

**Additional Pre-hearing Questions from Chairman Lieberman
for Nancy Dorn, Nominee for Deputy Director,
Office of Management and Budget**

I. Budget and Economic Policy

2. **The declines in the surplus due to the revenue impact of the 2001 tax cut in FY 2002 through FY 2011 appear sufficient to cause the Federal government to borrow some of the Social Security Trust Fund surplus. In your estimation, to what extent will borrowing from the Social Security Trust Fund be needed?**

Social Security will receive special Treasury securities equal to the full value of its overall surplus. Over 2003-2007, this overall surplus includes cash surpluses of \$549 billion and interest payments of \$510 billion. The recession and the war on terror have pushed the unified budget into deficit, which is estimated to continue until 2004 or 2005. While this means that there will be a temporary pause in debt reduction, the burden of debt on the economy is projected to fall over the budget window.

3. **The Senate Budget Committee projects that the 2001 tax cut accounted for 45% of the reduction in the government budget surplus between 2002-2011, spending, including defense and homeland security, accounted for 19% and economic changes accounted for 36%. Do you believe that these estimates are approximately correct? If not, what are your estimates?**

The Administration's budget projects that tax relief accounts for less than 15% of the reduction in the 2002 unified budget surplus relative to last February. Over the 2002-2011 period, OMB's estimates are similar to those of CBO: 43% for tax relief including debt services, 17% from spending and 40% from economic effects.

4. **The Senate Budget Committee projects that Federal government spending as a percent of the Gross Domestic Product (GDP) will decline from 22.2% to 16.5% between 1992 and 2011. Do you believe that this estimate is approximately correct? If not, what is your estimate?**

Outlays totaled 18.4% of GDP in 2001, the last year for which OMB has actual data. The Administration projects that this ratio will edge down to 18.3% by 2007. While the Administration believes that 10-year projections are inherently uncertain, current projections show this ratio falling to 17.9% by 2011.

5. **The Senate Budget Committee projects that discretionary spending as a percent of the GDP will decline from 8.5% to 5.2% between 1992 and 2011. Do you believe that this estimate is approximately correct? If not, what is your estimate?**

Discretionary spending totaled 6.5% of GDP in 2001, the last year for which we have actual data. The Administration projects that this ratio will also be at 6.5% of GDP in 2007. The Administration believes that 10-year projections are inherently uncertain. However, current projections show this ratio falling to 5.9% by 2011.

6. **When the administration was advocating its tax cuts last spring, one argument it made was that the supply-side effects of the tax cut would increase the underlying growth rate of potential GDP. It was not focusing on demand-side stimulus in the short run, but rather an increase in the savings rate and in the number of hours people would choose to work by the end of this decade, by 2009 or 2010. Now that the tax cut has been enacted, do you believe that the OMB economic forecast should and will show a higher or lower rate of growth of potential GDP, of national saving, and of workforce participation by the end of the decade?**

The Administration believes that last June's tax relief package will have a favorable effect on economic growth going forward. However, in the interest of conservative budgeting, the Administration has for the second year adopted growth assumptions that are in line with the Blue Chip consensus. Both expect 3.1% average real GDP

growth over the 2002-12 period.

- 8. The Joint Committee on Taxation in JCX-52-01 found that the revenue impact of the reduction in the 28% and higher tax brackets was -\$420.6 billion between 2001 and 2011. It found that the revenue impact of the estate and gift tax provisions of the law was -\$138 billion in this time period. It found that the revenue impact of the relief from the individual alternative minimum tax was -\$49.6 billion. Do you find these are reasonably accurate estimates? Given the new demands associated with homeland security and national defense, do you believe we can still afford to spend these funds on these tax cuts? Can we enact these tax cuts and also spend what we need to on homeland security and national defense without substantially aggravating the long-term budget deficits and the national debt?**

While tax issues fall under the domain of the Treasury Department, these estimates look broadly accurate. Last year's tax relief package provided needed stimulus to the economy at just the point when growth was faltering. I believe it was and continues to be the appropriate policy for enhancing the nation's growth outlook.

The Administration's budget gives very high priority to winning the war against terror and protecting the homeland. While the budget will go into temporary deficit for a few years as a consequence, the fiscal picture remains strong. Debt as a ratio of a GDP is projected to fall from 34% in 2002 to only 25% in 2007.