "the Congressional Budget Office is simply incompatible with the Trump era."

I am very glad you are doing what you are doing, and thanks for grappling with the transparency issue.

On transparency, I just want to put some facts on the table about the current U.S. economy. The private sector has added private sector jobs for 102 straight months. That is the longest streak of private sector job growth in the history of this country, at least as we have measured it. Eighty percent of that streak occurred under the Obama administration; 20 percent has occurred under the Trump administration. President Trump has commented accurately that more people are working today than at any point in the history of our Nation, but that comment has been true since May 2014. Each month sets a new record for the number of people working in the country.

Job creation: In the first 19 months of the Trump administration, we have averaged created 189,000 jobs per month. The 19 months of the Obama Administration that preceded these months of the Trump administration, we averaged 208,000 jobs per month. The number of jobs being created per month has slowed under this administration.

Hourly earnings growth: In the first 18 months of the Trump administration, hourly earnings growth has increased by 1.1 percent. The relevant period, the last 18 months of the Obama Administration, it was 1.3 percent. Wage growth, hourly earnings growth has slowed under the Trump administration.

And so if you look at these facts—and I think in the interest of transparency it is good to—job creation and wage growth have actually slowed under this President for many causes, but it is interesting to see that they have slowed even with the tax cut that you were discussing with Senator Van Hollen, which has had a significant deficit effect. And as you indicated, Dr. Hall, in your testimony, I think we have to be aware of this. As we look out, the projections are that growth would slow even more if the Fed takes various action with an economy near to full employment. We would potentially see that is slower.

I want to ask you this—Will Rogers used to say, "I only know what I read in the newspapers," and I have been reading newspapers recently, and there have been discussions of two potentially late-breaking election eve additional tax adjustments that might be contemplated. The House Ways and Means Committee unveiled three bills this week that say that they indicate compromise tax—comprise tax reform 2.0. That would be an additional tax cut bill for some. In addition, the White House has reported in the last 2 weeks that it is considering undertaking a tax law change through executive action that would index capital gains to inflation, basically allowing the basis that somebody claims when calculating capital gains to adjust upward by inflation. That was actually announced the same day as the President indicated he wanted to take away the cost-of-living adjustment for Federal employees in their salaries.

Has the CBO been asked yet to do scoring of either of those proposals that I have been reading about, either the tax reform 2.0 that the House Republicans are talking about or the capital gains indexing that the Trump administration is reportedly considering?

Dr. HALL. We have not, but I believe on the tax proposal the Joint Committee on Taxation—they are the ones who do the estimation on revenue legislation. I believe they did just complete an analysis of it.

Senator KAINE. According to that analysis—and I think it is preliminary one—extending the expiring Trump tax cuts on the individual side of the Tax Code through 2028 would increase the deficit by about $627 billion. I think that is the preliminary analysis they have done. I do not believe the JCT has costed the potential for indexing capital gains in the way that I have described.

Dr. HALL. No.

Senator KAINE. But Penn Wharton did an indication suggesting that it would cost between $100 and $200 billion over a decade, with 86 percent of the gains going to the top 1 percent. Have you looked at that Penn Wharton analysis of the capital gains indexing proposal?

Dr. HALL. No, I have not.

Senator KAINE. All right. Thank you, Dr. Hall.

Thanks, Mr. Chair.

Chairman ENZI. Thank you.

Senator Merkley.

Senator MERKLEY. Well, thank you, Mr. Chairman, and thank you, Director, for being with us.

I wanted to understand the impact of the 2017 tax bill and estimates that were made at the time. The Joint Committee on Taxation estimated $1 trillion of cost added to the deficit. Penn Wharton estimated $1.4 trillion. The Tax Foundation estimated $516 billion, so half a trillion. What did CBO estimate?

Dr. HALL. I believe our number came out to be pretty high: $1.8 trillion, I believe, something like that. Is that what you have?

Senator MERKLEY. I have $1.4 trillion, the same as the Penn Wharton study, but based from an article, not from a CBO report.

Dr. HALL. Okay.

Senator MERKLEY. But perhaps the 1.4 was after you took into account the impact of dynamic scoring.

Dr. HALL. Right, right.

Senator MERKLEY. So as you stand now, as we look this many months in, what is your revised estimate of how much it is going to cost?

Dr. HALL. Actually, so far—and I am not sure we have changed much at all. In fact, our forecast for the deficit this year is pretty much on target. We will probably do a re-estimate—certainly a re-estimate of the baseline in January just to see how that works. But I do not think we are seeing anything surprising that is going to make us change things.

Senator MERKLEY. So within the analysis CBO did to get to their estimate, be it 1.8 or 1.4——

Dr. HALL. Yes—I am sorry.

Senator MERKLEY. There were different lines, different tax provisions.

Dr. HALL. Right.

Senator MERKLEY. I had difficulty getting the numbers on the individual tax provisions, what they would have costed, to better understand individual policies. Are you now taking a look at those individual policies that were in that tax bill and analyzing, well, here is what we thought that piece, say the expansion of the estate tax exemption.

Mr. HALL. Right.

Senator MERKLEY. That is what we thought it would cost. Now we see it is different—or another provision. Are you looking at the individual provisions to see and are you planning to give us a report showing kind of in general what you estimated on these individual policy pieces and then what it looks like now a year later?

Dr. HALL. Well, the answer is yes. That is sort of part of our normal process. Every time we do a baseline, we go back and look and see how our previous baseline is doing. I do not know how much detail we will have, but that is especially important in tax bills because implementation can be one of the harder things to forecast how Treasury actually does things.

Senator MERKLEY. Yes, and that is my point, that it is particularly important in a tax bill to have the individual provisions and understand what each one costs as we look to future tax changes or revisions. And so when you started to answer, you said yes. Does that mean we can expect a report that will look at those different provisions, what they are costing within that $1.4 to $1.8 trillion?

Dr. HALL. I am not sure you will have it very quickly. We will adapt our baseline in January. There will be some changes there that——

Senator MERKLEY. So here is my frustration.

Mr. HALL. Okay.

Senator MERKLEY. As you may know, I used to work for CBO. I did analyses for Congress. The modeling that I did, I knew every provision within that model, what it cost. You cannot get to an overall score without adding up the impact of the individual tax change provisions. So the analysis at CBO has that information. Why should Congress not have that information on what the individual policy's impact is?

Dr. HALL. Well, if you would like, we can certainly look and see what sort of detail we can provide from our forecast of things. The reason I am slowing down a little bit on a look at sort of how it is actually working out is tax data is very slow to come out, and so it literally will be a couple years down the road before we get enough data to really understand what is happening now with the tax data.

Senator MERKLEY. Okay. Well, that is a fair point. But my point is that initial analysis, be it $1.4 trillion or $1.8 trillion, to get to that analysis CBO had to look at each individual tax provision and what it would cost, and that is the type of information that you already have, CBO already has, because it was necessary, and we want it and we should have it. And I am asking you for it.

Dr. HALL. Okay. Well, I will tell you, I am happy to follow-up with you and see what we have got and see what we can provide. If we have got it, we are happy to provide it.

Senator MERKLEY. Thank you. And if you do not have it, how did you possibly get to an overall score if you did not cost out the individual provisions, right?

Dr. HALL. Right.

Senator MERKLEY. Okay.

Dr. HALL. Understood.

Senator MERKLEY. So at this point, if one looks at 2027 when this tax bill is completed, what is your sense of the percentage of the benefits that goes to the top 1 percent?

Dr. HALL. I do not know that. There was some work done by JCT in the original bill. They did do a distributional analysis of that. We did not do that for our outlook report, so I cannot tell you. But I think if you go back and look at the JCT work, you will get a picture of that. I am sorry, I do not——

Senator MERKLEY. I have gotten the picture from other organizations. I wanted it from yours.

Dr. HALL. Okay.

Senator MERKLEY. The Tax Policy Center looked at it, and 107 percent of the benefits goes to the top 1 percent by 2017. A hundred and seven percent. In other words, the entire cost of the bill plus another seven percent goes to the richest Americans. And, meanwhile, more than half of Americans would pay more than they would have under existing law. It is just shocking that when we look around the world and we see countries where the legislature and the executive branch work with an elite to essentially raid the national treasury and distribute that money to the richest among them, we call those “corrupt countries.” And yet the very same thing happened right here in America, one of the biggest tax heists or bank heists inflicted on the United States of America, on the citizens of the United States of America, in that 2017 tax bill, raiding the treasury for the benefit of the very wealthiest Americans.

Thank you.

Chairman ENZI. Some interesting math, 107 percent of the benefit.

Senator Harris.

Senator HARRIS. Thank you.

Dr. Hall, I share your belief and agree that we need more transparency across the board in our Federal Government and, frankly, government at all levels. So on that point, children make up 24 percent of the population of the United States, yet in fiscal year

2017, Federal spending dedicated to children reached an all-time low of 7.75 percent, and total spending on children's programs decreased by 5.5 percent between 2014 and 2017. To me this trend indicates a critical need for a clear and accessible tool so that we can monitor and measure on a frequent basis Federal decisions around spending on children in the United States.

So I hope we can agree that CBO is well equipped to be that agency that would actually create and implement such a tool, and, in fact, I introduced a bill that would require the CBO to provide estimates of legislation's expected impact on children. It would also require that you would produce reports on Federal spending for children and develop a public web site on Federal spending for children.

So my question to you is: Do you believe that these measures will complement your goal and CBO's goal of bolstering transparency not only of CBO's analyses and processes but also of the economic impacts associated with Federal policy decisions?

Dr. HALL. Sure. If there is sufficient interest, we could put resources into that. You know, we want to——

Senator HARRIS. Well, the children are certainly interested in it, but, unfortunately, they do not vote and they do not——

Dr. HALL. I am talking about congressional interest. I am talking about in particular congressional committee interest.

Senator HARRIS. Do you need congressional committee interest to do it, or can you do it——

Dr. HALL. We need congressional committee interest in particular. We do not take on—certainly do not take on analytical work unless we have a clear customer for it. I can look into the idea and sort of see—get some feel for what we could do and see if there is some interest.

Senator HARRIS. Well, as a point of information, Mr. Chair, does the Committee need to vote on something like this? How do we express Committee interest? Because as a member of the Committee, I am certainly expressing an interest. Is there something more that is required?

Chairman ENZI. Yes, the committee of jurisdiction has to have the interest in it and request to CBO. I believe that is the way it works.

Dr. HALL. That is right. Right, and there are two sides to every committee, though. There is the majority and then there is the minority, and the minority side has standing to ask us to do work.

Senator HARRIS. Okay. So I will follow through on that. And then are there other ways that you believe that the CBO could enhance Congress' and the public's understanding of how Federal spending impacts children?

Dr. HALL. Well, this sort of report sounds like it is something that we could undertake, it is something we could look at. We always start with how much data is there and that sort of thing. I think it would be hard to do anything too real-time. You know, if we looked at a piece of legislation, it would be really hard to separate out the effects like that. But as sort of an analytical piece, that seems to me like topic-wise, that is in our ballpark, I think.

Senator HARRIS. That would be great. Well, let us plan to do a follow-up with my staff and yours, and then I can present something to the Committee as a follow-up.

Chairman ENZI. As a follow-up on your question, it usually has to be based on some kind of legislation as well, not just——

Dr. HALL. Right.

Chairman ENZI [continuing]. A general thing of how——

Senator HARRIS. And I have a piece of legislation.

Chairman ENZI. Okay.

Senator HARRIS. Thank you.

Senator ENZI. We will do a second round of questions if people are interested. I am interested, so I will do another one.

Director Hall, I would like to ask you about CBO's latest monthly budget review for August 2018, which was brought up earlier in this hearing. For the first 11 months of the fiscal year, revenues are $19 billion higher than for the same period last year. Is that correct?

Dr. HALL. That is right.

Chairman ENZI. But spending is up $240 billion. Can you tell me what is contributing to that increase in spending.

Dr. HALL. Sure. Actually, it is quite a number of things. It is almost across the board. Net interest payments are up quite a bit over last year. The military spending is up. Social Security benefits are up; Medicare and Medicaid are all up. So you are right that a lot of that increase or that change over last year is from the spending side, outlay side.

Chairman ENZI. But there is an increase in revenues.

Dr. HALL. That is right.

Chairman ENZI. I have been traveling Wyoming and was listening to a number of people. I tried to get into some businesses to see how they work because any business that I have not been in looks pretty simple. And I know that people that have not been in any business, it looks even simpler. So I have been trying to find out what kind of effects these things have had, and I had one fellow who said, "You know, I have been doing a bunch of construction now, and I have given my employees more wages, and I am going to have to pay a million more in taxes this year than I did last year." But he said, "That is because I am making more money."

So that is how the tax thing is working, and I think we will get September—September normally is a big time for tax payments on estimates, and we have not gotten that yet, obviously, because it is still September.

Dr. HALL. Right. And, in fact, September usually reduces the deficit for the year because revenues are very high in September.

Chairman ENZI. Thank you.

Now, CBO and the Joint Committee on Taxation, JCT, are the two entities Congress relies on for estimating the budgetary impact of legislation. Comparisons are often made between the time it takes for the two agencies to provide technical assistance and produce cost estimates.

Can you discuss any differences between CBO and JCT models and the types of analysis that they produce that might explain this discrepancy?

Dr. HALL. Sure. In a lot of ways we are very similar. The big difference is that the JCT focuses on tax issues, so they really work for a couple of committees. We work for almost everybody. We wind up working for a lot of committees, and our coverage areas are much, much larger. So we have a much broader waterfront of things. That is one of the biggest differences. And then, of course, in that big waterfront are things that are fairly complicated. It can be anything from ag bills to the DoD to lots of things. So we have a big variety of things, and that is really one of the biggest differences.

We have hundreds of models that we use on these different topics, so we have a very diverse set of models. We have a very diverse set of data. But I think we share the same sort of challenges, though, when there is a major piece of legislation. I think JCT has to work very, very hard to get it done, and I think we have to work very, very hard to get it done oftentimes.

Chairman ENZI. So are you saying that JCT can just stick to the code, but you have to stick to all of the other legislation? Did I get that right?

Dr. HALL. Yes, that is right. It is the breadth of work that is fairly different. So at any point in time, we have quite a large number of estimates that we are producing. We produced 740 estimates last year on a huge variety of topics. JCT I am sure was nowhere near that because they are focusing on the tax issues.

Chairman ENZI. Yes, thank you.

In your report you discuss how CBO often attempts to compare its estimates to those of other entities. In some cases those comparisons are to the administration's estimates, and in other cases it is comparison to private entities. Can you please explain some of the challenges that are inherent in such comparisons?

Dr. HALL. Sure, sure. Well, we do comparisons, and we do our best to do them. The biggest single thing—for example, in our economic forecasts, we compare economic forecasts to OMB and we compare it to private sector—is we operate under current law. And so our forecast is the current law compromise only. Other folks are different than that.

For example, that was really relevant in the buildup to the tax bill. We literally had to ignore the fact that tax legislation was possible or likely and had to pretend it was not going to happen. And so in our forecast, none of that happened while in the private sector forecast that did happen. And that is mostly it. You know, we have our revenue and spending forecasts. We do compare those to OMB. We compare very favorably, I think, to everybody in our forecasting.

For individual pieces of legislation, that gets even trickier because we have to read the legislation very carefully and try to model all aspects of it. The private sector folks can sometimes give you a quick number. We sometimes give quick numbers. But to actually do the work carefully and get all the detail and put it into a format that we can model the budgetary impact is generally a heavier lift certainly than the private sector has.

Chairman ENZI. Thank you. My time plus the time that I reserved has expired.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman.

Who has a more transparent open process with respect to what the public knows about how they go about their work, CBO or OMB?

Dr. HALL. I am trying to be diplomatic.

[Laughter.]

Senator VAN HOLLEN. Please. We are trying to be transparent here, Dr. Hall.

Dr. HALL. We try to be very transparent. For example, when we do an analysis of the President's budget, we tell you what our picture is of the economy before and after so you know what our baseline is. That does not typically happen at OMB, even though they probably have to do the work. It is that sort of thing.

Part of the issue, at least a little bit, is that we report to all of Congress.

Senator VAN HOLLEN. Yes. No, I understand. I mean, I think it is pretty clear that is the case. How about with respect to the tax plan? Did you ever get a detailed analysis from the Trump administration with respect to the impact of their tax plan?

Dr. HALL. No.

Senator VAN HOLLEN. No. Neither did the public. If I recall, we got like two pages, Mr. Chairman. And so it is not surprising that the projections that this administration made could not be justified. If they could have justified them, they would have presented them to the public. Your data you present to the public, and so far your projections are right on track with respect to the impact of the tax cuts.

So, yes, the economy is doing well. We talked about the fact it has been growing strongly for over 9 years now. So it is not at all surprising that, even with some tax cut with that kind of economic growth, there is some revenue coming into the Treasury.

What percent of—revenue represents what percent of GDP in 2018, according to CBO? Do you know?

Dr. HALL. I can look it up in 1 second here. I think I brought the right——

Senator VAN HOLLEN. My number—I do not know if this——is 16.6 percent.

Dr. HALL. I can now verify that.

Senator VAN HOLLEN. Got it. Thank you. And the last time we had a balanced budget, do you recall what the revenues were as a percent of GDP?

Dr. HALL. I do not offhand. I suspect it was higher because it was at a time of very strong economic growth.

Senator VAN HOLLEN. I think it was in the range of 20 percent of GDP. And we had a balanced budget for about a 3-year period, and then we had the Bush tax cuts and a number of other things happened. We had the Iraq war and other things.

Dr. HALL. Right.

Senator VAN HOLLEN. And if you are looking at the long term, I mean, what does CBO look at mostly—the percentage of revenue? When you are looking at whether we are balancing the budget as a percent of revenue, of GDP?

Dr. HALL. Yes, that is right. That is certainly part of our forecast, and we do a lot of comparing where we are and where we are going to be relative to historical levels and that sort of the thing.

Senator VAN HOLLEN. And what is your calculation of 11 the loss in revenue over the next 10 years as a result of the tax cut, right? I mean, you have the number, right?

Dr. HALL. It was $1.8 trillion.

Senator VAN HOLLEN. $1.8 trillion. And that, if I recall—did that include the interest on the debt?

Dr. HALL. Yes.

Senator VAN HOLLEN. That included it, Okay. So close to $2 trillion with interest on the debt.

Mr. Chairman, I do not think it is surprising that there is additional revenue coming in. The reality is, though, we will have $2 trillion, $1.8 trillion less in revenue coming in as a direct result of the tax cut, and that takes into account any additional economic activity.

I wanted to ask you, Director Hall, because I asked you at one of the earlier hearings, about what share of that increased economic growth would actually go to benefit foreign accounts compared to our fellow Americans? And it was really shocking. You determined that on average between the years 2018 and 2028, 43 percent of the income from increased economic activity linked to these tax cuts flowed into foreign accounts, right?

Dr. HALL. That is right.

Senator VAN HOLLEN. And by 2028, an astounding 71 percent of the increased economic benefit went into foreign accounts, right?

Dr. HALL. Yes.

Senator VAN HOLLEN. Mr. Chairman, I think that the public needs to know that, and in the interest of transparency, we will do our best to let them know. And part of that is the benefit of these huge stock buybacks, right?

Dr. HALL. I think so. I am not sure that we got a lot in there about the stock buybacks yet because we are not sure of what actually is going to happen.

Senator VAN HOLLEN. Right. Well, as of our count right now, there has been about $700 billion of funds that we were told were going to be used for greater investment in plant and equipment and higher wages, you know, like $4,000 a-year wage increases. Instead of going to that purpose, they are going to stock buybacks, and foreigners own a 35-percent share of the value of U.S. corporate stocks, so they are getting a lot of that.

The last thing I would just ask, Mr. Chairman, is you mentioned the projected increased deficits on top of the $1.8 trillion we would see if we extended some of the other tax cuts as has been proposed by House Republicans. I believe you said the JCT number was $657 billion. Now, that is only additional for the 3-year window. Is that right?

Dr. HALL. I believe that is right.

Senator VAN HOLLEN. Right. And I would like to put in the record, Mr. Chairman—it was referenced earlier—the Penn Wharton budget model, which estimates that if you do what the House Republicans want to do, you would increase the Government debt by over $5 trillion over the next 20 years, and actually reduce GDP because of the drag on the economy.

Senator VAN HOLLEN. My final question, with your indulgence, would just be if the Director could talk a little bit about how large debts like that can actually be a drag on the economy and reduce economic growth?

Dr. HALL. Sure, absolutely. One of the issues clearly is debts and deficit are a drag. Part of it is that with the Federal Government borrowing, there is crowding out because they are borrowing, and they are borrowing on rising interest rates over what they normally would be, and that raises the cost of capital to the private sector and can reduce investment over what it would be otherwise. So in a sense, this is sort of working against something like a tax bill, which gives incentives for companies to invest. But if you finance it through deficits, you undo some of that.

Senator VAN HOLLEN. That is even more true when the economy is doing well, right? Because there is less slack in the economy.

Dr. HALL. That is right.

Senator VAN HOLLEN. Thank you, Mr. Chairman.

Chairman ENZI. Thank you. And since we have gotten pretty far away from looking at transparency of the CBO, I will not do another round. I appreciate all the participation on the Democratic side and the interest that they have shown and some of the spectacular things that you have mentioned.

Senator VAN HOLLEN. I am just citing CBO.

Chairman ENZI. There are a lot of comments about the last time that the budget balanced, and that is the one that really bothers me because most of the revenue from that came from Social Security payments. We had an excess of Social Security coming in compared to the people that were retired. And there is no way in the Federal Government to save that money. We tried talking about lock boxes and stuff, but you cannot do that. And, consequently, we spent that Social Security money, and we put bonds in a drawer over in Maryland that say that we owe that Social Security money. But that is where the revenues came from that shows this magnificent balancing of budgets. And that is why before 9/11 they decided they needed to reduce some taxes so that things could be a little more honest. I do not know that they would have been. But we had 9/11, and that did cause a lot of expenses that we had not anticipated.

Senator VAN HOLLEN. Mr. Chairman, with all respect, we have just heard that we are going to face close to a $2 trillion revenue shortfall as a direct result of what was passed.

Chairman ENZI. Well, we will see if that happens or not.

Senator VAN HOLLEN. We will.

Chairman ENZI. The economists that did some alternate evaluations on it came up with some different numbers, and we had that statically scored.

Senator VAN HOLLEN. I would like to see the same transparency in their methodology that we are requiring of CBO in theirs, and JCT.

Chairman ENZI. Well, I think they would be willing to do that.

Senator VAN HOLLEN. I would love to see it. I know the White House has not shown us a thing.

Chairman ENZI. So anybody who has additional questions—and I do have additional questions—they can be submitted by 6 p.m. today. We hope that you will answer those expeditiously, and those will be a part of the record as well.

Chairman ENZI. With no further business to come before the Committee, we will adjourn.

[Whereupon, at 11:28 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

SEPTEMBER 28, 2018

Answers to Questions for the Record Following a Hearing About Transparency at CBO Conducted by the Senate Committee on the Budget

On September 13, 2018, the Senate Committee on the Budget convened a hearing at which Keith Hall, Director of the Congressional Budget Office, testified about an update on transparency at CBO.[1] *After the hearing, Chairman Enzi and Senator Crapo submitted questions for the record. This document provides CBO's answers. It is available at www.cbo.gov/publication/54499.*

Chairman Enzi

Question. In recent years, CBO's report on spending with expired or expiring authorizations has been released before final appropriations were enacted for the year. This spring I asked for an updated version of the report that reflects enactment of the fiscal year 2018 omnibus appropriations bill. Can you describe the findings of this report, which was released in July, and whether or not this represents a comprehensive look at all unauthorized spending? What programs have appeared on the list the longest? How much unauthorized spending is assumed in your most recent 10-year spending outlook?

Answer. As you requested, CBO published *Expired and Expiring Authorizations of Appropriations: Fiscal Year 2018, Revised*, to update the annual report the agency publishes each year in January.[2] The revised report takes into account funding that was provided for fiscal year 2018 in the Consolidated Appropriations Act, 2018 (Public Law 115-141), on March 23, 2018 (after this year's report was published).

Scope of the Report. As required by section 202(e)(3) of the Congressional Budget and Impoundment Control Act of 1974, the revised report identifies two types of programs and activities:

- Programs and activities funded for the current fiscal year for which authorizations of appropriations have expired, and
- All programs and activities for which the authorizations of appropriations will expire during the current fiscal year.

CBO maintains a catalog of certain expired and expiring authorizations of appropriations. That catalog is limited to nonpermanent explicit aurhorizations of appropriations. CBO does

1. See testimony of Keith Hall, Director, Congressional Budget Office, before the Senate Committee on the Budget, *Transparency at CBO: An Update* (September 13, 2018), www.cbo.gov/publication/54445.

2. See Congressional Budget Office, *Expired and Expiring Authorizations of Appropriations: Fiscal Year 2018, Revised* (July 2018), www.cbo.gov/publication/54126.

not track or catalog other types of authorizations (such as implicit authorizations contained in enabling statutes).

Findings of the Revised Report. In the revised report, CBO identified 1,035 explicit authorizations of appropriations that had already expired and was able to identify about $318 billion in current-year appropriations for 410 of the programs or activities with expired authorizations of appropriations. The $318 billion in relevant current-year appropriations for 2018 is slightly higher than the $310 billion CBO was able to identify for 2016—the last time appropriations were enacted before the publication of its annual report.

Other programs or activities related to the remaining 625 expired authorizations of appropriations *may* have received funding in fiscal year 2018, but such funding could not be identified in either the relevant statutory text or the accompanying legislative history for the relevant laws.

Programs That Have Been in the Report the Longest. Most of the expired authorizations of appropriations that received funding have been expired for more than 10 years; some have not been updated since the 1980s. Specifically, CBO identified the following expired authorizations of appropriations:

- 23 that expired before fiscal year 1990,
- 56 that expired between fiscal years 1990 and 1999,
- 298 that expired between fiscal years 2000 and 2009, and
- 658 that expired between fiscal years 2010 and 2017.

Information about each of those expired authorizations of appropriations is available in the supplemental data that CBO published to accompany the revised report. (The expiration dates are shown in column F of the spreadsheet.)

Relationship to the Baseline. The report, as required by statute, describes programs and activities funded for the current fiscal year for which authorizations of appropriations have expired. CBO does not make assumptions about which authorizations of appropriations will be enacted by the Congress for future fiscal years.

Most of the $318 billion in 2018 appropriations for the programs or activities with expired authorizations of appropriations was for discretionary programs. Using the conventions applied to discretionary budget authority under the terms of the Deficit Control Act and not accounting for the caps on aggregate discretionary spending through 2021, a projection of that amount over the 2018–2028 period would yield between $3 trillion and $4 trillion in baseline outlays over that 11-year period.

It is important to note, however, that CBO's catalog includes 1,562 explicit authorizations of appropriations that either have expired or are set to expire at some future point. Almost all of them will expire by the end of 2023, and the rest are set to expire over the 2024–2027 period. Hence, the overwhelming majority of discretionary appropriations—and by extension the baseline budget authority—currently lack a specific authorization beyond 2023; none of them have an explicit authorization that extends through 2028.

Question. Dr. Hall, please discuss some of the operational impacts of your transparency efforts. How has the initiative altered your staffing levels, structures, and agency budgets? How, if at all, has it changed the way the agency approaches its work?

Answer. CBO has always worked hard to be transparent, and the agency has added and shifted resources to redouble its efforts in that area. Those efforts include explaining analytical methods, releasing data, and analyzing the accuracy of the agency's estimates, among many other activities. Following the consolidation of some existing functions, seven new positions were created in the past year and a half, and the people in those positions have bolstered transparency efforts. More generally, almost everyone at CBO spends part of his or her time on such activities.

Going forward, CBO proposes to hire 20 new staff members by 2021 to bolster not just its transparency but also its responsiveness. Because the agency received its full appropriation request for 2019, it will move forward with its plans to hire 10 of those new employees at a total cost of $1 million, mainly for salary and benefits. (The additional staff members will be hired partway through fiscal year 2019, so the addition in terms of full-time-equivalent positions, or FTEs, would be 8 rather than 10.) The new staff will help CBO respond to requests for information more quickly when there is a surge in demand. They will also allow CBO to supply more information about its analysis and models without reducing the valuable services that it provides to the Congress at its current staffing level.

Question. In certain instances, CBO's transparency efforts may be constrained by data or other information the agency obtains that is considered confidential or proprietary. Can you discuss specific instances where this conflict arises? Please explain how CBO plans to navigate these conflicts in the future while still enhancing the transparency of its work.

Answer. The conflict arises, for instance, in CBO's baseline projections of revenues, which are improved by using detailed information about taxes paid by businesses and individuals. The data contain confidential information and cannot be made publicly available. Nevertheless, CBO plans to continue and expand its practice of publishing the ***aggregated*** data that underlie its revenue projections, a practice that policymakers and taxation researchers have indicated enhances transparency. Those data include salaries and wages; taxable interest and ordinary dividends; qualified dividends; capital gains or losses; net business income; taxable pensions, annuities, and IRA distributions; and taxable Social Security benefits.[3]

In another specific instance, CBO used confidential data from private health insurance claims and found that hospital payment rates in Medicare Advantage plans do not increase or decrease noticeably as the share of enrollees in those plans grows—a finding that has informed CBO's analysis of proposals to change the terms of competition between Medicare Advantage plans and Medicare's fee-for-service program.[4] CBO plans to continue and expand its practice of publishing sufficient details about its analyses so that researchers with access to the same data can see how the agency obtained its results.

Senator Crapo

Question. In July, CBO published a preliminary analysis based on the Butch-Lewis Act (S. 2147), as introduced by Senator Sherrod Brown (D-OH). They noted they have not completed a final, point estimate of the legislation, but that the most likely interpretation

3. See Congressional Budget Office, "Revenue Projections, by Category" (accessed September 20, 2018), www.cbo.gov/about/products/budget-economic-data#7.

4. See Jared Lane Maeda and Lyle Nelson, *An Analysis of Private-Sector Prices for Hospital Admissions*, Working Paper 2017-02 (Congressional Budget Office, April 2017), www.cbo.gov/publication/52567.

of the bill is that it would probably increase deficits by more than $100 billion over the 2019-2028 period. The estimated budgetary effects are highly uncertain because several key aspects of the legislation are broadly described, making it difficult to project how the proposal would be implemented. Since that time, Senator Brown, a co-chair of the Joint Select Committee on Multiemployer Pension Plans, has been working with CBO on modifications to the Butch-Lewis Act that would change the score. Yesterday, they advised press that CBO has finalized its estimate of their legislation and found the plan would cost just $34 billion over the 2019-2028 period. CBO has actually not finalized an estimate and would not do so without legislative text being released.

Director Hall, yesterday the press reported on a CBO score for the modified version of the Butch-Lewis Act, but I have yet to see any updated cost estimate since the preliminary analysis in July. Has CBO produced a final score of the Butch-Lewis Act, and if so, on what version of the legislation?

Answer. CBO has not completed a final point estimate of the legislation. The estimated budgetary effects are highly uncertain because several key provisions of the legislation can be interpreted in multiple ways, making it difficult to project how the proposal would be implemented. In July 2018, CBO released a preliminary analysis based on what it considered the most likely interpretation of the bill's language; in that analysis, CBO estimated that the bill would probably increase deficits by more than $100 billion over the 2019–2028 period. Under some interpretations of the bill's language as introduced, however, few plans would qualify for loans and assistance, resulting in federal costs that would be substantially less than $100 billion. Since releasing that preliminary analysis, CBO has worked with Congressional staff on variations of the proposal but has not completed a formal estimate for the introduced bill or for any of those versions.