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PRESS BRIEFING BY CONFERENCE CALL WITH OMB DIRECTOR ROB PORTMAN AND CEA CHAIRMAN EDWARD LAZEAR

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DIRECTOR PORTMAN: This is Rob Portman, Director of the Office of Management and Budget. And I have with me today the Chairman of the Council of Economic Advisors, Ed Lazear. I thought I'd start off, I'd just talk a little bit about the jobs numbers. We want to thank you all for joining us today. You probably already heard this good news, but this morning, the Department of Labor announced that 92,000 jobs were created in October, and also provided an upward revision for August and September, showing that we've had robust job growth, adding actually now over -- nearly a half-million jobs in the last three months.

So today's news is good news for our economy, shows that over the past three months we've had substantial job growth. It also means that since August 2003, we've now added more than 6.8 million new jobs to our economy.

The unemployment rate dropped because of this good news. The unemployment rate is now at a low 4.4 percent, which is the lowest it's been in over five years. And 4.4 percent, as you know, is also historically low -- it's actually lower than the average of any decade in our history since we started -- recorded this data.

The economy has been through a lot of shocks to get to where it is today and -- when you think about it -- the burst of the .com bubble, the corporate scandals, certainly the recession, itself, the terrorist attacks, which were a big hit to our economy and to our budget, and then most recently, Hurricane Katrina. We faced some other shocks even more recently with regard to energy prices. We've overcome these shocks. It's been a very resilient economy. The recent slowdown we faced in the housing sector is another one of those hurdles or obstacles, and I believe that we will overcome that, as well.

And we're overcoming it because America's work ethic is strong, ingenuity is strong. And that's a big part of our success, but also because the President, with Republican support in Congress, has created a better environment for innovation, entrepreneurship and success through the tax cuts. They were well-timed, pro-growth tax policies and they've worked. They've worked to get our economy back on track.

The economic fundamentals are strong today. Real after-inflation wages are growing. And they're growing at a healthy level -- 2.2 percent growth is what we had thought until today. After this report today it looks like 2.4 percent growth now in wages over the past year. And again, this is after inflation. This is -- folks who are in the production sector, hourly wages, weekly wage earners punching the time clock are seeing a higher amount of take-home pay. And so this is very good news. The benefits of the recovery is now being fully shared.

Consumer confidence is up; gas prices, of course, being down 80 cents since really August helps; the stock market recently getting record highs -- actually, about half of America's households are invested in that stock market, so this is very important, as well.

From my perspective, it's also important that the federal deficit is declining. The President recently was able to announce that we have successfully met the goal that he had set out of cutting the deficit in half, and that we met it three years early -- instead of over five years, over just two years. And I believe that smart tax policy strengthened our economy. And as a result, we see these big revenues coming in, which have been able to allow us to reduce the deficit substantially this last year and going forward. We also have good projections over the next five years as to what the deficit is going to look like because of the fact that our economy has grown, and we've done a little better job on the spending side.

Now is the time for us to make these tax cuts permanent. Otherwise, we put all this strong economic growth we're talking about at risk, and that would be through tax increases. So it's important that we make the tax cuts permanent.

This stands in stark contrast to what we're hearing from those on the other side of the aisle. Democrats are advocating increases in spending and also increases in taxes. The tax relief that we've implemented, as you know, expires in 2010. So in four years, it goes away without any action. And if there's no legislation to renew and extend those tax cuts, all those rates go back up to the higher level. Again, I think we'll put at risk the economic recovery we're now seeing.

One-hundred-and-fifteen-million taxpayers got a tax cut. The average tax hike would be about $1,700. And the small business owners out there who are creating more than half of the jobs in this economy would also see a substantial tax increase, averaging about $3,300 per person. So this is one reason we are concerned about the tax side, is that the President would not be in a position to veto this legislation, it could simply not be extended.

On the spending side, again, there would be more pressure to spend more should there be a change in the majority. This is all a matter of public record, but the House Democrat budget alternative offered this year spent about $177 billion more over the next five years than the budget that was offered in the past by the Republican House. That's just one example. And so it concerns us that we'd be putting at risk the job growth and the deficit reduction that we have now achieved. This election has consequences.

The President will continue to pursue pro-growth tax policies that have led to this strong economic growth. He will continue to look to ways to cut excess from the budget, to make the federal government work better, make it more accountable to the taxpayers. And he seeks a Congress that would work with him on both these issues, keeping taxes low and restraining spending.

Let me now turn it over to Chairman Lazear to provide additional perspective on this week's economic data. Ed.

CHAIRMAN LAZEAR: Okay, just a couple of additional points. I think Rob did an excellent job of covering most of the basics and some of the details, as well. I'll just add a couple of points here.

First of all, as I look at these numbers, we really almost couldn't have had better numbers at this point. The unemployment rate is down to 4.4 percent, as Rob pointed out. That's a very strong number, and it's across-the-board. It really -- if you look at the specifics on it, we see that the rate amongst Hispanics is down to 4.7 percent. That's, I believe, an all-time low. The rate in virtually every sector is down. So we're seeing a lot of strength there. The other thing that I would point out is that job security is very good right now. We know that the layoff rates are at the all-time low in terms of any time that we started collecting the data.

These numbers -- you can kind of get overwhelmed with the numbers, and the question is, what does this mean for the typical American. And I guess I would point to two things for the typical American. One is that we are seeing that the typical American feels that they are doing better and are confident in the American economy.

I'd just point to one of your polls -- Washington Post/ABC poll recently said that about two out of three Americans, almost two out of three Americans felt that their personal finances were either excellent or very good. So that's encouraging news. It's encouraging to us. We think that that reflects, at least to some extent, the tax cuts that the President put into play, not only because it helps grow the economy, which I'm confident was the case, but also because of the direct effect. You know, you take money and put it in individuals' pockets rather than having the government do it.

And then the second thing I would say is that if we look at what do these numbers mean as we translate them into the typical family's budget, these are pretty significant gains. We've seen over the past year almost a 2.5 percent gain in real average hourly earning or real working earnings. That translates into about $1,300, a little over $1,300 for the typical family of four. I recently saw a statistic that said that the typical family spends about $800 on Christmas presents ever year, and so this covers their Christmas presents, and then some. They can have a better Christmas this year than they've had in the past, in large part because of these real wage gains.

And we think that's a very important and very positive development.

It means that we're -- the middle class is moving with the economy; that what we've been talking about all along, in terms of productivity growth, job growth, all of that eventually being felt by the middle class, that's happened, it's now. We're not promising this for the future, it's already happened. We saw it over the past year. I think that's a very important development.

Questions.

Q   I guess this if for Chairman Lazear. Chris Varvares of -- forgive me for blanking on the name of Larry Meyer's economic research group, pretty well-respected --

CHAIRMAN LAZEAR: Macroeconomic Advisors?

Q   Yes, thank you. Chris' calculation is that the effect of the tax cuts on today's unemployment went out the door about the end of 2004; that, in fact, most economists agree that there was a bump up -- that it helped unemployment in '04, but at this point, it's not really relevant to today's jobs data. Do you agree with that?

CHAIRMAN LAZEAR: I don't agree with that. I think that -- I haven't see Chris' report, and I don't know the specifics, but I can certainly answer the general question, which is, do I believe that the tax cuts were instrumental in creating growth, and that we're still feeling the benefits of that growth. And I don't think there's any doubt about it.

And let me just point to a couple of things that we know. First of all, when we saw -- after the tax cuts, particularly the 2003 dividends and capital gains tax cuts, we saw just an abrupt turnaround in terms of investment activity. Investment had been declining up to that point. After that point, you saw investment taking off.

Now, most people think that investment then translates into future job growth and into GDP growth, and then eventually into wage growth. So I would say that all of the things that we're seeing now in terms of job growth and wage growth are a reflection of the increase in investments that we saw right after these tax cuts in the middle of the first term. So I would not say that what we're seeing now is not a reflection of those tax cuts. I'm quite confident that it's at least in part a reflection of those tax cuts, and that we could reverse what we see right now in terms of a growing economy if we were to retreat on those tax cuts. That would be a disaster.

And by the way, this is not only for big business. When you think about the tax cuts, you also want to remember that the tax cuts on personal wages, the tax cuts that we saw there affect small businesses directly. And the reason they affect small businesses is because most small businesses pass their income through to the individual level. They're taxed at the level of the individual. We're not talking corporate taxes here. So it's very important to keep tax rates low not only on corporations, not only on dividends and capital gains, but also on individuals. And the President has, I think, been very strong in his statement that he is not going to allow taxes to rise. And I think that's a very important component for the economy.

Q The unemployment numbers, they're obviously good, and they're better than the market was expecting. But unemployment is typically a lagging indicator, following economic growth rather than leading it. And most economists would expect the unemployment will go up from here. Do you share that expectation?

CHAIRMAN LAZEAR: I don't know that unemployment will go up in the near future. It is fair to say that the unemployment rate right now is well below its historic average. So I mean, it would be great if it continues at this rate. There's nothing automatic that says it has to revert to a higher level. I wouldn't bet on what's going to happen in the future on the unemployment rate.

What I would say, though, is, again, that the economy can continue to grow, and continue to grow at a very robust rate. We can continue to have very low unemployment rates, high wage growth, high job growth, as long as we maintain appropriate economic policies. The appropriate economic policies here are the tax cuts. We've got to make sure that we keep taxes low. That is the single most important instrument in growing this economy.

DIRECTOR PORTMAN: The only other point to make there, and that's already been made in at least general terms, is that if you look at where the jobs are being created in our economy -- and this is not new -- most of the jobs are being created by what would be described as small businesses. Most small businesses -- actually, about 90 percent of them are pass-through entities; in other words, they don't pay taxes at the corporate level. They are limited liability companies or sole proprietors -- I mean, partnerships. And so when you're talking about tax rates, particularly the increases in the rates themselves that will affect small business.

And that's, of course, in addition to more directly targeted tax relief for small business, like the section 179 expensing. So this is not only something that, in terms of your question on unemployment, affects economy generally, but very directly affects small businesses and their decisions as to whether to expand plant and equipment and bring on new workers.

Q I have, I guess, two questions. The one is related to the trifecta bill that's stalled at the moment and that the Senate Majority Leader doesn't really expect to be revived. What I'd like to know is, if that happens, is the administration planning to push another vehicle to get the extenders out? Because, as I'm sure you know, when the President goes out on the road, he's always saying that if any of the 2001, 2003 tax cuts aren't extended, that's tantamount to a tax increase. If nothing is done about these extenders, some of which have already expired, wouldn't Congress be, by not doing anything, in effect, be increasing taxes in a lame-duck session?

DIRECTOR PORTMAN: Well, I think you're right, Paula. As you know, having served on Ways and Means, we always seem to extend those tax relief measures, at least the vast majority of them. Sometimes they're slightly reformed, and often, as you know, it's done in a way that's retroactive, so we fill the gap, which would have to happen now. So we're fairly confident that the extenders, including the important research and development tax credit, will be extended, and we want to work with Congress to do that.

Q Well, this year, though, I'm specifically talking about this year.

DIRECTOR PORTMAN: We are encouraging Congress to move on it during the lame duck.

Q Okay. But if they can't move on it through the trifecta, will the administration either, one, push Congress to separate it out and do a stand-alone bill, or, two, put it on a legislative vehicle perhaps, like technical corrections, which may come out this year?

DIRECTOR PORTMAN: I just don't know the answer to that. I don't think that decision has been made yet. After the election, we're going to have some meetings, as you know, with the leadership on both sides of the aisle, and we will be working through that, as well as some other -- what we view as must-pass bills including our appropriations. So I think it will be tied up probably in that bigger discussion about how to get through what is going to be 10 of the 12 appropriations bills that are still undone for '07 and the extenders. And there are a few other items we think are also important as lame-duck items. But I just don't think that decision has been made yet.

Q But that could possibly be vehicle appropriations bills or technical corrections if that ends up coming out?

DIRECTOR PORTMAN: I don't know. You know, it just hasn't been decided yet. The appropriations will be guided, as you know, a lot by what the Senate can do in terms of individual bills.

Q One other quick question. On wage growth, I'm sure you saw this in The Wall Street Journal, in terms of the fact that third-quarter wage non-farm labor productivity is flat. Are you at all concerned that if it continues on that course it could basically damper any future real wage growth and possibly put pressure on inflation?

CHAIRMAN LAZEAR: We know that there is a very strong relationship over the long run between productivity and wages. Fortunately, we've had very high productivity for a long period of time now. So if we look at productivity over the past five years, we're talking about rates of around 3 percent.

You point out correctly, of course, that we did have one quarter where productivity was lower, significantly lower than the average. But that really isn't new. That's basically pure arithmetic. The reason that occurred was because the GDP growth for that quarter was lower, primarily as a result of this anticipated decline in the housing market. And so essentially what we saw in the productivity number in Q3 was just a reflection of the housing market.

We'd be worried about that if we thought that that was a prognosis of what was going to happen in Q4 and in the next year, in 2007. We certainly don't think that is a prediction of what's going to happen out there, and I think that we are consistent with the market. Most of the people in the market are predicting much higher rates of growth as we look forward, and that will show up in higher productivity, as well.

So the wage growth that we're seeing that is tied to productivity is a reflection of past productivity. It does tend to have a little lag, and so we're seeing high wage growth now reflecting higher productivity in the past. But we expect that productivity will continue into the future.

Q So you think this housing market -- the current breaking of the bubble isn't going to continue?

CHAIRMAN LAZEAR: What I would say is the change in the structure of the economy, moving away from residential construction to other things like non-residential construction to business investment, to export growth, all of that is healthy because it makes the economy more robust. It makes us less susceptible to any kind of a temporary aberration.

So I wouldn't think of this as necessarily a negative development. It's certainly a negative development for people who were involved in residential construction, but again, many of those individuals have moved over to non-residential construction. Again, if you look at the numbers, what we saw in the third quarter was that non-residential picked up much of the decline in residential. So I don't really see it as a major problem.

Q What about the buyers, though? I mean, if they want to sell their homes, and they've been cashing out their assets, doesn't this affect consumer demand? Doesn't it affect debt, consumer debt?

CHAIRMAN LAZEAR: Most people believe that seeing housing prices increase at 12 percent to 14 percent per year is probably not the greatest pattern that we see in an economy. You know, it may be great if you bought your house 10 years ago, or if, like me, you're one of the older guys in society, and you've already made your investment. But if you're trying to start out and get into a new home, seeing very high housing prices may not be the best thing in the world. So the kind of housing price increases that we've seen over the past year, something a little closer to 1 percent or 2 percent might be better, at least for the short run.

What I would say is that housing is an important part of our economy. But the housing sector is not weak right now. It's weak relative to where it was a year ago, but at that point, it was extremely high. So if we compare housing starts right now to, say, housing starts in the mid-'90s, we're still above where we were in the mid-'90s. So this is -- it's not like this is weak, it's just weak relative to last -- to January, '06.

Q A couple of questions for Dr. Lazear. If you factor in today's report, the average monthly job growth or in this expansion has been 84,000 jobs a month. And if you look at the first five years of the 1990s expansion, the average was 161,000 a month. How was the job market twice as strong during the first half of the 1990s expansion, when there weren't the tax cuts that you're saying helped this period of growth along?

CHAIRMAN LAZEAR: Two answers: One is, the rate of job growth that you have coming out of a recession and into a recovery depends on the nature of the recession. So one of the things that was great about this recession is that it was very mild, I think, in large part as a result of the tax cuts. Because the recession was so mild, you didn't have a lot of rebound because there wasn't much to rebound from.

The second thing that I would point to -- and this is going to be something that I think we're going to be needing to think about not only in the current situation, but as we look forward -- is demographics. We know that there has been a change in the structure of our labor force. We are an aging labor force. As we look forward, what we're going to see is slower job growth. That's not a reflection of a weaker labor market; that's a reflection of the fact that we're going to have fewer workers out there in the labor market because people are going to be moving into the retirement ages. So if you have fewer workers, you're going to have fewer jobs. You can't have a job unless you have a worker to fill it. And that is going to be the pattern. So when you look at -- when you compare recessions and recoveries, you need to take both factors into account.

DIRECTOR PORTMAN: This is Rob. Just one thought on that. And I know there is a difference of opinion on the payroll and the household figures and so on, and you see the big revisions we had upward in jobs, but that's the other -- we need to look at is what is the accurate measure. If you look at the recent 800,000 increase in jobs over the 12 months from I guess, it was March to March, we're not sure what the number is, but it looks like it's higher than we thought it was for this recovery versus the other recovery.

Second, if you just look at the unemployment rate, which I think confirms some of what Eddie is saying -- and again, I know unemployment rates is not a perfect measurement of the issue of demographics -- but at 4.4 percent, you will recall at one time economists were saying 5 percent was full employment. They aren't saying that now -- at least most aren't. But we're now at 4.4 percent. So you compare that to the average in the 1990s, which would have been 5.6 percent, 5.7 percent?

CHAIRMAN LAZEAR: Eight.

DIRECTOR PORTMAN: -- 5.8 percent average in the 1990s, so the issue is job growth, that's important. But the biggest issue is, if somebody wants to find a job and is looking, you want that person to be able to connect with an employer. And that seems to be happening. At 4.4 percent we have extremely low unemployment.

Q Okay, and just one other question. You both talked about how the recent economic gains are being spread more evenly out across income levels. Would you call this, or would economists call this the typical response to what they called in the Reagan administration, trickle-down economic policies?

CHAIRMAN LAZEAR: What I would say is that this is a typical pattern that we see from a recession into a recovery. What we always observe when you first come out of a recession is that the first thing that happens is output grows. Employment doesn't go up. Profits grow because output is going up, and you're getting basically more output with the same labor costs. So the first thing you see is profits grow. But over time, labor starts to grow, employment starts to grow, and wages start to grow. Profits, then, tend to decline as you move into the later part of the recovery, and wages grow, as well. And that is a typical pattern.

I've looked at these patterns all the way back to 1965, and it was true of every single recession and recovery back to '65. My guess is it's true if you look back beyond that -- I just didn't -- I ran out of gas and didn't even bother at that point, it was so clear that this was the obvious pattern. So I think what we're seeing right now is the same pattern, and I would view that as kind of a typical one in any economy.

Q Okay, but the lower tax rates on high-income individuals, do you see those -- is that what we're now seeing just kind of bleeding through to the rest -- to people of lower incomes?

CHAIRMAN LAZEAR: Well, remember, the lower tax rates didn't just affect higher-income individuals, they affected all income individuals. In fact, 60 percent of the tax cuts went to fund the 10 percent bracket, the reduction in marriage penalty and the child credit. So all of those things are not -- those are not tax cuts for the rich, those are tax cuts for the typical American. And I don't think we'd want to see those go away.

Q Okay, thanks.

DIRECTOR PORTMAN: Brendan, just one other thought there, in terms of the typical recession recovery and, as I said earlier, I think I said sharing the benefits of a strong economy. Having been in Congress during the 1990s, I remember the Clinton administration, and some of us in Congress wondering, gee, why aren't we seeing better wage growth, very similar to what we saw in the first couple of years after 2003, when we really -- when the tax cuts were fully implemented, and we began to see these increases in GDP and productivity. We're now seeing that, that wage growth, and it's strong.

You mentioned the Reagan years. I'll just go back to the 1990s. I mean, if you compare this recovery to the 1990s, we are seeing higher wage growth earlier in the recovery than was true in the 1990s. And I know that's not the sort of conventional wisdom out there, but we can send you the numbers, if you're interested. The bottom line is, at this point in the recovery -- and you can base it on the GDP numbers -- from a relatively shallow recession, as Eddy said earlier, you have stronger wage growth now, of 2.2 percent or now 2.4 percent, for instance, versus I think it was about 0.58 percent at this point. So it was less than 1 percent wage growth. And the average over the second half of the 1990s I think was 1.3 percent, or was it 1.2 percent? Somebody have those?

Anyway, the point is, the wage growth we're seeing is both sooner in the recovery and seems to be stronger than any of the wage growth that we saw even during the late '90s, which are viewed, as you said earlier, in terms of jobs and so on, as being kind of a strong, strong recovery that's often held up as the kind of recovery we'd like to see. So I'm encouraged by that, and I think that does show that there is not just a good recovery that's affecting the economy generally, but specifically, for those who are hourly wage earners and weekly wage earners, it's helping them sooner than in the 1990s.

Q   Mr. Portman, could you talk about the possibility of a large supplemental for the war coming either shortly after the elections or shortly after the beginning of the year? There's been talk that the Pentagon is looking at as much as $130 billion. I'm wondering what we should be expecting as far as that's concerned and what impact that might have on your budget projections, et cetera, and whether there's any chance that that might occur in a lame duck?

DIRECTOR PORTMAN: Yes, good question. You're asking some questions that I'm asking, I suppose, because we still don't have any of those numbers, and we won't for a while. You know they are -- the Pentagon is looking at these supplemental requests based on the conditions on the ground in Iraq and generally on the global war on terror, and they have not given us any of those numbers yet.

I will say that the supplemental which already passed, which was part of the DOD appropriations bill, does fund into next year. In other words, it's an '07 supplemental and provides, as you know, for some additional funds for things like reset --reconstitution of the equipment based on wear and tear that we did not have in previous supplementals. So I think we have already provided some funding that's reflected in our budget figures that is a substantial amount. And it is the bridge, literally, the bridge funding to get us into next year.

So that's what I know so far. We'll see how things go on the ground. But we are, of course, going to reflect all of those numbers in our deficit calculations, as we did last year. And when I talked about the deficit having been cut in half, that includes, as you know, substantial resources for the war on terror, and specifically for Iraq, of over $100 billion.

Q Any chance of having a lame duck supplemental before the new Congress takes over?

DIRECTOR PORTMAN: You know, I don't -- I just don't know. I don't think that is likely. Congress is, as you know, interested in looking at lots of different emergency funding ideas. They always are. Many are not in the defense area. And we've, so far, been successful at keeping those off the two supplementals from this year, things that were likely to come up in the context of these appropriations bills. And we'll continue to make our points.

Q Just real quickly, on the deficit. Just to get back, the actual -- you were careful to say that the President's goal was to cut the deficit in half, and it had been met ahead of schedule. But does not pointing out that that's from the $521 billion projection make that sort of an aggressive use of the phrase "cutting the deficit in half?"

CHAIRMAN LAZEAR: No, not at all. I'm happy to use the $521 billion number. And I'll tell you exactly where that came from. It was in 2004 when the projection for the deficit for that year was $521 billion. And that projection was based on the career professionals at the Department of Treasury telling us what the revenues would be. They did not realize that the recovery was going to be as strong as it was, and that the recovery would come in as high as they did.

The same thing happened in 2005 and 2006, as you know. But the President used the absolute accepted projection at the time. CBO was a little below that projection. They were at $477 billion at the time. But other private forecasters, as you know, were above $521 billion. So it was our best estimate. It was not a political estimate. It was -- if we'd had better numbers, I'll guarantee you, we would have used them because that was a time when all of you guys were focused on the deficit.

And so what we said is, look, this is unacceptable, this is too high. We ought to cut this in half and we ought to do it over the next five years because that seemed reasonable at the time.

Q I guess, what I'm trying to get at is if you look at the final numbers that came in for 2004 versus the final numbers that came in this year, basically it's a 40 percent decline in the deficit over two years, which is also impressive.

DIRECTOR PORTMAN: Yes, yes, it's impressive.

Q But why not say that versus, well, we cut the deficit in half?

DIRECTOR PORTMAN: I'm happy to say that. We can talk about even year-to-year. We can talk about percentage of GDP. We're now down to 1.9 percent of GDP, whereas in 2004, the projection, as you know, was 4.4 percent of GDP. And actually it came in -- we're more than -- we've cut it. Where's the GDP number? You have that? As you know, we believe the GDP is a better way to talk about the deficit because what's important to our economy and to economists is what the deficit is as a percentage of our economy. In other words, our economy is growing as the way it has been growing, just as if your personal income were growing high, you'd be able to maintain a higher deficit and debt level. And that percent of GDP was 3.6 percent.

And that was the actual, not the projected. Projected was 4.5. And we're now down to 1.9 percent.

So you can look at it any number of ways. Saying that the President set in 2004 a goal of cutting the deficit, which was then projected by everybody to be somewhere in that range of around $500 billion, and he's now cut it in half -- I think our final number was what, $248 billion -- I think that's totally legitimate, because that's what it is. It is what it is. But you can look at it from different ways, too. You can also, again, focus on the percent of GDP, which is probably a more accurate measure in terms of our carrying capacity, our ability to carry deficits and debts, which Ed Lazear can talk about better than me.

CHAIRMAN LAZEAR: I think you covered it. Thanks.

DIRECTOR PORTMAN: I'm hoping that our projections on revenues get a little more accurate. I mean, I'll be honest with you, it's frustrating to me. I would much rather, in February, be able to issue a projection that is more accurate rather than less accurate. The notion that somehow we'd like to over-inflate the deficit to have a better news story nine months later, to me, is just crazy. I mean I never figured that out -- why in this town anybody would want to do that.

What you would want to do is, when the pressure is on and the focus is on the budget, to be able to show the actual number. So we will continue to push hard for accuracy, but the reality is that as the economy improves, our modeling that we use -- which we don't have to use, but we have chosen to use, which is the professional career folks at Treasury -- tends to underestimate revenue in a growing economy. You can look historically, that's been true. They also tend to overestimate when the economy goes down. And that's why there was a huge projection of surpluses back in 2000 which never materialized, because their projection was wrong.

So that's the situation we're in, and those are -- I mean it's all very transparent. We can give you all the data points. This year it was a 6.1 percent projection on revenues, and that's what we had to announce in February, or we chose to announce because that was the professionals' best calculation. It ended up being 11.8 percent, which was great news for the taxpayer and great news for deficit reduction, substantial reductions in deficit. But it wasn't based on any kind of over-inflation to be able to tell a good story later. It was based on the actual best analysis that we could get on what revenues were likely to be.

Q   You guys have got a $339 billion for next year. Recently the Bond Market Association said -- their survey of their people who are very much interested in buying government debt came out at a $254 billion 2007 deficit. Do you anticipate that when the budget comes out that year 2007 will be closer to that?

DIRECTOR PORTMAN: I hope they're right. (Laughter.) I mean, I hope they're right, again, for the economy and for the taxpayer. What the deficit shows by its reduction is the results of a good economy and of its growing revenue, but it's also good for the economy. In other words, having a lower deficit and debt is good. And one thing that sometimes folks don't focus as much on is this impact on the debt.

If the economy is growing at 2.5 percent or 3 percent, which it has been, closer to 3 percent, and you have a deficit which this year, as I said, was 1.9 -- under 2 percent -- you actually are also making progress on reducing the debt as a percentage of your economy, which is, again, how people tend to measure it not just here in this country, but around the world. So our debt is actually declining as a percentage of our economy. And it's declined to the point where it's actually below the debt to the GDP ratio in most of our other developed country partners -- the G7 countries.

Q   Thank you.

Q   I wanted to follow up on the earlier question on the defense supplemental -- two questions -- one on that, start with that one. Is there any reaction to the Reuters report on the Air Force looking at such a large number -- I think $50 billion -- in emergency funding. I realize this is with the Pentagon and not to you yet, but clearly you're seeing the same things we're seeing. What do you think the -- you talk about the on-the-ground reality -- does this reflect that the true cost of the war really hasn't been passed through yet?

DIRECTOR PORTMAN: Kevin, I'm sorry, I missed your number there. I wasn't familiar with that. Could you give me that again, from the Air Force?

Q Yes, $50 billion in emergency funding for fiscal '07.

DIRECTOR PORTMAN: Where does that come from?

Q It's comes from the Lexington Institute. Reuters ran a story -- if there's a Reuters person on the phone here, they might jump in --

DIRECTOR PORTMAN: Keep giving them free advertising. (Laughter.)

Q But clearly, they're looking at a request, if true, that is roughly half of the entire budget requested last year. And I guess the broader question is, to what extent do you think, as OMB Director, that the true costs of the war are kind of coming out in dribs and drabs with emergency supplementals, and do we have a sense of what the true costs are?

DIRECTOR PORTMAN: Well, I've not seen the analysis you're talking about. I will now try to find it -- the Lexington Institute. But I hear both things. One thing I hear, as you know, Kevin, is that we're not using supplementals properly because sometimes the supplemental includes some spending that could, perhaps, properly be defined as base funding. And what you're suggesting is sort of the opposite, which is, does the supplemental really reflect the true cost -- I suppose you're saying -- or is some of it either being put off or in the base funding? I don't know. Our goal is to, as accurately as we possibly can, reflect the costs of the global war on terror in the supplemental, and then continue to have the Defense Department, including the Air Force, have its base funding funded through the annual appropriations.

And as you know, this year we got in a big fight with Congress over the amount, because the House cut $4 billion out of the base, the Senate cut $9 billion. And we had a presidential veto threat eventually on the $4 billion level, to retain at least what we thought was necessary plus -- with the reduction of the $4 billion, and we were successful. But I'm afraid that -- I can't give you much more of an answer than that.

We believe to the best of our ability that we will continue to -- that we have and will continue to put into the supplemental the costs of the war, and to put into the base funding the necessary appropriations for the Pentagon to be able to continue both its sort of day-to-day operations, but also looking forward in terms of procurement. The challenge is to be as transparent as possible in our projections, and we'll work hard at that.

Q I guess the implication of the --

CHAIRMAN LAZEAR: Unfortunately, I'm going to have to go in about 15 seconds. So is there any last question for me that you feel that would be better addressed to me than to Rob?

Q The other part of the question was on the accounting methods in this proposal to include unfunded liabilities in a more accurate read, and whether that would change your deficit numbers.

DIRECTOR PORTMAN: Are you involved in that?

CHAIRMAN LAZEAR: No, I'm not involved with that. Do you want to take that?

DIRECTOR PORTMAN: Any other questions on the economy?

Q I did have a quick question for Dr. Lazear. I was curious if he could explain the decline in manufacturing numbers for this month and the previous few months, and where that trend is heading?

CHAIRMAN LAZEAR: As you know, manufacturing jobs have been declining for a long time. That's primarily a reflection of the fact that productivity has been up, and up so strongly in manufacturing. One of the things this economy seems to be best at is figuring out ways to produce more output with fewer resources.

That's a good thing because what it means is that we can release labor to work in other sectors, and to be productive in other sectors. And we'd worry about this if it were the case that the manufacturing jobs that were lost were replaced by low-wage jobs, but that's simply not true. In fact, what we're finding is that the movement is into actually higher-wage occupations, rather than lower-wage occupations, part of which we see as reflected in these high-wage growth figures for the year. So I think that's probably what's going on there. And again, it's not a new pattern.

DIRECTOR PORTMAN: Thanks, Eddie.

Kevin, are you still there? Hello. Kevin, were you talking about the FASAB recommendations --

Q   The federal accounting, yes.

DIRECTOR PORTMAN: And what's your specific question is -- GAO, CBO and OMB think alike on this. And we have been aggressively talking on the Hill and in the public about the budget challenge that we face, which is a longer-term challenge, but a very real one on the entitlement side. And personally, I feel very strongly about this, as does the President, more importantly -- and we'll continue to talk about that, as does Secretary Paulson.

So my goal is to make it as clear as possible to the American people and to their representatives that we need to come together and solve this problem, because, otherwise, the unsustainable growth rates will lead to huge tax increases, or huge benefit cuts, neither of which is acceptable. And we could make relatively small changes to those programs now to avoid the otherwise dire consequences. And one figure that I use when I talk about this is that in 2037, the Medicare and Medicaid, Social Security and interest on the debt associated with those programs will crowd out all over federal spending.

Now, that's not going to happen, but that's the track we're on, so we're very aggressive in talking about it. We think -- as you know, the President has called for an entitlements commission. He's also made some very specific proposals on Social Security that were not adopted by the Congress.

And then the question becomes, well, how should you account for the unfunded liabilities, which is a more technical question. And there, I think, again, I think we agree with CBO and GAO on this, which is we ought to continue to reflect our budget in the way that we have in the past. We agree we should reflect liability costs as accurately as possible, but we should book liabilities when they exist. And that's the way we've done it, that's the way the international community has done it. That's consistent, by the way, with the court decisions on the entitlement programs. So that's -- I hope that's response to your question.

One last question, then I've got to run.

Q Mr. Portman, you've made a point of the -- effect of tax cuts on government revenues. I wonder if you could be a little more specific? Could you compare the revenue that we are actually projecting for fiscal 2007 with the revenue that we would have had without the tax cuts of 2001 and 2003? And likewise, could you compare the revenues that we actually got over a period of years, say, 2003 to 2007, with what would have happened without the tax cuts and the growth --

DIRECTOR PORTMAN: Yes, it's a great question and, unfortunately, no one can give you the answer. I'm always searching for the best model on this, and I have yet to see a very good one. But here's the reality. If you look at what happened, starting in 2003, and look at the time in 2003 when the tax cuts were fully implemented, and look at the correlation with that and GDP growth, or job growth, or revenue growth, it's really impressive. The correlation is that as the tax cuts were implemented -- Ed Lazear talked about the increase in investment -- but you also saw an increase in these other positive economic indicators.

What happened, as you know, in 2005, to the surprise of the projectors, of those who project what the revenues are likely to be, is that we had the highest rate of growth in 24 years, 14.5 percent growth rate in our revenues. And many people didn't think that would continue in 2006. In 2006, we had 11.8 percent growth in revenues. And we can break that down for you to the extent we know it. The IRS doesn't give you all the specifics, but we do know which came from corporate, which came from individual, which came from payroll and from other fees.

So I can't give you the precise number that relates to the precise tax cut, but I can say that, in my strong view, if you had not put the tax relief in place when we did, I believe the recession would have been longer and deeper, as Ed Lazear does -- and he's left now, but I'll speak for him. So as a result, the economy got back on track sooner, which resulted, as all tax cuts do, initially in less tax revenue, but as the economy got back on track, we then saw not only getting back to historic levels of revenue, but above that, in terms of increases, and even in terms of, of course, we're bringing in more taxes and more revenue than we ever have.

So I believe it's sort of a two-step thing, Joe. I don't think it's that all tax cuts pay for themselves. It depends on the tax cut. It depends on when you do it, and it depends on the way in which the economy responds. And in this case, the economy responded in a way that's resulted in, again, higher revenues than we had projected.

Q But in the first three years of this decade -- I think it was the first three years -- revenues went down.

DIRECTOR PORTMAN: Yes, they did. And the question is, how much would they have gone down because of the recession with the tax staying just the same. I don't know, it's hard to know. The other thing that some people don't focus on is the degree to which the tax cuts, as important as they were -- and I think they were the largest tax relief since the 1980s -- it still was a relatively small part of our overall revenues.

And one thing the tax cuts did do is they made the code slightly more progressive, so that the top 10 percent that was paying about 65 percent is now paying closer to 68 percent of the taxes. About 4 or 5 million taxpayers were able to get off the federal income tax rolls altogether. So it not only gave the economy the needed shot in the arm, but it actually made the code more progressive.

Thank you all very much. Appreciate it.

END 12:35 P.M. EST