

Questions from Chairman Conrad for the Honorable Jim Nussle,
Nominee to Be Director, Office of Management and Budget

Deficits/Debt

1. **Question:** Do you believe deficits matter? Why or why not? If yes, how specifically do you think deficits impact the economy?

Answer:

Deficits do matter, first and foremost because they are an indication that the government has failed to limit spending within the bounds of available revenue. From that standpoint, I see the recent progress in reducing the deficit as welcome news and I support the shared goal of the President and the Congress to work toward a balanced budget by 2012.

I believe the economic impact of deficits comes when deficits are large and sustained over a long period. While a concern, recent deficits as a share of GDP have been moderate in historical terms and do not appear to have posed difficulties for the economy, as demonstrated by the solid growth we've seen in jobs, productivity, the economy, and by the relatively low Treasury interest rates. However, looking ahead to the future fiscal pressures of Social Security and Medicare spending, I believe it is critical to eliminate even today's moderate deficits and bring the budget into balance to put the budget in a stronger position to face our long-term fiscal challenges.

2. **Question:** At what point, if ever, do you believe that higher deficits and debt lead to higher long-term interest rates?

Answer:

International experience tells us that governments that run massive deficits relative to GDP with rapidly accelerating debt levels face severe economic dislocation in the form of higher interest rates, inflation, and the collapse of investment and economic growth. With the level of deficits that we have seen in recent years in the United States, however, it is more difficult to see the relationship of deficits and interest rates. For example, Treasury interest rates in recent years have been quite low by historical standards.

In my view, the primary reason to balance the budget is it will demonstrate that the government is committed to living within its means. It also positions us to address the future challenges of the baby boom retirement and its effect on entitlement spending. At some level, deficits and debt will affect interest rates and it is important to take action well before that occurs. That is why I believe it is important to tackle the long-term problem of the unsustainable growth in mandatory spending.

3. **Question:** When you were Chairman of the House Budget Committee, you oversaw the budgets that shaped budget policy for several fiscal years. During those years, the debt increased dramatically. In what ways did the policies supported by your budget contribute to this increase in the debt?

Answer:

When I was Chairman of the Committee on the Budget of the United States House of Representatives, our country faced important and dramatic challenges that required direct action from our Federal government. We faced the bursting of the stock market bubble, a decline in manufacturing, a recession, corporate accounting scandals, the terrorist attacks of September 11, 2001, and the Global War on Terror – and that was just in the beginning term of my tenure as Chairman. All of these factors had significant direct budgetary effects, and the Federal policies needed to deal with them also had large immediate and ongoing budgetary effects. Later, we saw yet another unanticipated event in Hurricane Katrina.

I am proud to say that the President and the United States Congress responded to these challenges and implemented policies that helped our country rebound from the shocks it faced. The budgets that were passed through Congress when I was Chairman of the Committee on the Budget included tax relief that helped our country grow again out of the economic slowdown and recession of 2000-2001. The budgets included increased funding to help secure the United States homeland to provide protection in the face of the ongoing potential for more terrorist attacks. The budgets included increased funding for military actions in the Global War on Terror – to defend the American people against difficult enemies. Budget resources were also used to provide for the recovery of Louisiana and Mississippi and others that were adversely affected by Katrina. And that is on top of all the other ongoing responsibilities of the Federal government – including funding for education, health care, and veterans.

The Federal debt increased while I was Chairman of the Budget Committee and for very good reasons. We faced challenges that were directed squarely at our economy, our government, and our way of life. And we responded with the policies that were required to successfully deal with them. The United States homeland is more secure, the Taliban no longer controls a country from which to export terror, Louisiana and Mississippi are recovering and levees are being made stronger, and the United States economy is in the sixth year of economic expansion with growing employment, incomes, and Federal budget revenues. The Federal budget deficit is falling, and is historically low relative to the size of the United States economy. And the Federal public debt is also now declining relative to the size of the economy.

4. Question: The level of foreign holdings of United States debt has more than doubled over the past six years and now exceeds \$2 trillion. Do you view this increase in foreign-held debt to be a problem for the United States? Why or why not? Doesn't the large amount of foreign holdings of United States debt leave us vulnerable to the priorities of foreign creditors?

Answer:

I believe the United States savings rates is too low and we need to do more to increase savings in the United States, which would reduce our reliance on foreign capital. We need to ensure that United States debt is at sustainable levels and we need to pursue policies that encourage greater savings in the United States. Measures to increase United States saving, including steps to reduce the budget deficit, could ultimately help to promote better balance in our international accounts. Our trading partners also need to do more to maintain healthy growth rates, promote open markets, and eliminate interference in the determination of exchange rates. Such actions will support ongoing growth in demand for United States exports and help to reduce our trade deficit and our current account imbalance.

It is certainly true that international investors and foreign governments are buying United States financial instruments in large quantities – including Federal debt securities. These securities are publicly traded and many foreign governments hold our Treasury securities as reserve assets, demonstrating the ongoing confidence in United States government assets and dollar-denominated assets more broadly. In addition, while foreign investors do hold a substantial amount of Treasury debt, their holdings of nonfederal assets are much larger.

Foreign purchases of United States financial assets first and foremost demonstrate the belief that the United States is a good place to invest – we have a stable political system, stable inflation, relatively low tax rates and relatively strong growth prospects. We need to continue pursuing policies to assure that taxes remain low, inflation remains stable, and the economy remains strong.

Ultimately, foreign investors and foreign governments that hold United States securities have the incentive to maintain the value of those holdings.

Long-term Budget

5. **Question:** Do you believe a comprehensive plan to address our long-term fiscal challenges should include changes in both spending and revenues? Why or why not?

Answer:

Most experts believe that the current promises in our largest entitlement programs, including Social Security, Medicare, and Medicaid, are not sustainable. As analyses by the Administration, CBO, and others have demonstrated, the retirement of the Baby Boom generation and the continuation of healthcare cost increases that exceed growth in the economy, will raise outlays in these programs dramatically in coming decades. Without comprehensive reform, spending for all three programs will rise much faster than GDP.

In order to address the flaws with the current federal tax code, I believe that fundamental tax reform could make it a simpler, fairer, and pro-growth system.

6. **Question:** If confirmed, what actions would you take to foster an environment where a bipartisan compromise could be reached to address the nation's long-term fiscal challenges?

Answer:

The most important action is frequent communications on a bipartisan basis with both the House and Senate. I believe it also requires commitment and trust from both sides and I will work with the Committee to develop that trust and commitment and work to find solutions to the long-term fiscal challenges facing the country.

7. **Question:** In recent years, the annual reports of the Social Security and Medicare Trustees have included measurements of the unfunded liabilities of Medicare and Social Security over an “infinite horizon”. Many analysts believe these infinite horizon calculations are speculative and provide little useful information about the long-range financial outlook for these programs.

Do you believe that infinite horizon calculations provide the most accurate picture of the long-term funding challenges facing Social Security and Medicare? As Congress and the Administration work to strengthen Social Security and Medicare, do you believe the goal should be to close the funding gap over the infinite horizon? Should such calculations be used for other policy analyses, such as projecting the long-term costs of tax cuts?

Answer:

The traditional measure of the fiscal gap in Social Security and Medicare has been the 75-year actuarial imbalance. I believe most policy makers would be happy to enact reforms in those programs that put them on sound footing for the next 75 years – the equivalent of three generations of Americans.

The problem with the 75-year measure, however, is that the structural gap in the Social Security and Medicare programs grows rapidly over time. The 75-year actuarial imbalance in Social Security is 1.95 percent of payroll, according to this year’s Trustees’ report. A bill that eliminated the actuarial imbalance would only do so for one year. Next year, when the 75-year calculation included one additional year, the program would again have an actuarial imbalance – small at first, but growing in each subsequent year. In other words, the bill would have resolved the reported 75-year imbalance, but for just one year.

Because of this problem, I believe that it is important to look beyond the 75-year horizon when we assess the impact of potential reforms in Social Security and Medicare. I believe the same point applies generally when looking at the long-range fiscal gap in the budget – any solution should stand the test of time, rather than failing one year later.

8. **Question:** A key issue for addressing our nation's long-term budget problem is to reduce expenditures of the major health entitlements, such as Medicare and Medicaid. Do you believe that these programs can be substantially reduced in the absence of broader reforms to the nation's health system, both private and public? Stated another way, do you think it is possible over an extended period for Medicare and Medicaid to grow more slowly than health costs in the private sector?

Answer:

Clearly, growth in health care spending is a complex issue involving a number of interactions. While there is no magic bullet that will solve this problem, we need to identify ways that will encourage efficiency and quality while controlling spending growth in both the private and public sectors. We also need to reform the health care marketplace to promote more competition, quality, and affordability.

Separate from broader health reform, there are opportunities to slow the growth of Medicare and Medicaid and I believe that we should pursue them. This includes the President's Budget proposals and any other ideas Congress may have to rein in entitlement spending. These proposals will be even more effective if we can adopt additional reforms to address cost containment in the broader health care system.

9. **Question:** Is universal coverage an essential goal of health reform? Do you believe that universal coverage can be achieved by making incremental changes to the current health care financing system, or do you think that more radical changes to the system would be needed to ensure that all Americans have health insurance?

Answer:

In terms of health reform, I am most interested in encouraging the private and public markets to adopt innovations that will increase affordability and quality and lead to greater health care coverage. For example, reforms that change the current tax system to remove the tax bias for employer-sponsored coverage could result in more people receiving health insurance. Changes that reduce the rate of health care inflation will lead to more coverage and greater access to health insurance. I believe those are promising policy directions.

10. **Question:** Do you believe that access to health care is important? How do you respond to CBO's assessment that the Medicare cuts proposed in the President's FY 2008 budget would reduce the access of seniors to health care over the long run?

Answer:

Access to care for Medicare beneficiaries is very important and we need to monitor it to ensure that beneficiaries continue to have access to quality health care services. I understand that beneficiary access to Medicare services is strong.

Based on what I've seen, the Medicare proposals represent sound health payment policies. These proposals could reduce excess spending, encourage efficient health care delivery, and reduce premiums and cost-sharing for most beneficiaries. In fact, I believe that the Budget proposals also improve the care beneficiaries receive by building in stronger incentives for high-quality care.

Unless we address the growth in Medicare and Medicaid spending, the greatest threat to future seniors' care will be the Nation's diminishing ability to finance that care.

Discretionary/Appropriations

11. **Question:** How do you believe the overall level of discretionary spending should be set each year? In your opinion, what is the proper role for Congress in determining the total amount of appropriations needed each year?

Answer:

Under the Constitution the President and Congress share a role in setting the total amount of appropriations each year. Appropriations can only become law if passed by Congress and signed by the President, unless they become law without his signature or by overriding a veto. In the past the level of discretionary spending at times has been established in the context of a bipartisan agreement on the overall budget. In the absence of such a framework, it is important that the executive and legislative branches have a continuing dialogue about how the discretionary spending in individual appropriations bills fits into the larger budget picture.

12. **Question:** What is your view on the use of earmarks? Are Congressional earmarks ever appropriate? Do you think the use of earmarks grew too much between 2000 and 2006? If, yes, what do you think caused the increase in earmarks?

Answer:

Not all earmarks are unworthy of funding and there may be cases where earmarks may be appropriate. There has been a huge growth in earmarks since the early 1990s and that continued after 2000. I do believe earmarks grew too much after 2000, and I'm glad Congress began to curtail earmarking and increase transparency beginning in 2006, and continuing this year. I support the President's call for the Congress to cut the number and cost of earmarks by at least half. As Chairman, I called for no new earmarks in 2005 and 2006.

13. **Question:** Was an earmark that was not included in either a House- or Senate-passed bill ever inserted into a conference report, the last stage of the legislative process, at your request? If so, what was it for?

Answer:

I requested funding for individual projects based on their merits, and did not request that inclusion of a project be withheld until conference. I believe the best course is for Congress to lay out funding for such projects as early as possible in the process, so they can be subjected to appropriate scrutiny.

14. **Question:** Each year, the President includes a number of earmarks as part of his budget request. How many earmarks were included in the Administration's FY 07 and FY 08 budget proposals? In your view, are these appropriate? If so, are they more appropriate than earmarks included by Congress? If so, why? What steps would you take to review the number and amount of earmarks included in the President's budget?

Answer:

I am not familiar with the details of the President's FY 2008 Budget. However, it is my understanding that the Administration allocates requests for funding, including grants and contracts, to meet national priorities using merit-based or competitive allocations under requirements set in law, and the results of many of these processes are detailed in the President's Budget and agency justifications that are submitted to the Congress. I believe this is appropriate, and that Congress can make better funding decisions when such detailed information is available.

15. **Question:** What principles would you use to guide your decisions on whether to recommend to the President that he sign or veto an appropriations measure?

Answer:

I would look to the President's major policies and his highest priorities. I would try to be careful when to recommend a veto, making sure to recommend a veto only on very problematic proposals. However, if the Congress chooses to send bills to the President with significant provisions that do not align with the President's priorities, I believe it is my duty to point those out to the President and recommend a veto, if necessary.

My preference, however, is to communicate early and often with Congress, in order to produce bills the President can sign. Sometimes that will require informing Congress that preliminary versions of the bill are objectionable and must be changed in order to avoid a veto.

16. **Question:** If confirmed, what specific steps would you take to ensure that the 2008 appropriations process is completed in a timely and efficient manner?

Answer:

If confirmed, I recognize that we need to complete the appropriations process in a timely manner and I want to help bring about that result. The process relies on Congress operating in a timely manner to complete appropriations bills. If confirmed, one key aspect of my job is to keep the dialogue open between the Administration and the Congress and to help find solutions that can bring the appropriations process successfully to completion.

17. **Question:** What do you think is an appropriate rate of growth for discretionary spending?

Answer:

Total discretionary spending is getting close to \$1 trillion annually, a vast sum of money. I believe there are tremendous opportunities for savings in these programs that by looking for programs that are duplicative, inefficient, or ineffective. Government spending now comprises 20.2 percent of GDP. To balance the budget, we need to pursue pro-growth economic policies to maintain revenues and reduce the growth of total spending, discretionary and mandatory combined, below the rate of growth in the overall economy. If entitlement spending is not addressed now, I believe that brings a greater urgency to constraining the growth of discretionary spending. For FY 2008, I support the rate of growth in base discretionary spending proposed in the President's Budget, 6.9 percent by CBO scoring (6.5 percent with Administration scoring).

18. **Question:** The President's budget and supporting documents customarily have included details for all years covered by the budget. The 2006 through 2008 budgets, however, failed to provide any discretionary account-level policy detail for years after the budget year. This lack of discretionary spending data denies both Congress and the public the information needed to fully assess the President's budget policies, particularly his proposal to reduce the growth in overall domestic discretionary spending. If the President is going to submit a five-year budget, shouldn't he submit five years of policy detail? Why or why not? Doesn't the lack of detail undercut the President's commitment to controlling discretionary spending?

Answer:

The annual discretionary budget process incorporates policy decisions primarily for the upcoming budget year. As a consequence, the President's Budget for discretionary programs is also focused on the current budget years. It is my understanding that, except for a handful of accounts, the Administration does not make account-by-account policy decisions for the outyears and the Administration has, therefore, not published this level of detail because it does not represent the President's policies. I understand that this year, for the first time, the congressional justifications for agency spending were posted online – increasing transparency of federal spending.

Revenues

19. **Question:** You were quoted in the BNA Daily Report as saying: “Tax cuts don’t need to be paid for [with offsets] – they pay for themselves” (BNA, March 17, 2004). In contrast, CBO, JCT, former Federal Reserve Chairman Greenspan, current Federal Reserve Chairman Bernanke, the vast majority of academic and business economists, and current OMB Director Portman all believe that tax cuts reduce revenues relative to what otherwise would have occurred. Do you agree with them, or do you still hold the view (as suggested by the BNA quote) that tax cuts pay for themselves?

Answer:

On the issue of “paying for tax cuts,” I believe it is important to recognize that taxpayers pay for everything the government does. Government does not pay for anything. It spends money it collects from taxpayers. Relative to a baseline projection that is based on current law and uses static models, the Joint Tax Committee and the Department of Treasury analyses clearly show a revenue loss from tax reductions. However, I believe, lower taxes clearly have positive effects on the economy. The extent to which these effects reduce the net revenue impact of a given tax cut depends on the timing and design of the tax cut in question.

Tax relief that promotes economic growth will have a greater amount of offsetting benefit to Federal revenues than tax cuts that do not generate positive incentives. Even if tax cuts don’t generate a full offset from the resulting higher economic growth and associated increases in tax receipts, it is still true that the static receipts estimates that are used for scoring purposes overstate the declines in receipts that occur with tax cuts.

I believe the President’s 2001 and 2003 tax cuts were exceptionally well-timed, and well-designed, to bring an economy out of recession and to strengthen the recovery once it began to take place. We see the results of those policies in the strong economic and job growth now in progress. With strong economic growth comes strong growth in tax receipts. We’ve seen receipts to the United States treasury grow by double digits the past 2 years – by 14.5 percent in FY 2005 and by 11.8 percent in FY2006. And the Mid-Session Review of the Budget estimates receipts will increase by nearly 7 percent for the full fiscal year.

20. **Question:** Do you believe that the 2001 and 2003 tax cuts made deficits larger or smaller?

Answer:

The budget was headed into a deficit, whether tax relief was enacted or not. The stock market decline of 2000 and the recession all led to a steep decline in revenue. In addition, we had unavoidable expenses to recover from the terrorist attacks and to wage the war on terror.

The initial effects of the 2001 and 2003 tax cuts were to make the deficits larger in the initial years in which they were implemented. For subsequent years, the record has been very strong. The deficit began declining after 2004 and we have seen double-digit growth in federal tax collections the past two years and revenues as a share of GDP are estimated to be 18.8% of GDP, well above the 40 year average of 18.3 percent.

21. **Question:** Do you believe that making the 2001 and 2003 tax cuts permanent will enhance or weaken the federal government's ability to meet its long-term commitments and address its fiscal challenges? Please explain.

Answer:

The long-term challenge we face for the Federal government's commitments and the Federal budget outlook is primarily one of obligations for excessive entitlement spending.

As we consider the long-term challenges we face, it is important that we maintain a strong economy to provide the tax base to provide revenues to fund Federal programs. Objective observers recognize that the fundamental long-term problem we face is excessive spending, and that our economy would not be able to tolerate the high tax burden required to meet the excessive entitlement obligations.

Revenues to the Federal government currently are above their historical average, and the Administration's MSR shows that revenues will continue above the historical average, even with the extension of the 2001 and 2003 tax relief. It is important that the tax relief be extended to keep the United States economy strong and thereby able to provide the resource base to meet our long-term obligations.

22. **Question:** Do you believe that the share of taxes paid by the affluent is a good way to measure the progressivity of the tax cuts enacted in 2001 and 2003? Why or why not? How about other measures of progressivity? For instance, CEA Chair Edward Lazear has noted that a tax change makes the code more progressive when it “narrows the difference in take-home earnings.” Do you agree that the change in after-tax income is a good measure of progressivity? Are the 2001 and 2003 tax cuts progressive under this measure?

Answer:

There is no uniform way to measure progressivity. Different measures show somewhat different results regarding the progressivity of the President’s tax cuts, but the evidence shows that upper-income taxpayers paid a greater share of income taxes following the tax cuts than before.

The top 1 percent of taxpayers paid 35.7 percent of all taxes paid in 2004, the most recent year data is available. This was a higher share than during 1993-99 under President Clinton.

The Department of the Treasury estimates that in 2007, the top 1 percent will pay a higher share of individual income taxes with the tax cuts than they would have without the tax cuts; 36.0 percent with tax cuts and 35.8 percent without tax cuts. The share of the bottom 50 percent of taxpayers is lower after the tax cuts.

Other measures of progressivity have been constructed. The change in after-tax income produced by the Tax Policy Center (Brookings/Urban Institute) show that high-income classes have had a greater increase in after-tax income with the tax cuts than those in the low-income classes. But that, in large part, reflects the fact that those with the lowest incomes pay little or no income taxes in the first place.

23. **Question:** In your opinion, relative to the size of the economy, is there an optimal level of revenues? If so, do you believe that the optimal level for 2007 is also the optimal level for 2057?

Answer:

I believe that we need to hold down the tax burden on the economy. We know that excessive taxation has adverse effects on the economy by destroying the incentives that spur businesses and entrepreneurs to take on risk – that leads to innovation, job creation, and economic growth. The optimal level of taxation is the one that minimizes these adverse effects while allowing us to fund our most critical national priorities.

Currently, according to the recent Mid-Session Review, the Federal tax receipts level for 2007 is at 18.8 percent of GDP. That's above the average of the past 40 years – 18.3 percent.

And beyond Federal taxation, State and local taxes also are high relative to history. If we look at the taxes for total government – combined Federal and State and local taxes – the total level of taxation is greater than one-third of national income. The average for the past 3 decades was at 32.8 percent of national income, and in 2006 the level was at nearly 34 percent – and 2007 could be even higher.

24. **Question:** In a time of deficits, isn't it the case that enacting additional tax cuts shifts today's tax burden onto tomorrow's taxpayers?

Answer:

Deficits are caused by spending exceeding revenues. Even with the full effect of the President's tax relief program, revenue is growing – by double-digit rates the past two years and above the 40-year historical average. The President's Budget permanently extends tax relief and balances the budget by 2012.

The problem for tomorrow's taxpayers is not a lack of revenue. It is the unsustainable growth in mandatory spending.

25. **Question:** The IRS estimates the tax gap – the difference between the taxes owed and the taxes collected each year – is about \$350 billion. In addition, experts estimate that approximately another \$100 billion of revenue is lost each year to tax shelters, tax havens, and offshore activities. Do you believe the administration and Congress should aggressively address these compliance problems? If so, what specific measures should be put in place? While not all of these lost revenues can be collected, what percentage do you think could be collected if a comprehensive program of legislative and administrative actions were undertaken?

Answer:

The tax gap is absolutely an issue that the Administration and Congress should aggressively address. I know the Administration sees this as a priority, and it is the subject of great interest in Congress. If confirmed as OMB Director, this would be one area where I would hope we could work together to make significant progress. The Administration put forward a number of proposals in its budget this year, and I would hope that we could build on those to maintain the recent healthy growth rates in revenues while keeping our current low tax rates in place. In pursuing these policies, it is important that we recognize the distinction between closing the tax gap through improved enforcement, and simply raising taxes.

One other aspect of reducing the tax gap is targeting IRS resources toward tax enforcement. In that regard, the cap adjustments for IRS enforcement proposed by the Administration and contained in the Congressional Budget Resolution are a useful mechanism for ensuring that discretionary funding is targeted to this high-yield area.

26. **Question:** The Treasury Department released a study in July 2006 looking at the impact on the economy of making the 2001 and 2003 tax cuts permanent. It found that, under favorable assumptions (which include assuming that the cost of the tax cuts would be fully offset by unspecified spending cuts) the tax cuts would increase the overall size of the economy by only 0.7 percent over the long run. This translates into only a tiny increase in annual GDP growth. Doesn't the Treasury study counter claims that making the tax cuts permanent would have a significant impact on the economy? Do you agree with the findings of the Treasury study? Why or why not?

Answer:

First, I don't believe it is the best use of terminology to refer to "the cost of tax cuts." Tax cuts are not a cost. It is true that scoring would show that the tax receipts that the Federal government collects are reduced by tax cuts. But that isn't a "cost." The reductions in revenues for the government are simultaneously increases in take-home income for taxpayers.

The Treasury study showed that the President's tax relief had significant beneficial effects on the United States economy. In particular, the short-run benefits were quite important, helping to boost economic growth, increase employment, and help the economy return to sustained expansion. The tax cuts were implemented at a time when the United States economy was in a recession and slow recovery, when the terrorist attacks had been aimed at the heart of our economy and our government. The tax cuts helped to make sure the economy rebounded.

We can agree or disagree about how large the long-run beneficial effect has to be for it to be considered significant. But the Treasury study did show that the tax cuts did benefit the economy. The Treasury estimates also help illustrate that not all tax cuts have the same beneficial effects. Tax cuts aimed at capital – including dividends and capital gains tax reductions – can have particularly beneficial output effects.

Finally, the Treasury study implicitly provides information about what would happen if tax relief was not extended. It would have adverse effects on the economy, slowing economic growth, hampering jobs creation, and threatening to end the sustained expansion.

27. **Question:** Some have criticized official revenue estimates because they do not reflect “dynamic scoring.” While these estimates include certain assumptions about behavioral reactions to tax changes, they do not reflect the effects of tax changes on the economy. Yet recent studies by CBO, JCT, and Treasury all show that the impact on the economy of tax changes is relatively small – and can be either positive or negative depending on the assumptions used. The conclusion seems to be that there is not a significant difference between conventional scoring and dynamic scoring. Do you agree with this conclusion? Why or why not?

Answer:

I believe we could probably all agree that the current state of “dynamic scoring” estimates isn’t where it needs to be to generate sufficient confidence. That’s why the estimating process so far has been referred to as “dynamic analysis” rather than “dynamic scoring” – recognizing that it isn’t really a “score” in the traditional sense of the word.

My recollection from presentations by the Congressional Budget Office was that the most beneficial combination of policies that were examined in their dynamic analysis – in terms of promoting economic growth and boosting the size of our economy – was a simultaneous reduction in taxes and spending growth.

Budget Process

28. **Question:** How should the government budget for emergencies? What, if any, reforms of the emergency-designation process would you recommend to Congress?

Answer:

The federal government can and should budget for emergencies in the major programs that regularly fund response and recovery from natural disasters and other recurring events. It is my understanding that the Administration generally proposes base funding for those programs based on the average frequency and severity of such events. Supplemental funding may still be required for especially large incidents, but hopefully those examples will be few.

I believe that the budget treatment of emergency-designated items could be improved by (a) enacting binding discretionary spending caps, enforced by a sequester, and (b) requiring the concurrence of both the Congress and the President to allow an adjustment of those caps for emergency requirements.

The term “emergency” should be limited to circumstances that are urgent and unforeseen. The definition should include the following elements: the requirement is a necessary expenditure that is sudden, urgent, unforeseen, and not permanent. This would codify the criteria that have been the standard for a number of years.

29. **Question:** Do you believe the system of PAYGO and caps on discretionary spending created in the 1990s is a good mechanism for dealing with current deficits and debt? Should PAYGO apply to both revenues and mandatory spending? Why or why not?

Answer:

I support enforceable statutory caps on discretionary spending and I support bringing greater discipline to mandatory spending growth. The Budget Enforcement Act of 1990 created tools that were an effective mechanism to control the growth in spending. When surpluses arrived in the late 1990's, these controls were circumvented, resulting in substantial additional spending.

I believe there is a fundamental distinction between proposals that lead to higher government spending and proposals that let taxpayers keep more of their own money. If PAYGO is applied to tax relief proposals, it could result in automatic tax increases. In addition, current baseline rules have a bias towards spending increases and a bias against extension of tax relief. Finally, we have seen very strong revenue growth and revenues are above historical averages. I believe our budget problems are due to excessive spending growth, and not a lack of revenues.

For these reasons, I do not support applying PAYGO to tax legislation. I do support the Administration's approach to controlling mandatory spending, in which spending increases must be offset by spending reductions or face an automatic spending reduction.

30. **Question:** The tax code includes tax expenditures – which Alan Greenspan has called “tax entitlements” – totaling hundreds of billions of dollars a year. Yet the Administration has opposed applying PAYGO to revenues, arguing that it should only be applied to spending entitlements. But if revenues are exempt from PAYGO, won’t that create an incentive to simply fund more entitlements through the tax code? Is there a reason to treat “tax entitlements” and “spending entitlements” differently, even if they can be used to achieve the same policy goals?

Answer:

I believe there is a fundamental difference between what is classified as a “tax expenditure” and spending. A tax expenditure is defined as an instance in which a taxpayer is allowed to keep a portion of his or her tax liability. Spending must be financed by either taxing other individuals or borrowing.

Even so, the tax code is too complicated and too burdensome. And, I believe there are probably many tax provisions that are either unwarranted or excessive. I support fundamental tax reform and I believe tax expenditures should be reviewed as part of that effort.

31. **Question:** The President has consistently advocated the use of biennial budgeting. Do you support budgeting for the federal government on a biennial basis? Why or why not?

Answer:

My understanding is that the President supports biennial budgeting and that each of his past 7 budgets has proposed a biennial appropriations and budget process. There are many potential benefits of such an approach. A biennial budget could free Congress to conduct more oversight, give agencies more stable funding levels, and free up time for agencies to more effectively manage programs. Reaching agreement on budget priorities and providing appropriations for two years could also allow agencies to devote more time to program evaluation and aspects of management and facilitate longer-range planning. Finally, almost any program would benefit from greater certainty of funding. The programs that would benefit the most are those that require long lead times, such as procurement, or those that are carried out over longer periods of time, such as research and development. The recipients of grant programs would also benefit from the greater certainty that funds would be available.

32. **Question:** OMB and CBO both develop baselines to assess the current condition of the budget under existing laws and policies and to judge the impact of proposals to change those laws and policies. Do you believe these baselines are useful and reliable? How many years do you think a baseline should cover? Are there any changes you would recommend making to the rules guiding how OMB and CBO develop baselines?

Answer:

A baseline is a necessary feature of the budget process, because it provides an assessment of the path of current fiscal policy and a benchmark against which to measure legislation. Whether baselines are reliable or not is a different question – we all saw the wild swings in the baseline in the late 1990s and early years of this decade, due in large part to changing estimates of tax collections.

Because the uncertainty of the baseline increases the further out that it extends, it seems sensible to me to keep the baseline at the current five-year horizon that is used by the President's Budget and by the Congressional Budget Resolution. Both the President and the Congress have endorsed a balanced budget goal within this horizon, and that should be the focus of our current budget efforts. CBO and OMB both make extrapolations of the budget out to 2050 and beyond in order to assess the future implications of current policy, and I believe creating a role for those extrapolations in the budget process would be more fruitful than extending the detailed baseline for another few years.

In terms of changes to the baseline, I know that the Administration has proposed a number of revisions to make the baseline a more useful benchmark. Currently emergency appropriations are extended in the baseline just like regular appropriations, which leads to artificial swings in CBO's winter and summer baselines depending on when supplemental bills are enacted. For that reason, the Administration's proposal not to extend emergency appropriations seems sensible to me.

33. **Question:** The President proposes to change baseline rules to require CBO to ignore the sunset dates included in the 2001 and 2003 tax cut bills and to instead assume those tax cuts are permanent for baseline purposes. Didn't CBO and OMB take those sunsets into consideration when originally scoring the cost of those tax cuts? Wasn't it because of those very sunsets that the tax cuts were able to be passed using fast-track reconciliation procedures? If they were extended in the baseline, wouldn't that result in Congressional scoring *understating* the actual impact of the tax cuts on the budget? Wouldn't extending these tax cuts in the baseline only make sense if CBO and OMB had originally ignored the sunsets and scored the tax cuts as if they were permanent? Shouldn't it be the policy of OMB to ensure the budget process fully captures the cost of all proposals, including even those supported by the President?

Answer:

Extending the 2001 and 2003 tax relief in the baseline improves the usefulness of the baseline as an indicator of the path of current fiscal policy. In that sense, this change in the baseline is in the same spirit as the rule that extends expiring mandatory programs such as the Farm Bill, or the rule that extends expiring excise taxes dedicated to a trust fund.

From a practical perspective, the main implication of not extending the 2001 and 2003 tax relief in the baseline is that it imposes a pay-as-you-go point of order against extending the tax cuts. Even at today's low tax rates, revenues are above their historical levels as a percent of the economy. I do not believe it is appropriate to apply procedural hurdles against legislation that would prevent those low rates from rising back to prior levels, raising taxes on families with children, senior citizens, and small business owners, and jeopardizing future economic growth.

34. **Question:** Assume that Congress created a new entitlement that sunset after five years, and CBO took into account the sunset when it scored the measure and when it projected the program's cost in the baseline. In your opinion, would it be appropriate in this case to change the baseline rules and require CBO to ignore the sunset and treat the new program as permanent for baseline purposes? Why or why not?

Answer:

First, it is the common practice for CBO to extend an entitlement program in the baseline, even when the authorization for the program expires. I believe that the more important issue concerns whether mandatory spending and revenue provisions are treated equally in the baseline. My understanding is that the Administration's proposed baseline rules do treat them equally.

Defense

35. **Question:** Do you believe that the budget and accompanying projections should reflect the best estimate of the multi-year costs of ongoing military operations in Iraq, Afghanistan, and the Global War on Terror? If troops are likely to remain in Iraq and Afghanistan for some time, shouldn't the budget include these costs? Aren't virtually all multi-year estimates uncertain? If the concern is with building war costs into the regular defense budget, can't the administration reflect these costs separately in a general allowances function rather than in the defense function?

Answer:

My understanding is that the President submitted to Congress in February a request for total war needs in FY 2007 and 2008 and that it included an unprecedented level of detail. The Budget also included an allowance of \$50 billion for anticipated war costs in FY 2009.

The \$50 billion allowance was chosen to strike a balance between acknowledging that we would have some war costs beyond 2008, and the difficulty of predicting what those specific costs will be.

It is difficult to predict the precise situation on the ground in Afghanistan and Iraq two to three years in advance. To provide such detail is at best false precision and at worst a signal to our adversaries.

Keeping war funding and base budgets separate provides the necessary flexibility to reduce war-related resources as the pace of operations in Afghanistan and Iraq declines. If they were combined, it would be more difficult.

36. **Question:** When the President announced his plan to “surge” additional troops to Iraq, he and the Department of Defense indicated that the total number of troops that would move to Iraq was only about 21,500. Later the DOD and White House indicated that an additional 10 to 15 percent might be needed to provide support to those combat troops. The CBO estimated that the total number of troops needed to provide the additional combat units was more likely to fall in a range from 35,000 to 48,000. When the Budget Committee held a hearing addressing this issue, DOD and the administration strongly objected to the CBO analysis. What are the actual troop levels now (of all services) supporting Operation Iraqi Freedom? How much have they increased from the levels planned for 2007 if only 15 combat brigades had been deployed to Iraq?

Answer:

As the President’s nominee to be OMB Director, I have no independent knowledge regarding precise troop levels or the number of combat brigades in Iraq. If confirmed, I would work with the Department of Defense to ensure planned troop levels are appropriately reflected in the Budget.

37. **Question:** OMB is responsible for setting federal policy on outsourcing and public-private competitions through the circular A-76 process. Press reports indicate that as many as 120,000 contractors are currently working in Iraq. That is about three for every four United States troops. What portion of total war funding to date and proposed FY08 war funding has gone or will go to pay for contractors in the Iraq and Afghanistan theaters of operations? How many contractors are working for the United States government in each of those theaters? Looking specifically at security contractors, what is the average cost to hire a security contractor to work in Iraq compared to the cost of deploying a member of the United States military?

Answer:

I share your interest in making sure that contracting activities tied to the wars in Iraq and Afghanistan are transparent. If confirmed, I will work with the relevant agencies to ensure that data on contracting practices in support of contingency operations are clear, understandable, and available.

It is my understanding that OMB staff are working with the Departments of Defense (DoD) and State, including the United States Agency for International Development (USAID), to create an integrated database that would serve as a repository of information on all of their contracts in Iraq and Afghanistan.

DoD's recent report to Congress on DoD-Funded Service Contracts in Iraq and Afghanistan estimated that about \$60 billion has been allocated to contractor support in Iraq and Afghanistan since 2001.

As a nominee, I don't have a precise number of United States government contractors working in both Iraq and Afghanistan on the average cost of a security contractor in Iraq versus the cost of a United States servicemember.

38. **Question:** GAO has found that a lack of sound business practices exposes DOD to unnecessary risk, wastes resources, and complicates efforts to hold contractors accountable for poor service acquisition outcomes. Do you believe that the Department of Defense, which spent almost \$300 billion on contracts in 2006, has adequate procedures in place to ensure the best value possible for taxpayers? If not, what do you propose to do as Director of OMB to rectify this situation?

Answer:

The Department of Defense is facing an extraordinary challenge in the war on terror, particularly in Iraq.

The Defense Department – and all agencies – must embrace high standards of integrity, transparency, and accountability and perform effective contract management and oversight to hold contractors accountable for measurable results.

I will look to the Administrator for Federal Procurement Policy of Defense and the Controller of the Office of Federal Financial Management to work with the Department to ensure that internal controls are effectively holding contractors accountable for meeting the government's requirements and providing the best value for our taxpayers.

39. **Question:** The President's budget request for FY 2008 included a straight-line estimate of FY 2008 war costs, assuming that the "surge" did not continue past the end of September 2007. If troop levels in Iraq remain elevated, additional funding will be required. If confirmed, how would you advise the President to request supplemental funding for additional FY 2008 war costs? Would you advise that he submit the request in calendar year 2007 or in 2008?

Answer:

Decisions about future force levels will be based on advice from our military commanders. As you know, General Petraeus and Ambassador Crocker are scheduled to report in September on the progress achieved to date.

However, at this time, I am advised that the Administration can not address the need or the timing of a supplemental funding request in any greater detail until General Petraeus delivers his report.

40. **Question:** How much has been spent to date for military operations and foreign assistance in Iraq? How much in Afghanistan? Have commanders in Afghanistan requested any resources (whether personnel, equipment, or otherwise) that could not be provided due to the demands of the war in Iraq?

Answer:

It is my understanding that from 2001 to 2007, \$563 billion has been appropriated for the Departments of Defense and State, and the Intelligence Community to carry out Operations Iraqi Freedom and Enduring Freedom (OIF/OEF).

I am advised that approximately three-quarters of these funds have gone to Iraq, with the remainder supporting Operation Enduring Freedom, mostly in Afghanistan.

As I understand, the Administration's OEF requests have met the needs of the Commanders on the ground in both Afghanistan and Iraq. I have no independent knowledge of requests made to the Department of Defense by field commanders in Afghanistan or elsewhere.

Other

41. **Question:** You were Chairman of the House Budget Committee for six years. What do you see as your biggest accomplishment in those six years? Your biggest disappointment?

Answer:

I believe my biggest accomplishment was getting tax relief included in the budget resolution in 2001 and 2003. I'm also very proud of the Deficit Reduction Act, the first time Congress acted to use reconciliation to slow mandatory spending since 1997, in addition to the 6 budget resolutions passed by the House while I served as Chairman.

My biggest disappointment was that I did not accomplish more to control mandatory spending growth. If confirmed, I want to work with this Committee and others in Congress on that issue.

42. **Question:** What do you think are the biggest challenges facing the nation's budget in the next year? Over the next five years? And over the next 10 to 20 years?

Answer:

Over the next one, five, 10, or 20 years, we need to find a way to slow the growth in mandatory spending. The earlier we get started on this, the better.

Outside of mandatory spending, the deficit has declined significantly since 2004 and is low as a burden on the economy in historical terms. Even so, we need to continue to reduce the deficit and keep the budget on the path to balance, by 2012. I am anxious to work to achieve that goal if confirmed by the Senate. Over the next five years, tax relief is scheduled to expire. I believe it is imperative that we permanently extend that tax relief.

43. **Question:** The House Oversight and Government Reform Committee released a report on federal procurement spending on June 27. The report found that between 2000 and 2006, procurement spending rose from \$203.1 billion to \$412.1 billion, while no-bid and limited-competition contracts increased from \$67.5 billion to \$206.9 billion. That means that, for the first time on record, in 2006 more than one-half of all federal procurement spending was awarded through no-bid or limited-competition contracts. In addition, House Oversight found 187 contracts valued at \$1.1 trillion that had problems with waste, fraud, abuse, or mismanagement. Do you believe the increased lack of competition has contributed directly to the increase in wasteful contract spending? Why or why not? If confirmed, what specific steps would you take to improve the oversight of federal contracts, encourage more competition in the contracting process, and reduce the amount of wasteful contract spending?

Answer:

Competition must be the cornerstone of our acquisition system. It is a key force in ensuring best value for our taxpayers and curbing fraud, waste, and abuse. I understand that the percentage of contracts competed has remained steady at around 64 percent since 2000.

If confirmed, I will ask the Administrator for Federal Procurement Policy (OFPP) to work with agencies to ensure they are taking maximum advantage of competition and limiting sole source contracting to situations where it is necessary and justified in accordance with law. I will expect the Administrator to review current regulations and policies and pursue changes, as necessary, to strengthen competition in federal contracting. I will also look to the OFPP Administrator to pursue appropriate regulatory and other policy changes that hold contractors accountable for measurable results and ensure effective oversight to confirm that contractors are meeting the government's needs in a timely manner.

44. **Question:** There is general agreement on the need to improve the effectiveness and accountability of government spending. While focusing on government performance is essential, it must be done in an appropriate way. OMB has relied on the Program Assessment Rating Tool (PART) to assess performance, yet PART has been criticized as a one-size-fits-all approach that is too simplistic to assess the wide array of programs undertaken by the federal government. What is your assessment of PART? Do you think that PART results should play an important role in informing budget decisions? Did you use PART results to inform your decisions when you were Chairman of the House Budget Committee?

Answer:

In my view, PART is a sound, analytical tool that can be used as a factor in oversight, management, and funding of programs.

While at the Budget Committee, I made use of the tool and encouraged my colleagues to do so.