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PRESS BRIEFING  
BY DIRECTOR OF OMB ROB PORTMAN  
ON THE BUDGET

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DIRECTOR PORTMAN: What I'd like to do today is just briefly go over the mid-session review. You all have it now, I assume. I also have given you some charts or slides to take a look at within this packet. The first one is the one in the -- this is the same chart you've seen many times, which is comparing the budget deficit over time, starting with 2004, up to 2012, the balanced budget. That's the first chart that should be in your packet.

What it shows is that this year the deficit projection we're making in the mid-session shows a substantial improvement, largely driven by revenue growth. Does this sound familiar? It's what happened a year ago. It's also what I predicted was likely to happen again this year, which is why I hope none of you are going to write that story about how Portman sandbagged us in February.

Specifically, we estimate the deficit will be \$205 billion this year, which is down to 1.5 percent of GDP. This is a \$39 billion decrease from the projection we made in February, about a 16 percent reduction. It's a \$43 billion decrease from the deficit last year, so an 18 percent reduction in the deficit, year to year.

We'll see where we come out on October 1st. My own view is this is cautious, once again, giving you a fairly conservative estimate. I say that not so much because of the revenue side, in this case, because I think our revenues we have a pretty good handle on. But I think in terms of outlays, we have

historically not been able to predict accurately what the agencies will actually spend within the fiscal year. And if you look at last year's data, for instance, we were about \$35 billion off -- is Beth here? Is that right? What was our final last year, about \$35 billion -- of outlays?

MS. ROBINSON: A little bit more than that; almost \$40 billion.

DIRECTOR PORTMAN: Almost \$40 billion. So we do our best with the agencies and try to give you the best data we have, the best estimate -- but don't be surprised if on October 1st this estimate looks closer to what CBO is projecting under 200.

But this is great news. It's good news for the American taxpayer, it's good news for fiscal discipline. It shows that the economic plan is working. Since peaking in 2004 in this administration at \$413 billion, it's a decrease in the deficit of \$208 billion. So in the last three years the deficit has decreased by \$208 billion, based on this projection, which, again, I think is a cautious projection. But this is real. This is not projections, surpluses or deficits -- this is saying what's actually happened the last three years, and we've seen a steep decline in the deficit.

More important to me is that at 1.5 percent of GDP, as the economists around the table -- at least one economist around the table -- will tell us, this means it's not having a major impact in terms of our economic growth. This is the number that economists tend to focus on. And the 40-year average is 2.4 percent. This makes this deficit lower than deficits in 18 of the past 25 years.

Thirty billion dollars of the decrease is from corporate -- or the increase in revenues, and therefore, the decrease in the deficit -- \$30 billion of the nearly \$34 billion in higher receipts is from corporate receipts. So it's higher corporate profits. So corporate receipts are coming in higher than we expect that they would. Outlays are also down a little bit, about \$6 billion down from our February estimate. Primarily this is in terms of our new estimate on outlays -- mostly DOD. I don't think they're going to spend that as fast as we thought that they would. But this reduction is being driven as it was last year, by revenue.

The out-years, interesting story: 2008 you'll see the deficit projection is actually up a little bit from our estimate

that we had in February. It's up \$19 billion, to \$258 billion. It's increased because we believe that additional spending will drive that deficit up a little more than we had projected previously. It is two sources, almost equal. One is the spending in the supplemental. Remember, there was \$17 billion in the supplemental that we did not request; \$10 billion of that is spent out in 2008, not 2007. So most of that spending occurs in 2008, and that's just \$10 billion on top of our projection that we had not expected, because we had projected that we would keep the supplemental to our request.

Second is higher numbers on Medicare and Medicaid. You'll see in the mid-session review -- this is spelled out in the charts -- but about \$12 billion equally divided between Medicare and Medicaid is due to the actuaries telling us that they think that the costs will be higher in those entitlement programs. This is primarily driven, we're told, on the Medicare side by fee-for-service; Medicaid side, just general health care cost increases. This is only since February we're seeing this increase in the estimate for '08, and, again, makes the point that we have to get entitlement spending under control, as well.

Spending is also the issue in the out-years. Instead of having a \$61 billion surplus, you see a \$33 billion surplus on the chart. That's driven entirely by spending. We'll talk about that in a moment and why the spending part of this equation is so important to keep the restraint on spending in order to reach balance.

Second chart you've got, it just shows the deficit over time. This is the chart which shows that we're in relatively good shape compared to the historical average on the budget deficit as a percent of GDP. Really just reiterating what I said earlier, taking out World War II, which was really an anomaly, if you look at the 40-year average you're at -2.4 percent.

Third chart shows the main reason we are making progress, which is sustained economic growth. This shows that we had very low receipts during the recession, 2000-2001. As the tax relief began to be implemented, we saw something interesting, which is not tax receipts going down because of the tax cuts, but, in fact, an economy that got back on its feet and then receipts going up, particularly after 2003, when the tax cuts were fully implemented.

Since the President has taken office, real after-tax income has now increased by 10.2 percent, or more than \$3,000 per person, and the economy has grown for 22 consecutive quarters, averaging about 3 percent, 2.9 percent a year since the end of 2001. We expect it will average about 3 percent from 2008 to 2012. So we've seen a strong economy and we expect that to continue.

The economy has also created a lot of jobs. The President talked about that today. For those of you who didn't hear it, 8.2 million new jobs since 2003; unemployment at 4.5 percent -- again, lower than the averages we had in the '70s, '80's or '90s. So we're seeing a strong, growing economy, which is helping to fuel these revenues, which is helping to reduce our deficit.

The 2007 receipts we're projecting will grow at 6.9 percent. As you know, this builds on remarkably high levels the last two years, 11.8 percent and 14.5 percent. So we're still seeing revenue growth. The 2008 number, I will tell you I think is also a cautious number, not so much because of the spending that has driven that up a little bit, but the 2008 revenue projection is 3.3 percent. Is that right, John?

MR. KITCHEN: -- 3.3 percent.

DIRECTOR PORTMAN: -- 3.3 percent, which I think is relatively low. There are some reasons for that, but as I told you back in February on the revenue projections, this year probably being a little low, I think those are likely to be cautious, as well -- 3.3 percent.

I also tell you that you will recall a year ago, our 2007 number had gone up. In other words, a comparable chart a year ago would have shown that we had a deficit that was higher, the next year being 2007, and you see what's happened. So we'll see what happens with these projections, but I think 3.3 percent is relatively cautious.

Steve, why don't you come up here. You have a name tag, you have to come up here.

Chart four shows you receipts as a percentage of GDP. I put this in because at least relative to our history, we have a story to tell here on the receipt side, which is that we are not under-taxed. The average burden on the economy is 18.3 percent of GDP. And this year we're now projecting 18.8 percent.

That's higher than we thought it would be. We are assuming that, again, with 3.3 percent growth, next year we go down closer to 18.3 percent. But, actually, during the entire five-year window, we never get to 18.3 percent, we stay above it. So this notion that somehow because of the tax cuts, we're under-taxed, certainly we're not, relative to the historical record. Receipts have only risen this high before during the bubble of the late 1990s and during some of the war surtaxes, where you had relatively high inflation, before the brackets were indexed for it.

Chart five shows the spending side of things. I mentioned earlier that one of the concerns that I have about maintaining this path to balance is spending. Even if we keep the economy strong at 3 percent growth, we've got to keep the brakes on spending in order to stay on track for balance. This shows the difference between where we are in our discretionary spending and where the congressional budget resolution is, and also where the annual appropriations bills are at this point. Again, we're already seeing in the 2008 projection, because of the supplemental expenses and the entitlements and, in the out-years, some impact on the deficit, that will, of course, grow unless we keep restraint on the spending side and address the unsustainable growth in these entitlement programs.

On the discretionary side, the President has a 6.9 percent increase in spending in the '08 budget. This is almost triple inflation. Now, admittedly, much of that increase is directed toward the security side of the ledger, particularly DOD. But I will also tell you that if you look at our budget over the next five years, including this year, the '08 budget and through 2012, we do have some increases in domestic discretionary spending that's totally non-security. We have about a 1 percent growth rate.

Our last three budgets, as you know, have been cuts in the domestic discretionary side. This time our budget, we believe, is more in keeping with where Congress has been, because in the last three years the congressional appropriations bills have had 1.3 percent average increases in domestic discretionary spending. They, too, have kept it under inflation, including this year, with the Democrats in control, under the CR.

So for people to say, gee, you guys don't have enough money in your budget, of course, your top line can't be capped at \$933 billion, I disagree with that. I think it's reasonable for the federal government to be spending the amounts we need to spend

to provide for our national security. I think a 6.9 percent increase in spending is substantial. I think most American households would agree with that. And I think the growth, the 1 percent growth on the domestic discretionary side by prioritizing, by getting rid of programs that don't work -- and we have 141 programs that we either eliminate or substantially reduce -- I think we can meet the nation's priorities and continue the path toward a balanced budget. We do not have a freeze; we had some growth and, therefore, some flexibility to work with Congress on keeping to that top line of \$933 billion.

The Democrats plan, as you know through their budget resolution and, again, through their individual appropriations bills, add about \$22 billion more in spending than we have in 2008, and about \$200 billion in new spending over the five-year period. The President has indicated that he's going to hold the line on spending, and that includes vetoing bills that are over the top line. The one exception to that the President has already talked about is the Veterans Affairs bill, the Mil-Con VA bill.

On entitlements, the next chart, chart six, as we've talked about many times together, this is our biggest budgetary challenge that I see. I urge Congress to work with us to address the unsustainable growth in these entitlement programs. As you can see from this chart, mandatory spending is taking up a bigger and bigger part of our budget. It's now over half of our federal budget. Look at 1962, when it was 26 percent. This is sort of the untold story about our budget. We are debating on the domestic discretionary side about an increasingly smaller part of the budget. About 18 percent of the budget this year will be domestic discretionary spending, whereas the mandatory programs continue to grow, and grow at two and three times inflation.

Interestingly, in 2008, again you see the actuaries telling us, even since February, they expect that there will be \$12 billion more spent on Medicare and Medicaid. They tell us over five years on Medicare, it will be \$40 billion more over the next five years alone. They tell us that's primarily from fee-for-service Medicare being more costly, and also hospital costs being higher. They tell us that Part D in Medicare is actually saving money compared to what we thought. So the competition model in Part D is working to reduce costs compared to projections, whereas the traditional fee-for-service is increasing costs. Unfortunately, the net is an increase of \$40

billion over five years. And, again, you'll see in the mid-session review.

On Medicaid, unfortunately, we also see higher costs than projected, \$27 billion more in the next five years. Again, that's just from February until now. So these costs continue to go up. You'll see in the next chart what the long-term problem is. We talk about unsustainable growth in entitlements. This assumes you have roughly the current revenue, 18.3 percent of GDP, and I think this is actually a relatively cautious analysis, as well, because it assumes that at some point health care costs will not continue to grow at 6 percent, 7 percent, and 8 percent. It assumes that there will be some flattening of that growth. But even so, look at this chart in 2040, where you see interest on the debt and mandatory spending programs crowding out all domestic discretionary spending. So there would only be room in the budget for Medicare, Medicaid, Social Security and interest on the debt. And, even so, we'd be in a deficit.

This means no spending on education, no spending on national defense, no spending on homeland security. This won't happen; we will of course adjust. My fear is the adjustment will either be dramatic increases in taxes, which will harm the economy and the prosperity we talked about earlier, or it will result in substantial and dramatic cuts to these programs. Rather than making small changes now that make sense, that help reform these programs, we'd be faced with some stark choices.

So that's, to me, the biggest budget challenge we face. And since this is the last time I'll get to talk to some of you, I'm glad you indulged me to let me say that one more time. I'm frustrated by it. I had hoped that Congress would be willing to take up this issue this year. I think there was a window of opportunity before we got into the '08 election cycle. I don't see an appetite for taking on entitlements right now in the U.S. Congress, and I think that, again, is disappointing.

It was surprising to me, as I've told many of you, that in the budget resolution passed by the new majorities in Congress, there was not one penny of savings on the mandatory side; not one reform -- and no ability to use reconciliation, which is the typical way that, given the Senate rules, you address mandatory savings -- no provision for that in the budget resolutions.

So I know that it is a partisan atmosphere up on the Hill, and some would say the '08 election has already begun, but I do

think we're ignoring our responsibilities by not addressing these problems. We took a step in that direction with our budget. We have \$92 billion in savings in mandatory spending over five years -- by the way, we got to balance without it. That wasn't why we did it; we did it because it was the right thing to do.

The biggest changes were in Medicare. And you all can see those proposals. If you want to talk about them today, I'd love to talk about them, but those are our ideas. We're open to other ideas. The President, of course, has been out there on Social Security for three years now. He included some of his Social Security changes in the budget again this year and has not been able to find willing partners on Capitol Hill to address these admittedly tough political issues on very important programs.

With that, we'll turn to your questions on any of those topics, or others.

Q You mentioned that the projections, a lot of them are based on corporate profits -- strong receipts from corporate profits coming in. A lot of the forecasts out there -- blue-chip and the others are already -- we're already seeing some signs that corporate profits just are not going to be at the same level they've been. There's also a question about how far this whole sub-prime issue is going to shake down more into the economy that way. How does this sort of account -- I mean, how do you sort of take that into account in this forecast, that we are actually going to likely not see the same type of corporate profits we have over the past --

DIRECTOR PORTMAN: It's a good question. The reason that the Office of Tax Analysis at Treasury has downgraded the corporate receipts for next year as compared to this year, or certainly the last three years, is because they do believe that, among other things, corporate profits will level off and there won't be the higher receipts that we've enjoyed this year.

I would tell you from my own point of view -- you mentioned sub-prime -- certainly it's an issue of concern. I don't know what the market is doing today, but it's such a small part of our economy now, we have such a huge and diverse economy that I have a hard time imagining that that would have a real world impact on our economy that would affect this projection.

John, you may want to talk about corporate profits more specifically. Our economist at OMB, John Kitchen, who some of you know.

MR. KITCHEN: Right. We have very high corporate profits relative to history as a share of the economy. And our projections for the administration forecast assumes that they will be moderating as a share of the economy. We'll also have some return of higher labor compensation, as well. And this is part of the reason why I think this is a reasonable economic forecast that underlies the budget projections because it does, in fact, assume this moderation of the corporate profit share, which would be consistent with historical performance.

MR. SMYTHE: We had corporate income tax decline in 2007 and 2008 --

DIRECTOR PORTMAN: You mentioned blue-chip, just one quick comment there. If you look at our troika economic forecast, it's very much in line with blue-chip. I met with Chairman Bernanke this week, as I always do before the mid-session review -- or budget directors do -- and we went over some of the economic analyses. And I think you'll see that what we've projected here is really very reasonable. Some would say, as you know, based on the data in the last month, that maybe we're a little cautious. Most of this troika analysis had to be done during the first quarter and into the second quarter, when we didn't have the kind of growth rates we're now projecting for the rest of the year.

Q Two questions, if I may. First, a very simple factual point. When you were looking at the out-years, to 2012, and you were looking at the spending totals, what are those based on at the moment? Are they based on what the administration intends to propose in outer-years, what the President is -- the limit beyond which the President is prepared to veto in outer-years, or some estimate of what the Congress is likely to do in outer-years?

And my second question is, when you look at a chart like the first one you have behind you, showing that we -- instead of going down from -- the deficit going down from '07 to '08, as you were projecting in February, now it goes back up again before it begins to decline. Some people will look at that and say, this is what's going to happen every year; what's going to happen is you'll continue to show that in the out-years the deficit comes down, but in practice, given the way politics

works, each year, the Congress -- when you don't have a very high deficit, the Congress will add a bit more spending over the 1 percent or just above 1 percent that you have factored in. So what we will see a year from now is that somebody will be bumping up the forecast for the following year, as Congress has put a bit more money in, and so on and so forth, with each outer-year. So, in fact, the goal of reaching balance will recede, because Congress won't stay within the 1 percent band that you've set out. So I wonder if you could also address that question.

DIRECTOR PORTMAN: I take it the two are related. Again, the point I tried to make earlier was, if you were to look at our chart last year, it would look very similar, except one year back. And, in fact, we had showed the '07 number being a little higher than -- it was at \$244 billion, and where were we at in '06, that point in the mid-session review -- Austin, do you remember?

MR. SMYTHE: At \$296 billion for 2006, and \$339 billion for 2007.

DIRECTOR PORTMAN: So we were up here at \$339 billion. It was a similar pattern, higher numbers. I -- 3.3 percent growth, even with corporate profits moderating, to me seems to be cautious. That's a number we use. We choose to use OTA's number. We don't have to, by the way, but I think it's prudent to do so. So we'll see what happens, in terms of your '08 question.

We also have factored into '08, of course, the full costs of the war, because we have the \$145 billion there, much of which is spent out in '09, actually, but also the full cost from '07; the roughly \$217 billion that was in the supplemental is mostly spent out toward the end of 2007, and then into 2008. That's all in here. I think it incorporates the likely spending.

On the 1 percent, you're right, it assumes that we stick within the President's top line of \$933 billion. Again, revenues and spending are both huge factors, and we'll see what happens on the revenue side. But I think what you're likely to see is that these spending levels of not just '08, but through the 2012 period, are going to depend much more on what happens in the '08 election than what I'm projecting here. We're going to have a lot to say about this year, and something to say about this year, but Congress is going to go through a change, the

presidency will change, and that will determine whether we can stay on balance or not.

One of the big issues -- again, we talked about this -- 52 percent of what you see here is not discretionary spending; only about -- I think I said 18 percent -- it may even be less than that this year, maybe closer to 17 percent, is domestic discretionary spending. So a lot of this relates to what's going to happen on the entitlement side. If you do see some reforms, you would see better numbers.

People talk about the entitlement problem always as a long-term problem. I'm guilty of that sometimes. I think I did it earlier today. I said it's our biggest budgetary challenge. I hope I didn't say just long-term challenge. When you think about it, this year the growth in entitlements, being double and in some cases triple inflation, is already squeezing out other spending. That pie continues to be growing on the mandatory side. It continues to grow on the mandatory side, as those areas are the biggest growth rate, and will be, based on this analysis, all through this period.

So there are a lot of factors -- revenue side, the entitlement side, and then as you say, what people are willing to live with on the domestic discretionary side. But I don't think that's an unrealistic projection.

Q Thank you. A couple of questions. You said Congress this year is \$22 billion more than you proposed --

DIRECTOR PORTMAN: Yes.

Q I wonder, do you think that's a really large difference, or an insurmountable difference, A? And B, where are some of the specific areas, in terms of the appropriations bills that have been coming down that you see the most potential for problems and potential budget shutdowns and all that kind of excitement?

DIRECTOR PORTMAN: What's interesting, some of you have written stories saying, gee, it's only \$22 billion, 2 percent or so, depending on how you -- a percent of a -- viewed as a percent of domestic discretionary spending, it's bigger; viewed as a percent of the whole budget it's smaller -- \$22 billion is a lot of money. That's a lot of money in Washington, even; certainly it is outside of the Beltway.

Could we resolve our differences? Yes, we can. I spoke to Chairman Conrad today. I believe there is a way forward. I believe that we can live within a 6.9 percent increase in spending year-to-year, which is what we've proposed. We don't want to micromanage the spending process. On the other hand, we have no choice but to look at the bills within the context of \$933 billion from our budget perspective until they give us another path.

And one of my frustrations, as you can imagine, is that it's very difficult to talk about the end game or even where the problems exist when we haven't seen a single appropriation bill come to the President; more to the point, we haven't seen a single appropriation bill go to the floor of the United States Senate, not one. So I have a sense of what they might look like, but it would be presumptuous for the administration to say, this is what Labor/H is going to look like -- which is the bill that probably is going to be the most problematic, to answer your question -- because we haven't seen the Senate version come to the floor yet; we haven't seen the House version come to the floor yet; we don't know what the conference will result in.

I'll give you an example of that. On the education side, if you look at their increases in Title I, they're not that dissimilar from ours. So there are some similarities, and we could come together on some of these issues, where in the past we haven't been able to, because we had a relatively large billion dollar increase in Title I.

Pell Grants -- we have some very similar approaches to Pell Grants. The student lending issue, we have some similar approaches. I'm not saying those will be easy to get through the process; on the other hand there is -- I believe I'm right -- at least in the committee versions in the House and Senate, no real attempt to take on the 44 programs that we believe ought to be eliminated or substantially reduced at Department of Education.

So we'll see. I think the difference is surmountable. I also think it's not insignificant. I don't think \$22 billion can just be sort of swept under the carpet, and say, well, let's just move on to next year's appropriations, and what's \$22 billion between friends? It's a lot of money, and it takes us off track. It takes us off track from meeting these deficit targets that we're talking about to get to the balanced budget. And to me, that ought to be the goal. We ought to be sitting

down together as Republicans and Democrats, both sides of the aisle, figuring out ways to reduce earmarks, figuring out ways to encourage efficiency in these programs, reducing those that don't work, prioritizing those that do, and all with a mind toward keeping taxes low and getting to a balanced budget. If we did that, I think we could see a successful outcome.

Q Can I just do one more quick one? A 6.9 percent spending increase, doesn't that give ammunition to conservatives, who say that this is really a big-spending President, that you really -- you want to increase national security, but you really -- if you do that, you need to actually making cuts in domestic spending? Otherwise -- in non-mandatory domestic spending at least, and maybe some mandatory cuts -- if you don't want to be characterized as truly a big-spending President? Isn't that really --

DIRECTOR PORTMAN: The numbers are 6.9 percent overall, 10.5 percent in defense, 0.8 percent based on the 2007 CR -- I can give you a chart on that that was just given to me -- so there's no reduction in domestic spending, there's an increase -- it's below inflation, but there is an increase. And then within that we prioritize -- again, more money for research, for instance, more money for energy, more money for Title I. And in other areas we think we can eliminate some programs that aren't working and see some reductions in other areas. So it's not that stark a contrast.

If you look at the big picture, as a fiscal conservative, I guess it depends how much you think we need to increase our DOD spending, because that's where most of the money is, most of the 6.9 percent.

Q But aren't they saying you're trying to sort of have your cake and eat it, too, by not actually making cuts to domestic spending, or keep the overall number down?

DIRECTOR PORTMAN: We are not trying to have it both ways this year. And that's the point of contention you talked about earlier, in the sense that the President has set a level, he thinks it's fair. He has said we should not rob our national security, we shouldn't raid that account, and that he is prepared to veto legislation that comes to his desk on the domestic side that exceeds that top line.

Q On that point, he didn't veto a bill that had \$17 billion more than he wanted. So why should people believe that he would veto \$5 billion more?

DIRECTOR PORTMAN: Well, he did veto that bill once. And when he vetoed that bill, he said that it was excessive spending. He also said -- he acknowledged that half of that spending was Defense and VA, over half of it was security, because of the homeland security adds, and he wanted to work with Congress on that. And in the end, \$4.2 billion was removed from the bill as a result of the veto.

And as you know, he was very concerned about the restrictions on the Commander-in-Chief and on the commanders in the field. And that language, which was particularly problematic for the President, was removed. He also, of course, vetoed the bill because of the withdrawal language, which was also removed. So it was a give-and-take with Congress, but in the end, we were able to remove over \$4 billion in spending. And more than half of the spending in the end was security based that was added to the supplemental request.

Q So is the \$22 billion sort of a give-and-take number, too, that you're willing to --

DIRECTOR PORTMAN: No, I think what the President has said is that he believes that he has provided adequate increases to meet the national priorities with a 6.9 percent increase in spending, and that with the exception of the Homeland Security-VA bill, where we think we can productively spend the additional resources that Congress has requested, that the President will veto legislation that exceeds that adequate \$933 billion top line -- which is an adequate cushion, given the increase that Keith just talked about.

Q I had a question about your economic assumptions here. Can you explain how it is you lower your forecasts for GDP in 2007 and raise your revenue forecast, and then keep your GDP forecast in 2008 the same, and lower the revenue forecast?

DIRECTOR PORTMAN: I guess the honest answer to that is, facts are stubborn things. We're through most of the fiscal year now, and we have the first quarter numbers in, which were relatively low, so our forecast is lower for GDP. And yet our revenue growth has been higher than forecasted.

John, we have a 6.9 percent increase in revenue for this year projected. We were at 11 percent as of two, two-and-a-half months ago, is that right?

MR. KITCHEN: Right, through the year so far we've seen 8 percent growth --

DIRECTOR PORTMAN: So we think it will be a little less than it's coming in now, but the actuals are higher than we expected. So the GDP numbers -- it's hard to argue with facts, again. It could be we have a great quarter; it could be we're wrong in the GDP. Some economists who are projecting that, as you know, are saying we could have something in the mid threes. We think because of that low first quarter, it's likely to be -- the GDP number is likely to be lower than we had projected in troika, in February.

With regard to next year, I don't know -- John, does corporate profits comprise most of that difference in the projection? Brendan's question is, you've got lower GDP and higher receipts for this year. And again, that's just what has happened through this fiscal year, and that's what's going to happen. We are confident in that now. Next year, though, he's saying, we have relatively high GDP and relatively lower receipts.

MR. KITCHEN: Some of the receipts that we'll be seeing next year is based on the liability for this year. So if you have lower growth in GDP and incomes this year it will affect receipts next year, as well.

DIRECTOR PORTMAN: So the April 15th filing next year will be affected by that relatively low growth in the first quarter this year. Does that make sense?

Q Yes.

Q You mentioned VA/Mil-Con as something you guys felt you could accept increased spending on, and you seemed to say that with Title I on the education bill, there may be some seeing -- some eye-to-eye. I'm curious about homeland security, because in the attempt at reviving the immigration bill, there seemed to be some idea of increased border security-type spending, homeland-security type spending. And so I'm curious as to whether there is some flexibility there, in terms of homeland security appropriations.

DIRECTOR PORTMAN: I think I mentioned homeland security before, because we have a 7.2 percent increase in homeland security funding, '07 to '08, including \$1 billion for Secure Border Initiative, which includes fence -- so a billion dollars more spending for fences and for other vehicle barriers, roads, cameras on the borders. So we had that built into our budget.

The congressional alternative is I think a 13.6 percent increase. And you probably saw that when Republicans offered an across-the-board reduction, to take it down to a 7.6 percent increase, they were able to get every Republican on the committee, save one, to support that. And then on the floor they were able to get a veto-proof majority to support that.

So as has been the case in each of these bills we have threatened a veto, including homeland security, we have a veto-proof majority of Republicans who have supported us on the floor. We also have the letter, as you know, from 147 Republicans saying they will support the President on any veto based on overspending over the \$933 billion.

So we'll see what happens as we go through the process. You remember last year there was a lot of discussion about this same issue. It wasn't exactly a replay, because immigration wasn't quite the hot issue it's become this year, but it was a hot issue. And at the end of the day, you recall there was some money added in the Senate. We continue to believe that a comprehensive approach is the right thing. In the meantime, we're going to keep funding more Border Patrol, doubling the Border Patrol. We're funding the National Guard again this year, in '08; we're funding a billion dollars more for border protection. So we think that's adequate.

Q I thought during the immigration revival there was some idea of maybe as much as \$4 billion extra for border security type stuff.

DIRECTOR PORTMAN: Well, there was discussion in a potential mandatory spending program, you recall, within the immigration bill of \$4 billion -- I think it was \$4.2 billion -- and it was to be funded by the fees. Well, there won't be any fees now, unless by some miracle we have a revival of the immigration bill in the House and Senate. But it was entirely self-funded. In other words, it was funded through almost a user fee, in a sense, that was within the program. And that was why it could be a mandatory program that we would be able to support within the comprehensive immigration reform.

Q Okay, so without a discretionary -- the need for that money, extra money, you couldn't support it being done by discretionary, then, is what you're saying?

DIRECTOR PORTMAN: Yes. Although we do have, again, a healthy increase on the discretionary side.

Anything else on that, Austin or Beth?

MS. ROBINSON: I think it's important to note about the \$4 billion is that was supposed to spend out over five years. And so you had healthy increases for homeland --

DIRECTOR PORTMAN: Yes, I should say that. That was a mandatory program. Was it a four-year program?

MS. ROBINSON: Or five.

DIRECTOR PORTMAN: It wasn't an annual program -- it wasn't an annually appropriated discretionary account, it was a longer-term mandatory program that fit in with the whole comprehensive immigration reform bill.

Q Would you consider doing any portion of that as a supplemental, or emergency spending?

DIRECTOR PORTMAN: You know, Keith, I don't know when the sup will come into play here, and that's a bigger question that someone else is going to ask, probably. But we are trying to find out from DOD -- we go through this every year -- not every year, actually every several months, as we go through these supplementals -- how much money do they need, and when, and they're trying to determine that right now. We don't know when it will be necessary to have another supplemental. That would probably drive that timing, rather than in the appropriations cycle. In other words, September 30th is fiscal year end; we need to have these bills done, we need to have some resolution. The supplemental may not be necessary for some months after that.

Q But you're not ruling it out, some immigration money in the supplemental -- border enforcement?

DIRECTOR PORTMAN: Well, it's not something at this point that we think is appropriate. We think what's appropriate is to get the appropriation bill done, which has a big increase in

border security funding. It also has an increase, by the way, in interior enforcement.

Q You mentioned that you talked to Conrad this morning, and you all claim to have a good relationship. I wonder how you think --

DIRECTOR PORTMAN: Does he claim it, or do I claim it?

Q That's why I said you both do. (Laughter.) How do you think Mr. Nussle is going to get along throughout this process with the Democrats, who view his nomination as sort of an act of confrontation on the administration's part?

DIRECTOR PORTMAN: I think Chairman Nussle will be a great director, I really do. And I'm very pleased that he was willing to step up and agree to be the nominee for this post; come back into public service. I am mystified by the mischaracterizations I see out there of Jim Nussle. It's not the Jim Nussle I knew, or know. I served as Vice Chair of the Budget Committee when he was Chairman of the Budget Committee, which, one, makes him more qualified than I was when I took this job, because as Chairman of the Budget Committee you necessarily deal with the complexity of this whole appropriations and budget process, including having to know the budget act inside and out.

And I have never served with a more accommodating and more courteous chairman than Jim Nussle. For those of you who follow the Budget Committee, I hope you agree with me. Don't take my word for it, talk to John Spratt, who was his ranking member, and is now chairman of the committee. Chairman Spratt has agreed to introduce Mr. Nussle in the Senate, and he's called him a fair and honorable man. That's the Jim Nussle I know.

I don't know if it's politics, or if it's just a characterization of the early Jim Nussle, when he first came to the House, where he was more of a young reformer who got involved with the needed reforms of the time in the House of Representatives. But it really does mystify me. It's not the Jim Nussle who I know and who my colleagues know, who have worked with him over the past several years.

So I had a good chance to talk to Senator Conrad about that today. I would tell you, Senator Conrad and Jim Nussle have always gotten along well. And I knew that before Jim Nussle was even nominated. And Senator Conrad -- you should talk to him directly as to his views of Chairman Nussle, but they always got

along well, were able to work through issues, and I believe that will be the case going forward.

Second, I am encouraged, particularly by Senator Conrad and Senator Lieberman, the chairs of the key committees, both saying that they're interested in holding hearings this month, both saying they're interested in giving Jim Nussle a fair shot and moving this process forward. And, again, you should talk to them directly, but they've both been very encouraging with me this week in their comments about moving the nomination forward.

So this is a -- as I said earlier, this has become a partisan atmosphere earlier than usual in this election cycle. Seems like we're already close to the fall of '08 sometimes. But in the case of Jim Nussle, I believe he will be confirmed. I believe he'll get a strong bipartisan vote on the floor of the Senate, and I believe he's fully qualified, better qualified, again, than your current director was when I was nominated to the post. Having been chairman of the Budget Committee, he knows the budget inside and out, he knows Congress, he knows how to get things done. And I'm encouraged by what I hear this week, and particularly today, honestly, about the interest of the committees in moving forward with his confirmation.

Q So you expect the confirmation hearing this month, and you don't anticipate any holds on that nomination?

DIRECTOR PORTMAN: I don't know. I've heard from you all reporting it that there may some holds, or a hold. I don't know that. It's such a big process. One thing you all should continue to call for is transparency in holds, because if there is a hold, we sure would like to know who it is and we'd like to have the opportunity to have -- Jim Nussle would like the opportunity to speak to that person directly about whatever concerns that person might have, because Jim's job is going to be to wake up every morning and figure out how to get this done.

One thing, again, I find unusual is people saying that it would be better somehow to not have a budget director confirmed for the budget process. Everyone in the White House has good intentions, everyone on the Hill has good intentions, but there are certain players who have a responsibility to get things done, and one would be the chairs of the Appropriations Committees and ranking members; another would be the OMB director. It's our job to figure out how to get this done, not how to put up road blocks or play politics with the budget.

So I think it's in the interests of the majority in Congress and in the interests of the country to have an OMB director in place in September -- back up -- OMB director in place as soon as possible.

Q There's been some speculation on the Hill that potentially all of this -- the appropriations bills could all be rolled into one big omnibus bill, including military spending, and sent to the White House, essentially \*\*-- daring Bush to veto something that includes military spending. I wonder if you've talked with any of the Democrats about this possibility, and also what you all are thinking if that does, indeed, happen.

DIRECTOR PORTMAN: Deborah, first, we are pushing hard for the bills to get done individually. I think a more orderly process serves the country better. I think it also serves the executive and congressional responsibilities in spending better. In other words, it's their prerogative in Congress, with the power of the purse, to determine how every dime is spent through their legislative process, and then we have the opportunity to approve or disapprove of a veto and be sustained or overridden. And I think we ought to go through that process. It's hard for us to know what an end game might look like when we don't know what the legislative products are going to look at. I mentioned that earlier.

So we strongly encourage both Houses to move forward with the appropriations process, to get individual bills to the President. As I indicated earlier, there are some bills he will be in a position to sign. And there are other bills that he may be compelled to veto if they're over the top line spending we talked about earlier of \$933 billion, which is up 6.9 percent from \$873 billion. But to talk a minibus or an omnibus or other kinds of buses at this point is premature. We would hope that we get the bills done.

And originally, Deborah, you remember there was a plan to get all the bills done in the House by July 4th. It's now July 11th. Then there's a plan to get them all done by the August recess. There's no bill on either the House or Senate floor this week, as far as I know. I'm hopeful that we'll see an acceleration of the appropriations process so that we can have the opportunity for that give-and-take.

Q On Mr. Nussle, despite the talk about partisan or being confrontational, are you concerned at all that one of the

reasons he might get held up is because they're trying to get some sort of concession on the vetoes, on the \$23 billion difference? It might not be that they --

DIRECTOR PORTMAN: I'm not concerned about it, because that's impractical. That's not going to happen. In other words, there won't be -- that won't affect the President's thinking. The best approach -- and I think most members would agree with this -- is to have an OMB director in place so you can have that kind of honest dialogue and airing of our differences, and then a coming together to move the process forward. I just don't -- I don't think -- I'm not worried about it, David, because I don't see that as a practical result of a hold.

I also -- I think, going back to Keith's question about \$22 billion -- I'm paraphrasing you here, this is what politicians do, you take someone else's comments and you twist them -- but Keith is sort of saying, \$22 billion, what's the big deal? It's a lot of money, but there's also a way we can work through it, in my view. We have a \$2.9 trillion budget in 2008. We are not that far apart on a number of the appropriations bills. I talked about a few where they're actually below us. Financial services is another one, by the way, which funds this office, where they're actually below us, because we put more money into some of the functions, including the IRS.

So, David, I'm not as pessimistic as some are about figuring out a way to get through this.

Q What about on the earmarks? You have to start tallying up what's coming out of the chambers. Do you see a trend yet emerging? You want -- the President wants them cut in half; looks like the House is on the path, the Senate's a little higher.

DIRECTOR PORTMAN: Yes, again, I think you all should be calling for maximum transparency. And fortunately, after a give-and-take, we're back to more transparency in the House, and I think that will have a chilling effect on earmarks, because I think the worst earmarks, the most egregious ones, will not make it through to the President. To the extent they do, and to the extent it exceeds the cut-in-half goal, then that will be a factor we will consider.

You referenced our new database that's now up on OMB.gov.

MS. ROBINSON: Earmarks.omb.gov.

DIRECTOR PORTMAN: Earmarks.omb.gov, if you don't want to go through our home page. And what we did this week is we put all of the '08 earmarks up that we know about.

So, Beth, maybe you can speak to that for a second. But it's sort of exciting, because we not only have the best database now ever in government, giving you all of the earmarks from 2005 as a benchmark, but as we go through the '08 bills, we are putting up in real time the '08 earmarks, so you all can look at them. And this is because of the additional transparency that we have.

My sense is that we're in decent shape, as you say in the House, of having them come in under the cut-in-half goal because of the transparency. And in the Senate, we are in agreement with Senator DeMint and many other senators on both sides of the aisle in the Senate, that the Senate rules also reflect the legislation they passed which provides for transparency. So if they can't get the lobbying reform bill done or other legislation that has the transparency in, they ought to change the rules to provide for transparency, much as the House has done. And when that happens, I think there will be more of a chilling effect in the Senate.

Q The appropriations committee has done similar to what the House -- they put the member name and a brief description. But it just seems they're not -- they've never made a commitment to reducing them, and it seems like they're not. Would that be a factor -- if individual bills came to the President's desk, would that be a factor in vetoes?

DIRECTOR PORTMAN: It would be a factor, yes. We have said all along it would be a factor.

Beth, can you say anything more about database?

MS. ROBINSON: The database went live yesterday with the '08 tracking. And we don't quite have all the bills -- we try to work with the agencies to make sure that all the earmarks that they list meet our definition and that, if there are other items in there that don't meet their definition but meet ours. So it takes a little while.

But we have, I think, four or five of them on the House side --

DIRECTOR PORTMAN: Four or five of the bills with all the earmarks we know about in the House.

MS. ROBINSON: That's right. Our first couple bills went through Mil-Con/VA and Homeland before they had this new agreement. And so we don't have information on it.

Q Are you including the earmarks that the committees have labeled as White House earmarks?

DIRECTOR PORTMAN: All of our spending is in the budget, fully transparent. And I'm glad you asked that question, because it gives me the opportunity to say -- as a former member of Congress, this is hard to me to say, but there is a huge difference between the congressional earmarks that are being talked about and the so-called executive branch earmarks, which are based on a competitive merit-based process where someone in the government decides, based on national priorities, in a fully transparent way, where money ought to be spent.

And it is not comparing fairly to say that there are earmarks on the congressional side, but also earmarks on the executive side when our earmarks, so-called, are simply congressional allocations of funding, which, by the way, they have the ability to change, if they like, and then we go through a competitive merit-based process. It's transparent, it's based on national priorities. That's not earmarking.

So I know some members have turned to that as sort of a defense of the congressional system. But look at our budget, it's all out there. In some past years, we have taken some of the Army Corps projects, five percent of them, and taken them out of this competitive merit-based process, not subjected them to the criteria, and instead said, these ought to be funded, regardless, for various reasons. And often it's because they don't meet the criteria but they're still good projects. This year I elected not to have any of those kinds of Army Corps projects. So that was a specific example where one could have argued those were earmarks because they didn't meet the criteria.

As you can imagine, I've taken some heat for that, because some members have gotten used to some of these projects. But those are now all based on whatever the criteria the Corps has come up with. And Congress, by the way, is free to look at

those criteria and determine what the appropriate merit-based competitive process ought to be.

But this is the great philosophical debate, is should there be competition based on merit, transparent, based on a national priority, or should members of Congress, individual members, as I used to be, determine based on other criteria, including geographic location, which tends to be a major criteria; i.e., is it in my district, or is it in my state?

So I'm not saying all earmarks are bad. Some earmarks are worthy of federal support. All we are saying is, there ought to be total transparency, and they ought to be in the statute so they're voted on and have the ability to be stricken. And by the way, most earmarks do not appear in statute. As you know, they're in report language. And because of the tripling of earmarks over the past decade, to get control of this, we ought to start with cutting the number in amount of earmarks in half.

Q You mentioned financial services as one of the appropriations bills that's under the spending limit, but it still has veto threats on it because of the two other provisions. Are you just optimistic those provisions will be deleted at the end of the process, that they'll be negotiated out? It's dealing with Cuban sanctions and federal funding for abortions --

DIRECTOR PORTMAN: Yes, I mentioned that one as an example of a bill that comes under the \$933 billion, but you're absolutely right, there are policy differences, not just in that bill, but in some others that may be under or over the line -- abortion, Cuba are two of the issues that happen to be focused on financial services. The other one in financial services, as you know, based on the subcommittee markup yesterday in the Senate, it has a total defunding of the office of the Vice President, which I think is, what, \$4.2 million or something, which, to me, is unlikely to be sustained through the process. I certainly hope it is.

I applaud those members of the House who struck that from the House bill on the floor, including some members of the Democratic leadership who said, this is not the appropriate role of Congress, to defund an elected President's vice presidential office.

So there are some differences like that, where we would have a veto threat. Cuba sanctions, I'm hoping to work through

that in conference. In the past, we've been able to, through a back-and-forth. On the abortion language, I don't know -- I just can't recall -- there were three issues, as I recall, and I think two of them have been largely resolved. I think those were in the -- more on the foreign assistance side, the Mexico City language particularly.

Do you know which particular provisions in financial services?

Q Well, I thought they were related to dealing with Cuban sanctions and then federal funding for abortions. Those were the only ones I remember being underlined in -- unless I missed one.

DIRECTOR PORTMAN: Who can speak to the abortion language? Austin or Beth?

MR. SMYTHE: -- said the veto threat was on abortion.

DIRECTOR PORTMAN: Would you mind, Paula, just giving me your card, and we'll get back to you on whether we think that's something that can be resolved? I'm just not sure on that one. But I hope that, just generally speaking, on these policy issues, that through conference with the House and the Senate -- and again, the VP office funding is one that I've particularly focused on this week, but it's now out of the House bill; I hope it will come out of the Senate bill as it goes through full committee on the floor. If it doesn't, it's something we hope to work out in conference. And that has been typically done with regard to these Cuban sanctions you were talking about.

Q If I may, just to be clear, you talk about your desire to work with the Congress and to have give-and-take through this budget process. What is the sort of space for the give-and-take? Can you just talk us through where you think it's possible to make compromises, and where the red lines are? And just to be very clear, are you saying at this point that the \$933 limit is a limit that will be applied -- and veto that will be applied to protect it -- in all circumstances, or are you merely saying that it is your present intention to veto bills that take you above the \$933 billion?

DIRECTOR PORTMAN: That's a good question, and I think where you see the flexibility is within the \$933 billion. So as I've tried to make clear today, our view is that a 6.9 percent increase in discretionary spending for '08, which Keith

indicated might be offensive to some conservative groups, is adequate funding. Within that top line, we believe there is room to talk about allocation, and, in particular, movement between the subcommittee we call "cross-walk" or subcommittee allocation in our budget, and what Congress would choose to do.

We're not trying to micromanage the process. You recall the veto letter that I sent now a few months ago said I'd recommend a veto from the OMB director based on \$933 billion, but until there is a path to balance. In other words, if it can be shown that there's a way to get to \$933 billion by increasing some of the bills and decreasing others and accounts within the bills, that's something we're certainly willing to work with Congress on.

So that, I think, is where I see the flexibility. And it's a substantial amount of flexibility, because we're talking about a substantial amount of funding. The caveat that was in that initial letter that I repeated today was that we believe that the Department of Defense account should not be raided to the point that our national security is put at risk. And you recall, this was an issue sometimes with Republican majorities, as well as Democratic majorities.

So that will be an area where there will be the opportunity for some give-and-take, but where the President will want to be confident that our national security needs are being met.

Q And on the question of whether the \$933 billion limit applies in all circumstances, in all eventualities, or is it maybe the present intention of the administration?

DIRECTOR PORTMAN: As I tried to say a moment ago, I think the position of the administration has been clear, which is, \$933 billion is the top line, and the flexibility occurs under that \$933 billion.

Thank you all.

END

3:06 P.M. EDT