THE PRESIDENT'S FISCAL YEAR 2010 BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, MARCH 3, 2009

Serial No. 111–4

Printed for the use of the Committee on the Budget

Available on the Internet:
http://www.gpoaccess.gov/congress/house/budget/index.html

U.S. GOVERNMENT PRINTING OFFICE

47–729 PDF WASHINGTON : 2009

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON THE BUDGET

JOHN M. SPRATT, JR., South Carolina, *Chairman*

ALLYSON Y. SCHWARTZ, Pennsylvania
MARCY KAPTUR, Ohio
XAVIER BECERRA, California
LLOYD DOGGETT, Texas
EARL BLUMENAUER, Oregon
MARION BERRY, Arkansas
ALLEN BOYD, Florida
JAMES P. MCGOVERN, Massachusetts
NIKI TSONGAS, Massachusetts
BOB ETHERIDGE, North Carolina
BETTY MCCOLLUM, Minnesota
CHARLIE MELANCON, Louisiana
JOHN A. YARMUTH, Kentucky
ROBERT E. ANDREWS, New Jersey
ROSA L. DELAURO, Connecticut,
CHET EDWARDS, Texas
ROBERT C. "BOBBY" SCOTT, Virginia
JAMES R. LANGEVIN, Rhode Island
RICK LARSEN, Washington
TIMOTHY H. BISHOP, New York
GWEN MOORE, Wisconsin
GERALD E. CONNOLLY, Virginia
KURT SCHRADER, Oregon

PAUL RYAN, Wisconsin,
Ranking Minority Member
JEB HENSARLING, Texas
SCOTT GARRETT, New Jersey
MARIO DIAZ–BALART, Florida
MICHAEL K. SIMPSON, Idaho
PATRICK T. MCHENRY, North Carolina
CONNIE MACK, Florida
JOHN CAMPBELL, California
JIM JORDAN, Ohio
CYNTHIA M. LUMMIS, Wyoming
STEVE AUSTRIA, Ohio
ROBERT B. ADERHOLT, Alabama
DEVIN NUNES, California
GREGG HARPER, Mississippi
[Vacant]

PROFESSIONAL STAFF

THOMAS S. KAHN, *Staff Director and Chief Counsel*
AUSTIN SMYTHE, *Minority Staff Director*

CONTENTS

THE PRESIDENT'S FISCAL YEAR 2010 BUDGET

TUESDAY, MARCH 3, 2009

House of Representatives,
Committee on the Budget,
Washington, DC.

The committee met, pursuant to call, at 11:05 a.m., in Room 210, Cannon House Office Building, Hon. John Spratt [chairman of the committee] presiding.

Present: Representatives Spratt, Schwartz, Kaptur, Becerra, Doggett, Blumenauer, Berry, Boyd, McGovern, Tsongas, Etheridge, McCollum, Melancon, Yarmuth, DeLauro, Scott, Langevin, Larsen, Bishop, Moore, Schrader, Ryan, Hensarling, Garrett, Diaz-Balart, Lummis, Austria, Nunes, and Harper.

Chairman Spratt. I will call the committee to order.

The committee convenes today to consider the administration's request for a budget for the fiscal year 2010. President Bush has left President Obama an economy in crisis and a budget in deficit. Spending will overtake revenues by an unprecedented $1.3 trillion during this fiscal year alone. President Obama has responded with a budget which shows that he is not flinching or stalling but meeting the challenge head-on.

The President has recognized that we have not one but two deficits. The first is an economy clicking on four cylinders, running at 6.8 percent, or $1 trillion below its full potential. To move our economy closer to its potential, the President has signed into law a package of stimulus measures totaling $787 billion—trillion—billion. Excuse me. We are in the stratosphere.

He then turned to the budgets and, at the White House summit, stated his determination to cut the deficit by half by 2013. It is almost impossible to balance a budget when the economy is in recession; even harder when we do what we must to make the economy better because it frequently makes the deficit worse, at least for the short run.

But here is the stark reality that confronts us this morning. The deficit that President Bush left behind will constitute 12.3 percent of GDP. To be fair, if you simply take measures that are solely contributable and are confined to the Bush administration, it is 9 percent of the GDP. In any event, it is a substantial number.

And here is President Obama's response: Over the next 4 years, under his budget, the deficit will be pared down to 3.1 percent, or 3 percent, of GDP in the year 2013. That is an ambitious goal. President Obama's budget slices the deficit by more than half, to $533 billion, in 5 years.

But it is not so committed to deficit reduction that it overlooks other compelling needs. It takes on topics, indeed, that have been ignored by earlier budgets as too tough to tackle—climate change, health care for the 46 million who are uninsured—and it slows down defense spending and fixes the alternative minimum tax.

Now, critics will single out instances where additional revenue is raised, for example by allowing certain concessions for upper-bracket taxpayers to expire at the end of 2010. The biggest picture will show that this budget leaves in place the middle-income tax cuts adopted in 2001 and 2003, the 10 percent bracket, the child tax credit, and marriage penalty relief. The budget indexes the alternative minimum tax to keep it from burdening middle-income taxpayers for whom it was never intended. It extends the estate tax at 2009 levels. And it helps working families by renewing Make Work Pay.

More detail is needed before we can write a budget resolution. And, in that connection, it is important to note that some of the President's initiatives must be implemented via reserve funds yet to be funded. So this is just the beginning, but it is a bold beginning for the 2010 budget process.

Many in Congress, myself included, are pleased to see the deficit decline through 2013, but we want to see it declining thereafter. So this is not, by any means, the end of the process. In the weeks ahead, I hope we can improve the budget in this and many other ways.

Now, before going further with our testimony from Mr. Orszag, let me turn to Mr. Ryan for any statement he wishes to make.

Mr. RYAN. Thank you, Chairman. And thank you for this hearing. I look forward to having a number of these hearings on this budget.

What a week we just had last week. Let's go through it for a second. On Monday, we had the Fiscal Responsibility Summit. On Tuesday, we witnessed a very eloquent, ambitious, and even inspiring speech by the President of the United States, echoing those themes of fiscal responsibility. And on Wednesday, Congress passed a bloated $410 billion spending bill with 9,000 earmarks. And on Thursday, we received the mother of all budgets, a truly sweeping transformation of a Federal Government the likes of which we have not seen since the New Deal.

Finally, on Saturday, the President threw down the gauntlet. Rather than echoing the theme of changing the tone in Washington or bringing people together to forge a bipartisan compromise, he essentially said, you are either with me or you are against me. He claimed opponents of this transformative budget are, quote, "tools of special interests and the powerful."

This is not changing the tone of Washington or forging a compromise. This is staking out an ideological conquest. It is playing the oldest political trick in the book, which is, if someone disagrees with you, impugn their motives, don't debate the facts, destroy their credibility, and win the argument by default. This power play strikes me as an incredible gamble with the U.S. economy and with those principles that built this country.

Now, the facts surrounding this budget are disturbing. It proposes to bring the size of our government to its largest level ever since World War II. It doubles the national debt in 8 years. During a recession it seeks to impose a $1.4 trillion tax in our economy—on work, on savings, investment, energy, on manufacturing. Even with the rosiest of economic assumptions, this budget never even comes close to achieving a balanced budget during the time we have an insolvency that goes permanently for Medicare and Social Security.

But what is most distressing about this budget is that it takes a decidedly ideological turn away from the principles that built this country and built this economy toward the type of governing system we see in Europe that provides the kind of economic and social stagnation we have not seen here in America.

You know, I was asked this past weekend, what can Republicans do about this? Candidly, Republicans, we don't have the votes to really do anything about this. So I guess the question will become this year, will all Democrats march in lockstep with this vision, with this type of transformation?

Our goal, our role, our job in the minority is to give the American people the facts, is to give the American people the truth, is to give the American people a good, vigorous, and civilized debate over this budget and to offer them a real choice in alternative, how we would do things differently. And that is exactly what we intend to do while we have this vigorous debate and while we ask the tough questions.

Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Ryan.

Our witness this morning is no stranger to this committee. He served ably and well as the director of the Congressional Budget Office before moving on to bigger things as the director of the Office of Management and Budget.

Dr. Orszag, Peter, welcome to the hearing today. Before you begin, let me attend to a few housekeeping details.

I would ask unanimous consent that all members be allowed to submit an opening statement for the record at this point.

[The prepared statement of Mr. Ryan follows:]

PREPARED STATEMENT OF HON. PAUL RYAN, RANKING MEMBER, COMMITTEE ON THE BUDGET

Transcribed from Mr. Ryan's handwritten pre-hearing notes.

What a week we've just had.

- On Monday, we had the bipartisan "fiscal responsibility summit."
- On Tuesday, we witnessed an eloquent, ambitious, and even inspiring speech by the President repeating the theme of fiscal responsibility.
- Then on Wednesday, Congress passed a bloated $410 billion spending bill with 9,000 earmarks.
- And on Thursday, we received the mother of all budgets, a truly sweeping transformation of the federal government, the likes of which we have not seen since the New Deal.
- Finally, on Saturday, the President threw down the gauntlet. Rather than echoing the campaign theme of "changing the tone in Washington * * *" or bringing people together to forge bi-partisan compromise, he essentially said, "You're either with me or against me." He claimed opponents of this transformative budget are "tools of special interests and the powerful."
- This is not changing the tone or forging compromise * * * this is staking out an ideological conquest.
- It's playing the oldest political trick in the book * * * which is, if someone disagrees with you, impugn their motives. Don't debate the facts. Destroy their credibility. Win the argument by default.

This power play strikes me as an incredible gamble with the U.S. economy and with the ideals that built this country.

The facts that surround this budget are disturbing.

- Increases government to its largest level since WWII.
- Doubles the national debt in eight years.
- Adds $1.4 trillion in new taxes on work, saving, investing, energy, and manufacturing.
- Even with the rosiest of economic assumptions, this budget never even comes close to achieving a balanced budget—all while Medicare and Social Security go permanently insolvent.

But what is most disturbing about this budget is that it takes a decidedly ideological turn away from the principles that built this country and economy, and toward the type of governing system we see in Europe that provides the kind of economic and social stagnation we have not seen here before.

I was asked this past weekend what we Republicans can do about this. Candidly, we don't, by ourselves, have the votes to stop this. So the question is, are all the Democrats in Congress going to march lock-step in favor of this? Is this the kind of change Americans want?

Chairman SPRATT. Mr. Orszag, we welcome you to the committee today. The written testimony of all witnesses will be made part of the record, and you may summarize yours. But you are the only witness today, so take your time and walk us slowly through it so that we can get the major points.

Thank you for coming. We look forward to what you have to say.

STATEMENT OF PETER ORSZAG, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. ORSZAG. Thank you, Chairman Spratt, Mr. Ryan, members of the committee. I come before you at a time of great consequence, both for our economy and for our fiscal future. When the President took office on January 20th, he inherited an economic crisis more severe than any since the Great Depression.

Over the past 13 months, 3.5 million jobs have been lost, the greatest number since World War II. In December and January alone, 1.2 million jobs were lost. The economy contracted at more than 6 percent on an annualized basis in the fourth quarter of last year. And trillions of dollars in wealth have been destroyed, harming workers and families on the verge of retirement.

Why has this happened? A central cause was the collapse in credit and capital markets, itself fueled by inadequate oversight, insufficient disclosure, distorted incentives, and excessive conflicts of interest.

But the roots do run deeper. We have lived through an era of irresponsibility in which we have failed to address deep problems in energy, education, and health care, and in which the primary theory of the case was that the only determinant of economic performance was the marginal tax rate on the wealthy and that the way to promote market competition was to channel significant subsidies to corporations.

The result is a pair of trillion-dollar deficits. The first is the output gap, shown in my first slide, the gap between how much the economy could produce each year and how much it is producing each year—$1 trillion a year, both this year and next year. The purpose of Recovery Act was to start filling in that hole, jump-starting the economy and returning us to a path of economic growth.

The second deficit is the budget deficit. And, as the next slide shows, under the policies that we are inheriting, we face trillion-dollar deficits out over time. And let me just pause and recognize that the influence of the economic crisis itself, over this year and next year combined, amounts to $2 trillion for the budget deficit. That comes from $600 billion that reflects a weaker economy, which drives down revenue and drives up spending on things like unemployment insurance; $650 billion in the steps that have been necessary so far and that may become necessary to address instability in our financial markets; and the $787 billion Recovery Act, which, as I already noted, was intended to start filling in that output gap.

Looking forward, we must change course. If we don't adopt the policies that are in this budget, the budget deficit over the next decade will be $2 trillion higher and we will not have addressed problems in our energy market, in our educational system, and in our health care system.

So let me be a little bit more specific about the budget.

First, the budget starts by giving an honest depiction of where we stand. We do not play the budget games that have been embodied in previous budgets, in which you assume that the Nation will never again face a hurricane or disaster; in which you assume that the alternative minimum tax will gradually overwhelm the Tax Code; in which you assume that Medicare physician payments will be reduced by 20 percent and yet Medicare beneficiaries will still somehow have the opportunity to see their doctors; in which you assume that the cost of a war will immediately disappear. All in, the budget includes $2.7 trillion in costs over the next decade that would have been excluded from previous budgets. That sets a high bar, but it is an honest bar.

With the scope of the problem recognized, the budget then starts the hard process of reducing those deficits, as the next chart shows. In particular, we cut the deficit in half by the end of President's first term. Where does that deficit reduction come from? It comes from four sources.

First, eventually the economy will recover, and that does help to reduce the budget deficit. Second, winding down the war will reduce costs. Third, we do seek after 2011 to restore some balance to the Tax Code, and that brings in additional revenue. And, finally, we take a variety of steps to improve the efficiency of government, for example, by eliminating unwarranted subsidies to middlemen on educational loans and by improving program integrity so that the right person gets the right benefit at the right time. Those two steps alone reduce the deficit by $100 billion over the next decade.

Contrary to the analysis of many pundits, this budget is not a big-spending budget. Unlike what has occurred in the past, we pay for our initiatives in energy, in education, and in health care. Furthermore, if you look at non-defense discretionary spending—that is the basic operations of the government—relative to the economy, which is shown on the next slide, that spending, non-defense discretionary spending, as a share of the economy is projected to be 4.1 percent of the economy this year. Under our budget, it would average 3.6 percent over the next decade. And by the end of the budget window, it would reach 3.1 percent of GDP, the lowest since the data begin in 1962. This is simply not a big-spending budgeting.

We do, however, reorient our priorities towards long-term economic efficiency and productivity in energy, education, and especially in health care.

First, on energy: The budget includes $15 billion a year in investments to reduce our dependence on foreign oil and improve energy efficiency. To finance that along with tax relief in a fiscally responsible manner, the budget proposes a market-friendly cap-and-trade program on greenhouse gas emissions, which will not only raise revenue but also help to address a key threat to our planet.

In education, the budget invests substantial resources in early education, since all of the evidence suggests that that has significant payoff, and also works to improve college access, both by providing more solid funding for the Pell Grant Program, continuing the American Opportunity college tax credit, and simplifying the application process so that more students can aspire to college and not face unwarranted obstacles in obtaining assistance to attend college.

Finally, let me turn to health care. As the next slide shows, and as you have probably seen me repeat over and over again, health care is the key to our fiscal future. I think that chart illustrates it. The light blue area of the curve is Medicare and Medicaid. It is obvious from that graph that the thing driving our long-term fiscal issue is the rate at which health care costs grow.

Health care costs, though, are not only a fiscal issue, they also affect workers, reducing workers' take-home pay already to a degree that I think is under-appreciated and unnecessarily large, and also imposes burdens on State governments. For example, rising health care costs are crowding out State support for higher education, which, in turn, is raising tuition and forcing painful cutbacks at public universities.

The Recovery Act starts the process of health care reform, and there are very substantial opportunities to reduce health care costs without harming health outcomes. I want to turn to the next slide, which illustrates that point.

We have very substantial variation in how much health care costs across different parts of the United States, with the darker areas of the country having much higher cost per beneficiary than the lighter areas, for reasons that one cannot explain based on the severity of the conditions facing patients in those areas or the cost of building a hospital or the salaries for doctors. Rather, what varies is the intensity of treatment for the same type of condition across different parts of the United States.

And the kicker is that the more-intense, higher-cost approaches don't seem to generate better outcomes than the less-intrusive, less-costly approaches. Researchers at Dartmouth College suggest that as much as $700 billion a year in health care costs could be eliminated from the system without harming health outcomes if we could move the parts of the country where medicine is practiced in the higher-cost ways towards the practice norms in the lower-cost areas of the country.

The Recovery Act starts the process that will be necessary to capture that opportunity and invests heavily in health information technology; in comparative effectiveness, which measures what works and what doesn't; and in prevention and wellness.

The budget built upon that by creating a $634 billion reserve fund as a downpayment on further health care reform, half of which comes from efficiencies in the health system itself, including moving to a competitive bidding process for the private plans—Medicare Advantage plans—that cover Medicare beneficiaries and that, the evidence suggests, costs Medicare $1,000 more per beneficiary than covering those same beneficiaries under the traditional Medicare system.

Now, some say that health reform is a luxury we can't afford now. As I have been saying for a long time, I say that reducing costs and improving quality in health care is a necessity that we need to act upon this year. None of this is going to be easy, whether it is in education, in energy, in health care, responsibly reducing the deficit in an honest way over the medium term. But, as the country music singer Toby Keith once put it, "There ain't no right way to do the wrong thing." And this budget reflects that notion. In being honest and reducing our medium-term deficit by $2 trillion and investing in education and energy and in moving toward a more efficient health care system with lower costs and higher quality, I hope you will all work with us to do the right thing.

Thank you very much, Mr. Chairman.

[The prepared statement of Peter Orszag follows:]

PREPARED STATEMENT OF HON. PETER R. ORSZAG, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Chairman Spratt, Ranking Member Ryan, and Members of the Committee, thank you for giving me the opportunity to discuss the President's Fiscal Year 2010 Budget.

EXECUTIVE SUMMARY

My full written statement delves into the details, but before we turn to those specifics let me step back and provide a broader overview of where we stand and where we need to go.

When the President took office on January 20th of this year, his Administration inherited an economic crisis unlike any we have seen since the Great Depression. Over three and a half million jobs were lost over the past 13 months, more than at any time since World War II. In December 2008 and January 2009 alone, nearly 1.2 million people lost their jobs. Manufacturing employment has hit a 60-year low. Our capital markets are virtually frozen, making it difficult for businesses to grow and for families to borrow money to afford a home or college education for their kids. Trillions of dollars in wealth have been wiped out, leaving many families with little or nothing as they approach their retirement years.

A central cause of this economic crisis has been a meltdown in our credit and capital markets—one fueled by years of inadequate oversight, insufficient disclosure, and excessive conflicts of interest among market gatekeepers. But the problems in our markets are not the only cause of the current crisis. The roots run deeper.

We have arrived at this point because of an era of profound irresponsibility—in which we threw fiscal caution to the wind and ran up trillions of dollars in debt * * * in which the tax code was used to exacerbate income and wealth disparities, not mitigate them * * * and in which we failed to confront the deep, systemic problems that over time have only become a larger drag on our economic growth—from the rising costs of health care to the state of our schools, from how we power our economy to our crumbling infrastructure.

The result is a pair of twin deficits, each in the range of $1 trillion per year. The first trillion dollar deficit is the gap between how much the economy has the potential to produce and how much it is actually producing each year. This output gap of roughly $1 trillion in 2009 would represent nearly 7 percent of the estimated potential output of the economy. This gap is why it was so necessary that Congress passed the American Recovery and Reinvestment Act, in order to start filling this hole, to put Americans back to work, and to jumpstart the economy.

The other trillion-dollar deficit is the budget deficits we are inheriting. Over the last eight years, our national debt nearly doubled. The record surplus that was inherited by the previous Administration turned into a post-war record budget deficit. So let's be clear: the Obama Administration was faced with a $1.3 trillion deficit when we walked in the door.

We project that the deficit for the current fiscal year, including the recovery and stability plans, will be $1.75 trillion, or 12.3 percent of GDP. Of that, $1.3 trillion, or 9.2 percent of GDP, was already in place when we assumed office.

The President is determined to cut this $1.3 trillion deficit by at least half in four years. This would bring the deficit down to $533 billion by fiscal year 2013. More importantly, it would reduce the deficit to about 3 percent of GDP.

The economic crisis we faced when taking office has made our fiscal situation, dramatically and quickly, much worse—raising the budget deficit we are inheriting by a total of about $2 trillion for this year and next year.

- The weak economy, by reducing revenue collected and expanding the budget's automatic stabilizers (such as unemployment insurance), expands the deficit by more than $600 billion.
- Because of problems in financial markets, the costs of stabilization may amount to $650 billion or more—including the placeholder should additional efforts prove necessary to address the crisis we have inherited.
- To combat the recession, we had to act—through the $787 billion Recovery Act—to jumpstart job creation and growth.

Without the change in policies contained in the budget, our budget deficits would be another $2 trillion bigger over the next decade—and we wouldn't have begun to make the investments in American-made, alternative energy; better education; and more efficient and higher quality health care that are crucial to long-term economic and fiscal sustainability.

Let me be clear: there are two paths that our country can take. We can continue the policies of the past—dig an even deeper fiscal hole and once more put off the critical investments needed for long-term economic growth. Or we can reduce the deficit by $2 trillion over the next decade, cut the deficit inherited by this Administration in half by the end of the President's first term, and make needed investments in clean energy, affordable health care, and world-class schools.

In his budget overview, the President laid out his way forward for our nation.

It begins with presenting an honest budget—one that is straightforward with the American people about the fiscal challenges we face. That's why we include the likely future costs of the wars in Iraq and Afghanistan and other possible overseas military operations, the cost of fixing the AMT each year, and reimbursements to Medicare physicians. We offer a 10-year rather than a five-year look into our fiscal situation, and we budget for the possibility that there may be a hurricane, earthquake, flood, or other disaster sometime over the next decade.

This honesty comes at a cost—$2.7 trillion or more over 10 years on our bottom line. But it's critical to begin tackling our fiscal challenges.

With the scope of the problem recognized, the President's budget reduces our medium-term deficits to a sustainable level through both spending restraint and rebalancing of our tax code. And it addresses health care, the key to our longer-term fiscal future.

Broadly speaking, the medium-term deficit reduction comes from responsibly winding down the war in Iraq and reforms to the defense acquisition and procurement system; restoring balance to the tax code by returning to the pre-2001 tax rates for families making more than a quarter of a million dollars a year (while giving 95 percent of working families a tax cut), closing loopholes, and eliminating subsidies to special interests; and improving the efficiency of government.

Contrary to the instant analysis of many pundits, this is a budget that entails substantial spending restraint. Unlike what's occurred in the past, we make sure that we pay for new initiatives. And the budget reduces non-defense discretionary spending—that is, the spending appropriated each year outside of defense—to its lowest level as a share of GDP since data began to be collected in 1962.

Let me underscore this last point. The average level of non-defense discretionary spending between 1969 and 2008 was 3.8 percent of GDP. In 2009, such spending is estimated to represent 4.1 percent of GDP.

The President's budget proposes a gradual reduction of this non-defense discretionary spending as a share of economy. Spending averages 3.6 percent of GDP over the next decade and declines to 3.1 percent by the end of the 10-year budget window.

Over the longer term, however, the single most important step we could take to put the nation back on a path to fiscal responsibility is to address rising health care costs. As I have said before, health care is the key to our fiscal future. We cannot afford inaction.

That's why in the Recovery Act the President began the process that will rein in health care costs with significant investments toward computerizing America's health care records, accelerating comparative effectiveness research, and scaling up prevention and wellness programs. All of these will help move us toward a health system with lower costs and higher quality.

In this budget, the President builds on these investments with a major commitment of $634 billion over 10 years to serve as a down payment for comprehensive health care reform. This reserve fund is financed half through walking back (to Reagan Administration levels) the itemized tax deductions allowed for families with incomes more than a quarter of a million dollars, and roughly half through efficiencies and savings from Medicare and Medicaid.

We must act now to begin the process of bending the curve on health care costs, and over time, realizing substantial savings for our nation—and improvements in health care quality and outcomes.

Health care is just one of three critical areas that for too long have been neglected and are deserving of significant investment now in order to create economic growth in years to come. The others are clean energy and education—and this budget makes significant investments in both.

The budget invests $15 billion a year to reduce our dependence on foreign oil and improve energy efficiency. It finances those investments, along with tax relief for consumers, through a market-based cap-and-trade system to reduce greenhouse gas emissions.

The budget also makes important investments in our most precious resource—our people—through a major new commitment to early childhood education, scaling up innovative new programs in our schools, and in improving college access for all our children. We can save almost $50 billion over the next decade by ending inefficient subsidies for student loan lenders. The budget would also invest in making college more accessible, by making the $2500 American Opportunity Tax Cut permanent, increasing the size of Pell Grants and putting the program on more solid footing, and simplifying the application process. These steps will help us reach the President's goal of having the United States lead the world in the proportion of college graduates by 2020.

Some may say that now is not the time to make these investments—that our fiscal and economic situation is too precarious. I share their concern about the fiscal health of our nation—and the President does as well. As he has said repeatedly, part of our long-term economic security is how we handle these deep, fiscal challenges—and we are already taking aggressive action to meet that challenge.

. But the bottom line is that that we simply cannot afford to stay on the course that we've been on. If we do not begin to address the high costs of health care, our families will continue to be squeezed, our businesses will have trouble competing, and our nation will remain on an unsustainable fiscal path. If we do not invest in education and clean energy, our prospects for long-term economic growth will be diminished. And if we do not make government more efficient, we will continue to waste the precious resources we do have.

It'll take time to work through the challenges we have inherited—and change doesn't come easy. But as in most difficulties in life, we must adapt, adjust, and overcome. I am confident that if we confront our problems honestly and take responsibility for our future, our nation will rebuild, recover, and emerge stronger than ever.

A PAIR OF TRILLION DOLLAR INHERITED DEFICITS

I come before the Committee at a time of great peril for our economy and for our nation's fiscal future. The new Administration has inherited an economic crisis unlike any we have seen in our lifetimes. Our economy is in a deep recession, which threatens to be more severe than any since the Great Depression. More than three and a half million jobs were lost over the past 13 months, more than at any time since World War II. In addition, another 8.8 million Americans are under-employed. Manufacturing employment has hit a 60-year low. Our capital markets are virtually frozen, making it difficult for businesses to grow and for families to borrow money to afford a home, car, or college education for their kids. Trillions of dollars of wealth have been wiped out, leaving many workers with little or nothing as they approach retirement.

The result of this bleak economic picture, as well as the misplaced policy priorities of previous years, is a pair of twin deficits, each in the range of $1 trillion per year. The first trillion dollar deficit is the gap between how much the economy has the potential to produce and how much it is actually producing each year. This output gap of roughly $1 trillion in 2009 would represent nearly 7 percent of the estimated potential output of the economy. This gap is why it was so necessary that Congress passed the American Recovery and Reinvestment Act, to start filling this hole and jumpstart the economy through fiscal stimulus that increases short-term demand for goods and services.

Because fiscal stimulus boosts aggregate demand through increases in government spending or reductions in taxes, such policies raise budget deficits in the short term. That effect is desirable because it reflects the delivery of increased aggregate demand to the economy. Contemporaneous changes elsewhere in the Budget—tax increases or reductions in spending—designed to offset these short-term deficit effects would be counterproductive, because they would reduce or eliminate the stimulative effect. During an economic downturn, the key to economic growth is the demand for the goods and services the economy could produce with existing capacity—and in that situation, temporary increases in the deficit are necessary to put the economy back on track.

As the economy recovers, however, the effect of deficits on the economy reverses. At that point, the key to economic growth switches from boosting demand for goods and services (so existing capacity is fully used) to increasing the rate at which we expand the capacity for producing goods and services. Large budget deficits become harmful in this situation because they entail some combination of reduced funds available to finance domestic investment or increased borrowing from abroad to finance that domestic investment. Either way, budget deficits reduce future national income—either because the nation does not have as much productivity-enhancing capital in the future or because we owe larger liabilities to foreign creditors. In the extreme, sustained deficits could seriously harm the economy. Large deficits would also limit our maneuvering room to handle crises in the future.

This brings me to the second trillion dollar deficit that the new Administration is inheriting. Under current policies, we face fiscal deficits of almost $1 trillion a year on average over the coming decade. OMB projects that the baseline deficit for FY 2009 will be about $1.5 trillion, or 10.6 percent of GDP. Over the ten-year budget window, from FY 2010 to FY 2019, aggregate baseline budget deficits will total nearly $9.0 trillion and average almost 5 percent of GDP. Over longer periods of time, the deficit reaches even higher shares of GDP primarily because of rising health care costs.

Over the medium to long term, the nation is thus on an unsustainable fiscal course. We need to act, both to address the dramatic shortfall in national output in the near term and to tackle the medium- and long-term deficits that would ultimately become a drain on the nation's potential for economic growth. The Recovery Act that Congress passed a few weeks ago was a bold and important first step toward addressing the first of the twin deficits we inherited. I will spend the remainder of my time today talking about the Administration's plans, detailed in the President's Budget, for dealing with the second of these inherited deficits, along with a few of the key investments the Budget would make in the nation's economic future.

RETURN TO HONEST BUDGETING

The first step in addressing our nation's fiscal problems is to be honest about them. Too often in the past several years, budget tricks were used to make the government's books seem stronger than they actually were. If this Budget used the gimmicks employed in recent budgets, it would show a bottom line that would appear about $2.7 trillion better over ten years. Instead, the Budget acknowledges additional deficits of about $230 billion, or about 1.3 percent of GDP, in 2013 alone—deficits that previous budgets would have simply pretended didn't exist. Appearances can be deceiving, and omitting likely future costs is an accounting trick, not reality.

Unless we are straightforward about the scope and scale of our nation's medium- and long-term fiscal problems, we cannot hope to reach agreement on a plan for solving them. As a result, the President's Budget returns the Nation to an honest budget footing by recognizing, rather than omitting, an array of future Federal government costs. Among these are:[1]

- Including the likely future costs of overseas contingency operations. Our Budget includes funding over ten years for overseas contingency operations, raising projected deficits by about $580 billion over the next ten years compared to the treatment in prior budgets. These prior budgets generally did not assume any funding for overseas contingency operations in the out-years. We include estimated costs of these operations in the out-years to be fiscally conservative, but they do not reflect any specific policy decisions. Several strategy reviews are underway that will inform out-year costs, and it would be premature at this time to prejudge those reviews.
- Indexing fully the alternative minimum tax for inflation rather than assuming that AMT relief will suddenly expire. Our Budget includes an AMT fix in all years, raising projected deficits by about $1.4 trillion over the coming decade. In contrast, past budgets have generally included AMT fixes for only the current year. Almost everyone agrees, however, that policymakers will not allow the AMT to take over the tax over time, and our Budget reflects that reality rather than pretending it does not exist.
- Incorporating reimbursements to Medicare physicians, without assuming deep and sudden cuts in those payments. Our Budget includes the Administration's best estimate of future SGR relief given the agreed-to fixes for Medicare physician reimbursement in past years. As a result, projected deficits are about $400 billion higher over the next ten years than they would otherwise be. In contrast, past budgets accounted for no SGR relief in any years. (Although our Budget baseline reflects our best estimate of future SGR relief given past policy actions on SGR, as discussed below we are not asserting that this should be the future policy and we recognize that we need to move toward a system in which doctors face stronger incentives for providing high-quality care rather than simply more care.)
- Recognizing the statistical likelihood of Federal costs for natural disasters instead of assuming that there will be no such costs. Our Budget accounts for the statistical probability of Federal government costs for future disasters, raising our projected deficits by more than $270 billion over the coming decade. Recent budgets generally did not assume that there would be such costs over the budget window.
- Offering a ten-year rather than five-year look into our fiscal situation. Our Budget uses a ten-year budget window. With the baby boom generation moving into retirement, slowly at first but more rapidly as the years pass, the costs of Medicare and Social Security will increase with time. For that reason, a ten-year view of the budget gives a better sense of the effect of the budget on the long-term fiscal picture than a five-year view. Recent budgets employed only a five-year budget window.

THE LONG-TERM FISCAL GAP AND HEALTH CARE

The principal driver of our nation's long-term budget problem is rising health care costs. If costs per enrollee in our two main Federal health care programs, Medicare and Medicaid, grow at the same rate as they have for the past 40 years, those two programs will increase from about 5 percent of GDP today to about 20 percent by 2050. (As the Congressional Budget Office (CBO) and others have noted, there are reasons to expect cost growth to slow in the future relative to the past even in the absence of policy changes. But the point remains that reasonable projections of health care cost growth under current policies shows that they are the central cause of the nation's long-term fiscal imbalance.) Many of the other factors that will play a role in determining future fiscal conditions—including the actuarial deficit in Social Security—pale by comparison over the long term with the impact of cost growth in the Federal government health insurance programs. Health care is the key to our nation's fiscal future, and health care reform is entitlement reform.

The Administration has signaled its understanding of health care's centrality to our nation's fiscal future through its actions in its first weeks and through the submission of this Budget. Two weeks ago, the President signed the American Recovery and Reinvestment Act, which devotes resources now to develop the infrastructure for lowering health spending in the long run, including key investments in computerizing medical records, comparative effectiveness research, and prevention and wellness interventions.

To build on these steps, the President's Budget sets aside a reserve fund of more than $630 billion over 10 years dedicated to financing reforms to the American health care system. While a very large amount of money and a major commitment, the Administration recognizes that $630 billion is not sufficient to fully fund com-

[1] The following cost estimates include interest expenditures; in addition, the estimate for the AMT policy assumes extension of the 2001 and 2003 tax cuts.

prehensive reform. But this is a first crucial step in that effort, and we are committed to working with Congress to find additional resources to devote to health care reform. The Administration will explore all serious ideas that, in a fiscally responsible manner, achieve the common goals of constraining costs, expanding access, and improving quality.

Although reforming health care is the key to our nation's fiscal future, other programs—including Social Security—do contribute to our long-term deficit. The long-term shortfall in Social Security, though, is modest relative to the possible effect of health care on the budget. As I just mentioned, if costs per enrollee in Medicare and Medicaid, grow at the same rate as they have in the last four decades, the costs associated with these two programs would increase by 15 percentage points of GDP—rising from 5 percent of GDP today to about 20 percent by 2050. By comparison, the cost of Social Security benefits is expected to increase by 1.5 percentage points of GDP over this same period, according to the Social Security actuaries, and the system, without any changes, is expected to be able to pay full benefits through 2041. After we reform health care, the Administration looks forward to working with Congress to strengthen Social Security's finances.

HEALTH CARE RESERVE FUND

The $630 billion reserve fund is financed roughly 50-50 between a combination of re-balancing the tax code so that the wealthiest pay more and specific health care savings in three areas: promoting efficiency and accountability, aligning incentives toward quality, and encouraging shared responsibility.

Lowering health care costs and expanding health insurance coverage will require additional revenue. The Budget includes a proposal to limit the tax rate at which high-income taxpayers can take itemized deductions to 28 percent. The initial reserve fund would be about half funded through this provision, which would raise $318 billion over 10 years. In the health reform policy discussions that have taken place over the past few years, a wide range of other revenue options have been discussed—and these options are all worthy of serious discussion as the Administration works with Congress to enact health care reform.

On the savings side, the Budget proposes health savings for the reserve fund that would total $316 billion over 10 years, which would simultaneously help to improve the quality and efficiency of health care without negatively affecting the care Americans receive. These savings include:

- Reducing Medicare overpayments to private insurers through competitive payments. Under current law, Medicare pays Medicare Advantage plans 14 percent more on average than what Medicare spends for beneficiaries enrolled in the traditional fee-for-service program. This is because the current system bases payments on administratively determined benchmarks that are set well above the cost of providing fee-for-service Medicare benefits. Medicare pays roughly $1,000 per beneficiary more each year as a result, and MedPAC estimates that the Federal government pays $1.30 for each $1.00 increase in Medicare Advantage supplementary benefits. Even with these subsidies, the evidence suggests that Medicare Advantage does not provide better quality of care.

The Budget would replace the current mechanism used to establish payments with a new competitive system in which payments would be based upon an average of plans' bids submitted to Medicare. The Administration's proposal would better align plan payments with the actual cost of coverage. This would allow the market, not Medicare, to set the reimbursement limits. This is similar to the process used for establishing payments for the Medicare Part D drug benefit. Our proposal would save taxpayers more than $175 billion over 10 years as well as reduce Part B premiums.

- Reducing drug prices. The Budget would accelerate access to affordable generic biologic drugs through the establishment of a workable regulatory, scientific, and legal pathway for generic versions of biologic drugs. To retain incentives for the research and development of breakthrough products, a period of exclusivity would be guaranteed for the original innovator product, which is generally consistent with the principles in the Hatch-Waxman law for traditional products. Brand biologic manufacturers would also be prohibited from reformulating existing products into new products to restart the exclusivity process, a process known as ever-greening. Furthermore, the Administration would prevent drug companies from blocking generic drugs from consumers by prohibiting anticompetitive agreements and collusion between brand name and generic drug manufacturers intended to keep generic drugs off the market.

In addition, the Budget would bring down the drug costs of Medicaid by increasing the Medicaid drug rebate for brand-name drugs from 15.1 percent to 22.1 percent of the Average Manufacturer Price, applying the additional rebate to new drug formulations, and allowing states to collect rebates on drugs provided through Medicaid managed care organizations.

- Improving Medicare and Medicaid payment accuracy. The Government Accountability Office (GAO) has labeled Medicare as "high-risk" due to the billions of dollars lost to overpayments and fraud each year. The Budget proposes $311 million in FY 2010 for program integrity activities for the Centers for Medicare and Medicaid Services (CMS) initially targeted to remedy the vulnerabilities in Medicare and Medicaid, including Medicare Advantage (MA) and the prescription drug benefit (Part D). CMS will be able to respond more rapidly to emerging program integrity vulnerabilities across these programs through an increased capacity to identify excessive payments and new processes for identifying and correcting problems. With this additional funding, CMS will be better able to minimize inappropriate payments, close loopholes, and provide better value for program expenditures to beneficiaries and taxpayers.
- Improving care after hospitalizations and reducing hospital readmission rates. Nearly 18 percent of hospitalizations of Medicare beneficiaries result in the readmission of patients who have been discharged from the hospital within the last 30 days. Sometimes such readmissions cannot be prevented, but many are avoidable. Under the policy in the Budget, hospitals would receive bundled payments that cover not just hospitalization, but care from certain post-acute providers for the 30 days after hospitalization, and hospitals with high rates of readmission would be paid less if patients are re-admitted to the hospital within that 30-day period. This combination of incentives and penalties should lead to better care after a hospital stay and result in fewer readmissions—saving roughly $26 billion of wasted money over 10 years.
- Expanding the Hospital Quality Improvement Program. The health care system tends to pay for the quantity of services delivered, not their quality. Experts have recommended that hospitals and doctors be paid based on delivering high quality care, or what is called "pay for performance." The Budget proposes to link a portion of Medicare payments for acute inpatient hospital services to hospitals' performance on specific quality measures. This program would improve the quality of care delivered to Medicare beneficiaries and is estimated to save more than $12 billion over 10 years.

LONG-TERM CONTAINMENT OF HEALTH CARE COSTS

By identifying specific health savings for the health care reserve fund, the Administration is making a down payment on expanding health care coverage to all Americans and also on containing the growth in health care costs required to restore long-run balance to the nation's fiscal outlook.

Yet there are additional steps that can be taken to address the fundamental inefficiencies of our nation's health care system. Across the country, health care costs vary substantially from region to region, and yet higher-cost areas do not generate better health outcomes than lower-cost areas. Even among our Nation's leading medical centers, costs vary significantly—with costs at some centers twice as high as others—but higher-cost centers do not achieve higher quality than lower-cost centers. Some researchers believe health care costs could be reduced by a stunning 30 percent—or about $700 billion a year—without harming quality if we moved as a Nation toward the proven and successful practices adopted by lower-cost areas and hospitals.

Capturing this opportunity would help to boost family take-home pay and put the Nation on a sounder fiscal path. It will require expanding the use of health information technology, more aggressively studying what works and what doesn't, promoting prevention and healthy living, and experimenting with different payment systems to health care providers.

The Administration is committed to bringing about these reforms in order to slow health-care cost growth over the long run and has already initiated many of them through the Recovery Act, including computerizing America's health records in five years, developing and disseminating information on effective medical interventions, investing in prevention and wellness, and reforming the physician payment system to improve quality and efficiency.

MEDIUM-TERM DEFICIT REDUCTION

The health care reforms I have described will reduce the growth of health care costs over time, and thus address the most important contributor to the Nation's long-term fiscal shortfall. These changes will take time, however. In the meanwhile, we also need to begin making the hard choices that will, as the economy recovers, reduce deficits in the medium term.

Without using the gimmicks of previous budget proposals, the Budget cuts in half, by the end of the President's first term, the deficit this Administration inherited when it took office. Over the next four years, the deficit would fall to about three percent of GDP under the Administration's policies and remain stable through the remainder of the coming decade. The Budget reaches this path by proposing policies that pare back deficits by a total of $2.0 trillion over the next ten years. This brings us to a sustainable and realistic fiscal course for the coming decade.

The Budget features four main deficit reduction mechanisms:

- First, economic recovery, aided substantially by the Recovery Act, will help to reduce deficits by automatically dampening spending in safety net programs and raising revenues.
- Second, the Budget would return fairness to the tax system by closing tax loopholes, eliminating subsidies for special interests, enhancing enforcement, and returning to the pre-2001 tax rates for high-income families making more than $250,000 per year.
- Third, the Budget reflects savings from responsibly redeploying our military forces engaged in overseas contingency operations, as well as reforms that would allow us to get more for the money spent on defending the nation.
- Finally, the Budget includes significant spending constraints and puts the nation on a path to reducing non-defense discretionary spending as a share of GDP. The average level of NDD spending between 1969 and 2008 was 3.8 percent of GDP. In contrast, the President's Budget proposes a gradual reduction in NDD spending as a share of the economy. Such spending averages 3.6 percent of GDP from 2010 to 2019 and declines to 3.1 percent by the end of the budget window—the lowest since the government began collecting the data in 1962.

These measures facilitate some key investments in productivity-enhancing areas like education and infrastructure (discussed later in this testimony) while also producing a net deficit reduction of $2 trillion over the next decade.

I will now discuss a number of these sources of deficit reduction in greater detail.

RETURNING FAIRNESS TO THE TAX SYSTEM

The Budget returns fairness and balance to the tax system. While providing tax cuts to 95 percent of working families, the Budget raises additional revenue from the corporations and individuals most able to pay.

After year upon year of tax reductions that disproportionately benefited the wealthiest Americans, we have been left with a tax system that is insufficient to meet national needs. Under current policies, even after the economy recovers, revenue would be below its 1990s average—despite rising health care costs and other new burdens the government faces. After the end of the recession, the Budget therefore raises revenue to a level that, as a share of GDP, is still lower than in the latter half of the 1990s. The Budget includes the following revenue proposals:

- Allowing the 2001 and 2003 tax cuts to expire for high-income Americans. The Budget proposes allowing most of the 2001 and 2003 tax cuts to expire in 2011, as scheduled, for couples making more than $250,000 and individuals making more than $200,000 per year. Additional revenues gained would be devoted to deficit reduction. These tax cuts were both unaffordable and unfair at the time they were enacted, and remain so today. This Budget would simply return the marginal tax rates for these wealthiest Americans to what they were prior to 2001. Altogether, allowing these tax cuts to expire would reduce the deficit by about $750 billion over the next ten years relative to current policy.
- Eliminating tax subsidies for corporations and high-income individuals. The current tax system is undermined by subsidies that benefit only narrow and often well-heeled interest groups. The President's Budget would eliminate a range of such subsidies. The Budget proposes to do away with tax subsidies for oil and gas companies described further below and to no longer allow the managers of private equity and other partnerships to enjoy a low capital gains rate on part of their labor income—instead, treating their compensation like other forms of compensation. Further, the Budget lays the groundwork for reforming our tax code so multinational corporations pay taxes more like domestic companies, rather than being able to defer taxation of profits earned by their subsidiaries.
- Closing tax loopholes for oil and gas companies. The Budget proposes the elimination, starting in 2011, of an array of tax advantages for domestic oil and gas producers. Although the Administration supports the responsible production of oil and natural gas as part of a comprehensive energy strategy, excessive government subsidies distort market signals and slow the transition of the economy from fossil fuels to clean, renewable sources of energy. (To take just one example, the Administration proposes to repeal the expensing of intangible drilling costs such as labor, chemicals,

and grease. Under the existing provision, if $80,000 of a $100,000 investment in an oil well were spent on intangible drilling costs, that $80,000 could be immediately written off by a producer, rather than amortized over the life of the asset, as would be the rule for the costs of labor and materials used to build a factory, for example.)

• Enhancing enforcement. According to the latest estimate, the net tax gap—the gap between what corporations and individuals owe under the tax law and what they paid either voluntarily or as a result of enforcement actions—stands at nearly 3 percent of GDP. To give a sense for the magnitude of this number: This is nearly five times what the Federal government spends each year on veterans and about equal to what it currently spends on Medicare. We can and must do better than this.

This Budget proposes measures that would enhance enforcement, making more corporations and individuals pay the taxes they already owe under current law. For instance, the Budget would attack sham tax transactions by codifying the principle that corporations and individuals cannot avoid paying taxes by engaging in transactions for no other reason than to lower their tax liability. It would also require increased reporting of rental payments to the IRS so this income is properly reported by the recipient. Furthermore, the Budget proposes targeting tax havens and expanding international tax enforcement efforts—efforts that, while still in the planning stages, are expected to raise considerable revenues over time.

Redeploying Military Forces Engaged in Overseas Contingency Operations and Restraining Growth of Other Defense Spending

As we look to the challenges facing our nation, it is imperative that we invest our defense dollars effectively and wisely.

The Budget reflects savings from two sources in the defense budget:

• Redeployment of military forces engaged in overseas contingency operations. The Budget funds the Administration's strategy to increase our troop levels in Afghanistan and to responsibly remove combat brigades from Iraq. Under this strategy, the costs of operations in the two countries combined are expected to fall. Under the President's Budget, as troop levels decrease, the combined cost of Iraq and Afghanistan operations would decrease by about $50 billion in 2009 and $65 billion in 2010, compared with the 2008 level of $187 billion (adjusted for inflation). Beginning in 2011, the Budget reflects a placeholder cost of about $50 billion per year, which is included to be responsible but does not reflect any specific policy decisions. Several strategy reviews are underway that will inform out-year costs, and it would be premature at this time to prejudge those reviews.

• Restraining growth of other defense spending while maintaining key priorities. For FY 2010, the Budget requests $533.7 billion for the Department of Defense (DoD), an increase of $20.4 billion, or 4 percent, from the 2009 enacted level of $513.3 billion (excluding $7.4 billion from the Recovery Act). This growth is greater than the post-Cold War average of 2.9 percent but less than the nearly 7 percent annual growth over the last eight years.

This level of growth maintains a strong Defense Department, allowing DoD to address the President's highest priorities. These priorities including increasing the size of the Army and Marine Corps, giving a 2.9 percent pay raise to our men and women in uniform, improving DoD facilities (especially military housing), and improving the medical treatment of wounded service members. Taking into account the importance of managing defense priorities in a cost-efficient manner, the Budget also emphasizes acquisition reform. The Administration will work to set realistic requirements and incorporate "best practices" to control the cost growth and schedule slippage of DoD's weapons programs.

LINE-BY-LINE REVIEW OF THE BUDGET

The Administration believes that we should be investing taxpayer dollars in efforts and programs with proven records of success and reallocating or eliminating programs that do not work or whose benefits are not worth their cost. To this end, the Administration has begun an exhaustive line-by-line review of the Federal budget, starting with one of its most important lines—health care. The first stage of this line-by-line review will be reflected in the spring release of the full FY 2010 Budget and will continue in subsequent years. However, the Administration has already identified a number of policies to drive savings. These include:

• Increasing Federal government health savings, as specified earlier in my testimony.

• Phasing out and eliminating certain inefficient agriculture subsidies, such as direct payments to high-revenue crop producers and storage subsidies for cotton producers. These measures would cut deficits by about $19 billion over the next ten years.

• Eliminating subsidies to banks participating in the student loan program. As I discuss in greater detail later in my testimony, banks that make government-guaranteed loans are entitled to subsidies that are set by Congress. In the Budget, we propose to eliminate these subsidies while providing a more stable source of financing for student loans. This reduces deficits by another $60 billion over the next ten years.

• Reducing erroneous payments in Federal programs and increasing tax enforcement by investing in "program integrity." The Budget also makes significant investments in activities to ensure that taxpayer dollars are spent correctly, expanding oversight of the largest benefit programs and increasing investments in tax compliance. These efforts are expected to reduce deficits by about $64 billion over the coming decade.

• Targeting other inefficient or ineffective programs. The Budget not only focuses on "big dollar" initiatives. It also recognizes that, even if relatively small amounts of money are at stake compared to the scale of the Federal budget, taxpayers' funds should be used wisely. The Budget, for instance, proposes eliminating small, ineffective HUD programs and increasing collection of delinquent tax from Federal contractors.

This list gives a flavor of the program eliminations and investments in efficiency included in the Budget. We expect to propose further such measures as we move forward with our intensive review of Federal government programs.

REFORMING HOW GOVERNMENT WORKS

The President's Budget also begins the process of reforming how government works, increasing efficiency, transparency, and simplicity. The initiatives both protect taxpayer dollars and, also, make it easier for the American people to interact with their government. This reform process is not one that can be completed overnight, and the Administration will continue to develop new ways to make government work better for the people. The Budget is a starting point and an important step forward.

IMPROVE ADMINISTRATIVE PERFORMANCE

Reforming how government works is not only a question of cutting and eliminating ineffective programs, but also making worthwhile programs work better by improving performance. For decades, the argument in Washington has been between those who say that government is the cause of every problem and those who say it is the answer. What has become clear over the past eight years, especially in light of the Federal government's response to Hurricane Katrina, is that what really bothers Americans is bad government—government that does not do its job effectively and efficiently.

To make government more effective, the Administration will undertake a number of initiatives. These include:

• Streamlining government procurement. The Administration will implement the GAO's recommendations to reduce erroneous Federal payments, reduce procurement costs with purchase cards, and implement better management of surplus Federal property.

• Reforming Federal contracting and acquisition. The Administration will take several steps to make sure that taxpayers get the best deal possible for government expenditures. We will review the use of sole source, cost-type contracts; improve the quality of the acquisition workforce; and use technology to create transparency around contracting. We will review acquisition programs that are on the GAO high-risk list for being over-budget and prone to abuse. The Administration also will clarify what is inherently a governmental function and what is a commercial one; critical government functions will not be performed by the private sector.

• Enforcing standards in addition to measuring performance. The Administration will fundamentally reconfigure the Program Assessment Rating Tool (PART). We will engage the public, Congress, and outside experts in the development of an open performance measurement process that improves results and outcomes for Federal government programs while reducing waste and inefficiency. The Administration will develop goals Americans care about and that are based on congressional intent and feedback from the people served by government programs. Programs will not be measured in isolation, but assessed in the context of other programs that are serving the same population or meeting similar goals. I will ask each major agency to identify a limited set of high priority goals over the next few months that will serve as the basis for the President's meetings with cabinet officers to review their progress toward meeting performance improvement targets. We will also identify opportunities to engage the public, stakeholders, and Congress in this effort.

• Improving program integrity. With hundreds of billions of dollars being spent in programs such as Medicare, Medicaid, and Social Security, it is important that they are run efficiently and effectively. For every $1 spent to combat health care fraud, for example, evidence suggests that the government recoups $1.60. The Administration will expand oversight activities in our largest benefit programs—so that the right payment is made to the right person or provider at the right time—and increasing investments in tax compliance and enforcement activities. We expect these investments to save a total of $48.5 billion over the next ten years in these areas.

• Cutting the government's electricity bills. The Federal government is the largest energy consumer in the world. Making substantial investments to reduce the government's energy consumption can spur job creation while delivering long-term government savings through lower energy bills. The Budget will build upon the more than $11 billion provided for building modernization in the Recovery Act to achieve the Administration's 25 percent energy efficiency improvement goal by 2013.

EDUCATION

While aiming to make government work better overall, the Budget also focuses its reforms on certain priority areas. When it comes to education policy, the Budget seeks to increase efficiency, simplicity, and transparency through a number of initiatives including:

• Eliminating government-created subsidies for banks in the student loan program and shifting savings to students. Right now, banks that make government-guaranteed loans are entitled to subsidies set through the political process. Because of turmoil in the financial markets, the bank-based program has needed additional government supports over the last year, and even so, lender instability has forced thousands of students to change lenders abruptly. Meanwhile, last year more than 800 schools enrolled in the direct loan program, and nearly half made direct loans last year, all without significant disruption. Student satisfaction with direct loans is high, while cost to taxpayers is low, because the program uses competitively selected, private providers to service loans. The Budget would originate all loans in the direct loan program beginning in the 2010-11 school year. Analysis by CBO, GAO, and OMB shows this approach would save taxpayers large sums of money; by our estimates, it would save more than $4 billion a year.

• Making it easier to apply for student aid. To apply for student aid, students must complete a complicated form. Our plan, while still in development, would considerably simplify the process through such measures as streamlining the form itself and/or using tax data to automatically populate the form with an applicant's answers. This is not merely a question of saving time, but also encouraging more eligible students to participate in the program.

• Increasing transparency of the Pell program. In addition to increasing the maximum Pell award to $5,550 for the 2010-11 school year, the President's Budget makes the program's funding more transparent by converting the program from a discretionary to a mandatory program. This would end the dishonest practice of "backfilling" billions of dollars in Pell shortfalls each year and provide certainty to families about the level of Pell Grant funding available each year.

• Preparing and rewarding effective teachers and principals. Building on the investments in the Recovery Act, the Administration will invest in efforts to strengthen and increase transparency around results for teacher and principal preparation programs, including programs in schools of education, alternative certification programs, and teacher and principal residency programs. The Budget supports additional investments in state and local efforts, developed in consultation with teachers and other stakeholders, to implement systems that reward strong teacher performance and help less effective teachers improve or, if they do not, exit the classroom.

• Determining what works. The Budget also increases funding for rigorous evaluation as a first step toward doubling the Department of Education's support for education research. The Department would use this funding to conduct rigorous evaluations of approaches to improve student learning and achievement with a focus on evaluating and scaling up promising innovative practices while improving or ending programs that are ineffective.

MAKING IT EASIER TO SAVE

To make government programs more effective, the President's Budget also looks beyond the traditional mechanisms. The Budget seeks to harness new insights into human behavior in designing government programs.

Thus, to encourage greater saving, the Budget not only expands financial incentives for low- to middle-income Americans to save more, which it does by making the Saver's Credit refundable and thus available to a much wider population; it also requires that employers automatically enroll their employees in some form of savings vehicle when they start work—either a workplace pension plan or, if the employer does not offer such a plan, a direct-deposit IRA. Employees can then elect not to participate if they so choose. Extensive research has shown that merely changing the default from non-participation to participation in a retirement plan can dramatically increase participation rates, despite the fact that workers can voluntarily stop saving. Experts estimate that, for workers generally, participation rates could about double as a result of automatic enrollment and that the effect is even larger for those with lower incomes.

This is the type of innovation the Administration is committed to applying more generally. Without expanding financial incentives, imposing penalties, or otherwise constraining people's options, programs can still encourage desired behaviors. Increasing saving rates is just one such application.

MAKING KEY INVESTMENTS

The Budget also expands Federal investment in certain key priorities. This goes hand-in-hand with making government work better for all Americans. Making government work better requires not only reducing or eliminating failing programs and increasing programmatic efficiency and simplicity but also enhancing programs that do work and deserve additional resources.

Many of these investments will increase economic growth by building the Nation's capital stock, both physical and human, and spurring technological innovation. Government investment is key to long-term economic growth, and this investment has, in recent years, been critically low in a number of respects. In addition to making these investments, the Budget also provides more resources to deserving populations, such as our nation's veterans.

EDUCATION

I have described how our proposals would reform education policy by increasing efficiency, simplicity, and transparency. The Budget goes beyond this by investing resources in programs that expand opportunity and increase quality.

• Investing in early childhood education. We know that a dollar invested in early education will pay off handsomely as these children get older. That is why the Administration is proposing to help states strengthen their early education programs. The Budget would broaden the reach of these programs and boost their quality, encouraging new investment, a seamless delivery of services, and better information for parents about program options and quality. In addition, through funds from the Recovery Act and this Budget, the Administration will double the number of children served by the Early Head Start program and expand Head Start, both of which have proven to be successful with younger children. Finally, the Department of Health and Human Services will begin a major new effort to ramp up the Nurse-Home Visitation program. Rigorous research has shown that a well-structured program can have large and measurable impacts in helping at-risk expectant and new parents give their children a healthy start in life.

• Expanding higher education opportunities. Because the Administration is committed to making college affordable for all Americans, the Budget, in addition to making the Pell program mandatory, builds on the Recovery Act by supporting a $5,550 Pell Grant maximum award in the 2010-2011 school year. The Budget would also index the Pell grant award to the Consumer Price Index plus 1 percent in order to account for inflation in this sector. Along with expansion of the Pell program, the Recovery Act created a new $2,500 American Opportunity Tax Credit, making college tax incentives partially refundable for the first time. As a result, many high school seniors who receive no tax incentives under the current system will, for the first time, receive a tax cut to make college affordable. The Budget proposes to make this tax cut permanent.

• Helping at-risk students complete college. It is not enough for our nation to enroll more students in college; we also need to graduate more students from college. A few states and institutions have begun to experiment with these approaches, but there is much more they can do. The Budget includes a new five-year, $2.5 billion Access and Completion Incentive Fund to support innovative state efforts to help low-income students succeed and complete their college education. The program will include a rigorous evaluation component to ensure that we learn from what works.

INFRASTRUCTURE

Today, too many of our nation's railways, highways, bridges, airports, and neighborhood streets are aging and congested due to lack of investment and strategic long-term planning. In the short term, modernizing our infrastructure would create new jobs and provide a boost to the economy. In the longer term, infrastructure investment would provide our nation a foundation for long-term economic growth. The Budget proposals include:

- Establishing a National Infrastructure Bank. The Budget proposes to expand and enhance existing Federal infrastructure investments through a National Infrastructure Bank designed to deliver financial resources to priority infrastructure projects of significant national or regional economic benefit. The mission of this entity will be to not only provide direct Federal investment but also to help foster coordination through State, municipal, and private co-investment in our nation's most challenging infrastructure needs.
- Investing in our nation's roads, bridges, and mass transit. The President is committed to instituting accountability for the $35.9 billion provided in the Recovery Act and to responsibly reauthorizing the nation's highway and mass transit programs. Further, our surface transportation system must generate the best investments to reduce congestion and improve safety. To do so, the Administration will emphasize the use of economic analysis and performance measurement in transportation planning. This will ensure that taxpayer dollars are better targeted and spent.
- Improving and modernizing air traffic control. Because of an outdated air-traffic control system and over-scheduling at airports already operating at full capacity, an ordinary trip to a business meeting or to visit family can become marred by long delays. The Budget provides $800 million for the Next Generation Air Transportation System (NextGen) in the Federal Aviation Administration, a long-term effort to improve the efficiency, safety, and capacity of the air traffic control system.
- Maintaining rural access to the aviation system. The Administration is committed to maintaining small communities' access to the National Airspace System. The Budget provides a $55 million increase over the 2009 level to fulfill current program requirements as demand for subsidized commercial air service increases. However, the program that delivers this subsidy is not efficiently designed. Through the budget process, the Administration intends to work with the Congress to develop a more sustainable program model that will fulfill its commitment while enhancing convenience for travelers and improving cost effectiveness.
- Expanding access to broadband. As a country, we have made significant public investments so that, regardless of economic status or location, Americans have access to telephone service and electricity. The Recovery Act does the same for broadband, and our Budget would expand upon these efforts. The Recovery Act includes $7.2 billion for broadband expansion and the Budget includes $1.3 billion in USDA loans and grants for the Department of Agriculture to increase broadband capacity and improve telecommunication service as well as education and health opportunities in rural areas.

SCIENCE

Like investments in physical infrastructure, investments in scientific knowledge also increase productivity and economic growth. The Budget proposes:

- Doubling funding for key basic research agencies. The President's Budget would double funding over 10 years for three key basic research agencies: the National Science Foundation, the Department of Energy's Office of Science, and the Department of Commerce's National Institute of Standards and Technology. The Recovery Act includes a $5 billion investment in these agencies, which is an almost 50 percent increase for these programs over 2008 and represents a significant down payment toward the President's plan to double funding. This initiative will help fund cutting edge research done by universities, government laboratories, and private industry. It is especially important for the government to fund such activities since basic research tends to have positive spillover effects that flow across the economy.
- Increasing funding for research into cutting edge technologies. The Budget also increases support for promising but exploratory and high-risk research proposals that could fundamentally improve our understanding of climate, revolutionize fields of science, and lead to radically new technologies. Such research includes interdisciplinary work like that conducted by researchers at Cornell University, who have developed a tiny nanotechnology particle that could ultimately both deliver a drug to a specific cell and monitor the cell's response to the drug; a therapeutic combination that would revolutionize medicine. In addition, the Budget funds cutting-edge, fundamental research to help transform the nation's air transportation system, increase airspace capacity and mobility, enhance aviation safety, and improve aircraft performance while reducing noise, emissions, and fuel consumption.

ENERGY

The Budget lays the groundwork for an agenda that would transform our nation's energy consumption. As we have known for many years now, the United States' dependence on oil and other fossil fuels undermines the country's national security, and a growing wealth of scientific evidence also suggests that this dependence is contributing to global warming, jeopardizing our economy and our entire planet.

As a down payment on an energy-independent, clean-energy economy, this Budget proposes:

• Funding vital investments in a clean energy future totaling $150 billion over 10 years, starting in FY 2012. To finance these investments in a fiscally responsible manner, while also providing tax relief to consumers, the Administration proposes a market-friendly cap-and-trade program to reduce greenhouse gas emissions.

• Beginning a comprehensive approach to transform our energy supply and slow global warming. The Administration is developing a comprehensive energy and climate change plan to invest in clean energy, end our dependence on oil, and address the global climate crisis. The Administration plans to work expeditiously with key stakeholders and Congress to develop an economy-wide emissions reduction program to reduce greenhouse gas emissions approximately 14 percent below 2005 levels by 2020, and approximately 83 percent below 2005 levels by 2050. This program will be implemented through a cap-and-trade system.

• Building on the Recovery Act's investments in a new economy that is powered by clean and secure energy. The Budget will build on the Recovery Act's investments by significantly increasing funding for basic research and transformational science to accelerate solutions to our Nation's most pressing problems. The Budget also supports the transition to a low-carbon economy through increased support of the development and deployment of clean-energy technologies such as solar, biomass, geothermal, wind, and low-carbon emission coal power, and it builds on the $11 billion provided in the Recovery Act for smart grid technologies, transmission system expansion and upgrades, and other investments to modernize and enhance the electric transmission infrastructure to improve energy efficiency and reliability.

• Creating a New Energy innovation fund. The Budget includes funds for HUD to drive the creation of an energy-efficient housing market—including the "retrofitting" of older, inefficient housing—and catalyze private lending for this purpose in the residential sector. Partnering with the Department of Energy on this initiative, HUD will contribute to the Administration's broader effort to combat global warming, jumpstart the creation of a clean-technology economy, and reduce utility bills.

VETERANS

While investing for the future, the Budget also devotes more resources to deserving populations, such as our nation's veterans. The Budget expands support for our nation's veterans by:

• Increasing funding for Veterans Affairs (VA) by $25 billion over the next five years. The President's Budget increases funding for VA by $25 billion over the next five years in order to honor our nation's veterans and expand the services they receive. Some of these funds will be used to transform the VA into a 21st-century organization, including investments in information technology that directly benefit veterans in the areas of both health care and benefits.

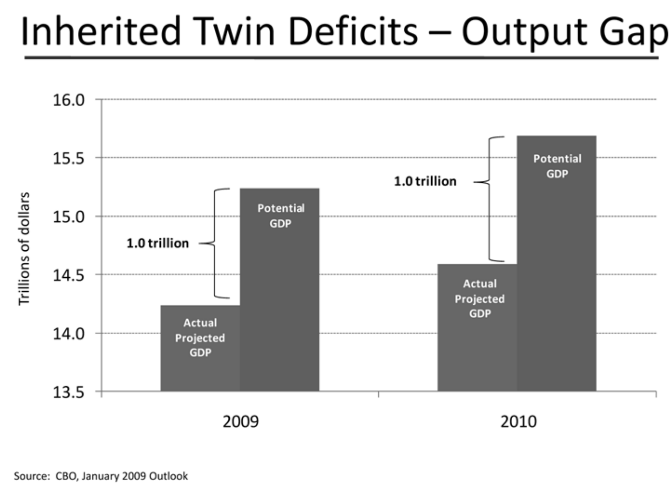
• Dramatically increasing funding for VA health care. The President's Budget provides VA medical care with the resources it needs to provide 5.5 million veterans with timely and high quality care.

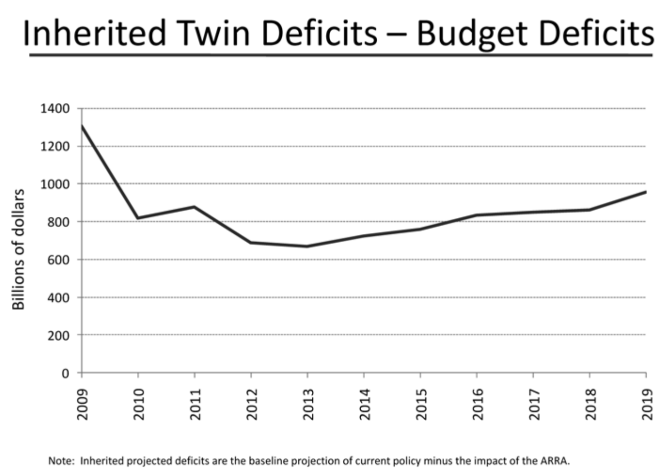
• Restoring health care eligibility for modest-income veterans. For the first time since January 2003, the President's Budget restores eligibility for VA health care to non-disabled veterans earning modest incomes. By 2013, this initiative will bring over 500,000 additional veterans into the VA health care system while maintaining high quality and timely care for the lower-income and disabled veterans who currently rely on VA medical care.

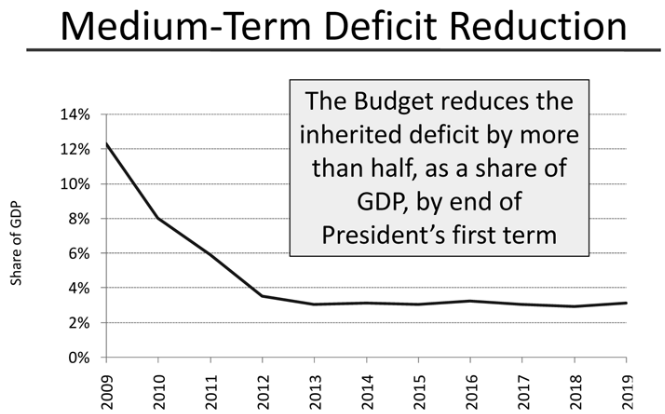
CONCLUSION

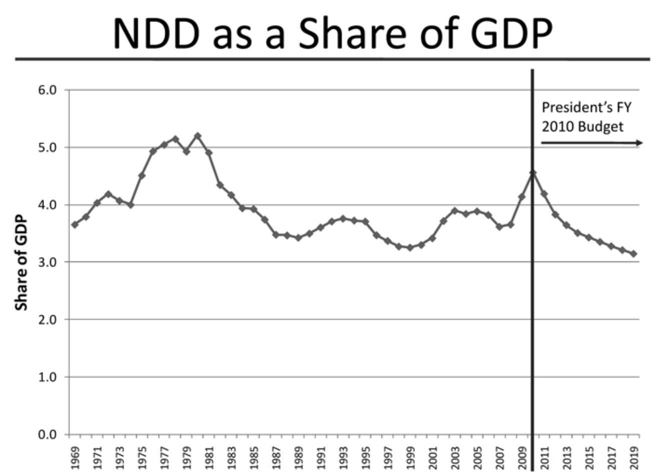
The President's Budget strikes a new course for America. It presents the fiscal path with honesty, and deficits are projected to fall in half by the end of the President's first term compared to the deficit inherited by the Administration when it came to office in January 2009. Altogether, the policies in the Budget would reduce the deficit by $2 trillion over the next 10 years, begin to address the key contributor to the nation's long-term fiscal short-fall by proposing health savings measures that could help "bend the curve" on long-term health costs, begin the process of reforms to improve how government works, and, finally, make key investments that would provide much-needed jobs now and boost long-term economic growth

The country faces grave challenges, both in terms of its short-term economic health and its long-term fiscal future, and working our way out of these difficulties will not happen overnight. The policies proposed in this Budget and those enacted last month in the Recovery Act represent an important first step on the path back toward economic and fiscal health. I look forward to working with you in the weeks and months ahead to continue the process of addressing the challenges facing our nation.

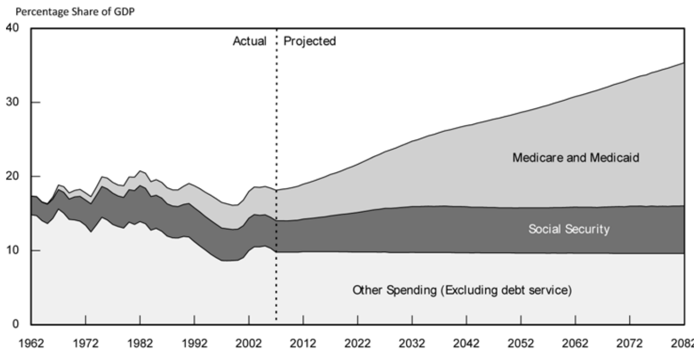





Medium-Term Deficit Reduction
The Budget reduces the inherited deficit by more than half, as a share of GDP, by end of President's first term
14%
12%
10%
8%
6%
4%
2%
0%
Share of GDP
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019

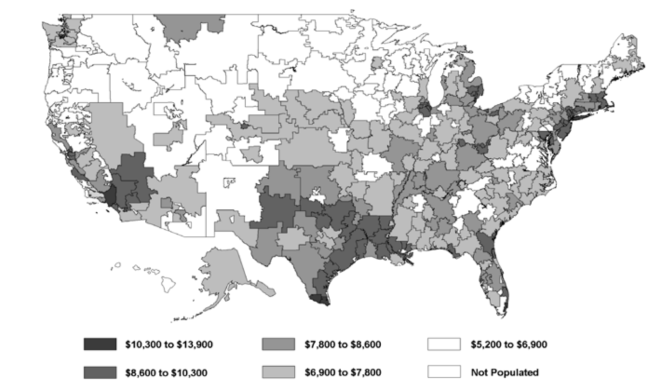

NDD as a Share of GDP
President's FY 2010 Budget
6.0
5.0
4.0
3.0
2.0
1.0
0.0
Share of GDP
1969
1971
1973
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
2015
2017
2019

Fiscal Gap & Health Care Costs



Source: CBO

Medicare Spending per Beneficiary in the United States, by Hospital Referral Region, 2005



Source: CBO

Chairman SPRATT. Thank you, Director Orszag.

There are several—well, many significant features to the budget request you brought before us, but none more salient than the one you just discussed, namely health care.

This budget creates a health care reserve fund and calls for funding of $634 billion over 10 years. Will that amount of money cover the cost of the proposal that the administration has in mind?

Mr. ORSZAG. Mr. Chairman, as we described, the health reserve fund is a downpayment, a very significant downpayment, on funding a health care reform.

Chairman SPRATT. Is that 50 percent? 60 percent?

Mr. ORSZAG. It is likely to be the majority of the cost, but whether it is 50, 60, 70 will depend on the details whatever is finally done. And you will hear more about this on Thursday when we hold our health summit, and you will hear more about it as we move through the legislative process.

But we are trying to avoid the mistakes of the past, in which, you know, we came to Congress—or an administration came to Congress and said, "Here is the health plan." We want to work with you in an interactive way to get health care reform done this year, and we are putting a significant downpayment on the table to get that process started.

Chairman SPRATT. Will that include possibly some revenues from auctioning of emission limits and cap and trade?

Mr. ORSZAG. The budget does propose that, but that is, sort of, in the energy area. In health care, we do have a revenue proposal which would return the tax break for itemized deductions for the top—it will affect 1.2 percent of taxpayers—return that tax break to the level that existed at the end of the Reagan administration after 2011, and with the revenue dedicated to health reform.

Chairman SPRATT. Can you outline the basic outlines of the health care proposal the administration will send us? Or is it too early to do so?

Mr. ORSZAG. Well, the budget includes key principles on the health reform. But, again, you are going to hear more about this on Thursday. We want to work with you interactively. What we wanted to do in this budget is put some money on the table to get the process started, and that is what we did.

Chairman SPRATT. The stimulus bill contained a very significant item, over $19 billion as I recall, for information technology. That is a substantial sum of money. When you were at CBO, CBO wrote a critical analysis of a number of information technology claims to astounding sums of money and debunked many of these.

Do you think HI, health information technology is a source of real revenues that will pay dividends and help fund the cost of health care in the future?

Mr. ORSZAG. Health information technology is necessary but not sufficient by itself to move to a more efficient health care system.

So, remember that map that I put up with huge variation across the United States in how health care is practiced. If you look across regions of the United States, you see this. If you look across hospitals within a region, you see this. If you look across doctors within a hospital, you see this. You see very substantial variation in health care practices, with the higher-cost approaches not backed by specific evidence that they work any better than less-costly approaches. And health information technology is one of the key ways that we need to flesh out and get the information necessary for doctors to figure out how to practice in a more efficient way.

Let me give you two examples. If you look in the last 6 months of life for Medicare beneficiaries, if you look at two of our leading medical centers, at one of them the average cost is $25,000 a year; at another, $50,000 a year; and the quality indicators, if anything, suggest that the quality is better at the $25,000ayear medical center. All that we seem to be getting in exchange for $25,000 a year now—that is your taxpayer dollars—is more tests, more visits to specialists, more days in the hospital, none of which seem to actually help, other than raising costs.

In addition, if you look within a hospital, it has been demonstrated that if you sit doctors down and say, do you realize, two groups of doctors, that you are practicing medicine in much different ways, they will often evolve towards the less-intrusive, less-costly approach, but they often lack the data to do that. Most of the data that we have today are based on insurance claims. That tells you what happens to a patient but not what the result is. Health information technology will help you figure out both what is done to a patient and what the result is, so that medical professionals can figure out more effective ways of practicing medicine.

Chairman SPRATT. Now, let me turn to defense spending. You showed us what non-defense discretionary will do, namely come down as a percentage of GDP over the next several years. What happens to defense spending over that period of time, the other half of discretionary spending?

Mr. ORSZAG. Defense spending also declines as a share of GDP. In 2009, it is projected to be 4.9 percent of GDP. And, on average over the next decade, it is 3.6 percent of GDP.

Secretary GATEs has stated that it is time for the Defense Department to begin the process of reorienting its priorities and, in particular, redesigning the procurement and acquisition system to become more efficient. And I am deferring to his judgment in terms of how he does that. But he believes that this budget is a healthy budget for the Defense Department, both in terms of the funding for the troops and in terms of providing the beginning point for starting to turn the ship towards a more effective, especially, procurement and acquisition system.

Chairman SPRATT. Our analysis shows—and I am not sure we have the chart ready at hand—but analysis shows that defense spending over the next 10 years, under your budget, keeps pace with inflation and then some, barely above—there we go. The blue bar being the President's budget, and the red bar being current services, which would be existing defense adjusted, basically, for inflation and other changes.

Mr. ORSZAG. Yes.

Chairman SPRATT. Basically, the President is just a bit ahead of current services, just a bit ahead of inflation.

Mr. ORSZAG. That is correct for the base defense budget.

Chairman SPRATT. But we are fixing the level of expenditure at a pretty high level historically.

Mr. ORSZAG. There has been a very significant increase in the defense budget. And this budget, the President's budget, starts the process of improving efficiency in the Defense Department, again, especially in the procurement area.

Chairman SPRATT. Now, for supplementals, you are doing away with supplementals, but don't have any numbers for the out-years other than the $50 billion plug that you put in the budget after next year.

When do you expect to refine that forecast so you can give us the actual numbers that fit into the $50 billion plug?

Mr. ORSZAG. Well, first, let's step back and realize there will be a supplemental submitted this month for this fiscal year on military operations. In the budget, you have details on that; it will be slightly in access of $75 billion.

As you go out over time, as you noted, we have in 2011 and thereafter a $50 billion placeholder for overseas contingency operations. You have already started to see some of the policy announcements coming out from the administration on troop levels, both in Iraq and in Afghanistan and other areas. It will be ongoing policy development that is done to back up what the out-year costs may be.

Again, maybe I should have said this at the beginning. We have had 5 weeks in office. The budget process normally takes 5 to 6 months. So we are taking our best guess or best shot at a variety of things, and there is going to be a lot more detail to come with the full budget in April.

Chairman SPRATT. Along that line, and one last question from me, at least in the outline of the budget which we have here, the blue book, there is not a lot of attention given to the long-run sustainability of the major entitlements, particularly Medicare and Social Security.

What is the administration's position on those with respect to this budget? Are you looking upon it as something that has to be done outside this budget, separately and independently from it?

Mr. ORSZAG. I would take a slightly different view, Mr. Chairman. Again, as the chart that I put up shows, the key to our fiscal future, the key entitlement problem is health care. And this budget is going—we want to get health care reform done this year. And, in doing so, we want to do it in a way that will help to reduce the long-term growth rate in health care costs.

Health care reform is entitlement reform. If we bend the curve on health care cost growth, it is the single most important thing we can do to get our long-term entitlements under control. So, to my mind, given that graph that I put up with the rising Medicare and Medicaid costs, it makes sense to start with health care, which is what we want to do.

And then, as my testimony points out, after we have dealt with the key to our fiscal future, Social Security also does face an actuarial deficit, and it would be desirable to address that problem after we have dealt with the bigger one, which you can see in this graph is Medicare and Medicaid.

Chairman SPRATT. Thanks very much.

Mr. Ryan?

Mr. RYAN. Thank you, Chairman.

As you noticed, I have a few, couple criticisms with this budget.

Mr. ORSZAG. I did notice.

Mr. RYAN. But let me first start with a couple compliments.

Number one, I am glad to see we are finally putting the AMT in the budget, in the baseline. And you ought to be commended for that.

Number two, I am glad to see you are putting a means test on the Part D benefit. That is something we have put in our Republican budgets. You did, and I want to compliment you for that.

And, number three, I am glad to see it sounds like you guys are serious about agriculture reform. It is time we stop subsidizing very large interests in agriculture, in my opinion, and I think a lot of us are going to agree with that.

So those are the good parts I see in this budget, and I just want to make sure we establish that there are a few things that we like.

Mr. ORSZAG. I appreciate that, Mr. Ryan, I do.

Mr. RYAN. I want to talk about the economic assumptions in this budget. Looking at your—you see it here, but looking at your Table S-8 in your budget, the Blue Chip consensus forecast is about a percentage point lower, meaning your economic assumptions over the first 5 years are about a full percentage point higher than the Blue Chip forecast. Your inflation rate is about half a percentage point lower over the next 5 years than the Blue Chip.

Now, have you run the numbers to show what the deficits would look like if the Blue Chip consensus forecasts prevailed? I mean, obviously, I hope your forecasts prevail, but they seem to be much higher than anyone is forecasting, CBO or the Blue Chips. Have you run those numbers and shown what the deficit impact would be if those prevailed?

Mr. ORSZAG. Well, I am glad that you asked this question, because let's compare ourselves to CBO, you know, an independent arbiter. The CBO analysis was done before the Recovery Act was enacted. CBO yesterday released a letter on the macroeconomic effects of the Recovery Act. If you add in their estimated impact from the Recovery Act to their baseline forecast, which excluded the Recovery Act, you wind up with a forecast that is right in line with the administration's. They have a high and low impact from the Recovery Act, and we are right in the middle of it.

Now, since both of those forecasts were done, the incoming data suggest a more negative economic outlook——

Mr. RYAN. That was exactly my next question.

Mr. ORSZAG. Fair enough. But we have a process here where the assumptions are locked down at a point in time, and, you know, incoming data can wind up being slightly better or slightly more negative than what was assumed when the assumptions were locked in.

I just wanted to point out we are consistent with CBO once the Recovery Act is included in the analysis.

Mr. RYAN. But you won't recalibrate those assumptions given the last period of time of economic turmoil, you are going to stick with these current assumptions, is that correct?

Mr. ORSZAG. As you know, the budget process is based on a set of assumptions that are locked down. I don't think it is productive for us to be chasing our tail, in no small part because we are going to get a lot of different data over the next few weeks and months. And we can obviously reassess the situation at the appropriate time in the process, at least for the mid-session review if not before.

Mr. RYAN. Yeah, I think it is important to point out that the numbers in this budget are staggeringly high. If these scenarios in this baseline don't play themselves out, then they will be even higher. And that is just something I think we all ought to keep our minds on.

I want to talk to you about—you know, the media has talked about all this savings you have achieved, the $2 trillion in savings. Isn't about $1.6 trillion in savings in BA from the fact that you had these inflated war costs, where you assume surge level spending in the war for 10 years, inflate those, and then because of the inevitable drawdown that would have occurred under either administration's plan, you call that savings? Isn't that where the bulk of the savings come from? And then isn't the rest of that savings not actual spending cuts but tax increases?

Mr. ORSZAG. Well, let me break that down into two parts.

First, with regard to the savings on the war, the traditional way of reflecting discretionary spending is to take a base level and project that out over time, which is exactly what we have done——

Mr. RYAN. Okay, can I ask you just right there?

Mr. ORSZAG. Sure.

Mr. RYAN. But the base level you are projecting over time is the surge levels, correct?

Mr. ORSZAG. It is the level from 2008.

Mr. RYAN. The surge.

Mr. ORSZAG. Correct, the last full year of funding that has been provided.

Mr. RYAN. So you assume in your budget that we were going to have the surge for 10 years, even though a surge, by definition, is up, then back down, you assume we are going to be at the surge level in Iraq for 10 years. Is that correct?

Mr. ORSZAG. That is the traditional way in which budget projections have been done. I would also say I think it is—if you just look at a simpler way of looking at it, we are going to spend $140 billion this year on the war. The President is going to walk that down or end things more quickly than I think would have been the case if he hadn't won the election, and that saves money.

But let me also point out, that is not the only source of savings in the budget. The gross savings are much larger than $2 trillion. We have, as I already mentioned, $50 billion in program integrity savings, $50 billion in savings from eliminating subsidies on educational loans, the middlemen in educational loans. In the health care area, we have $175 billion in Medicare Advantage subsidy reductions.

So you can go through the budget and add up all the gross savings, and then some of those are plowed back into different areas, including education, energy, and health care.

Mr. RYAN. So, to go back, $1.6 trillion of these savings is because you are saying, "We are not going to have a surge for 10 years; we are going to ramp it down"?

Mr. ORSZAG. About a trillion and a half dollars is because the war ends more quickly under this budget than we think the alternative would have been.

Mr. RYAN. Than 10 years of surges.

Discretionary spending—can you bring up the chart, Jose, that your non-defense discretionary as a share of GDP, please?

And this is something we have been battling, no matter what administration, no matter what budget, this is something we are always dealing with.

I notice you show a pretty precipitous drop in non-defense discretionary as a percent of GDP. In 2010, the request here for the VA is a 10 percentage point increase and then, in 2011, a 2.2 percent increase. In HUD, an 18 percent increase for this fiscal year, this upcoming fiscal year, and a .2 percent increase the next year.

Transportation, a 2.8 percent increase in their budget, and then followed by a negative 11.5 percent decrease. Labor, 4.7 percent increase, followed by, in 2011, a .8 percent increase.

The Environmental Protection Agency in the stimulus package received an increase of 92 percent in its budget. In fiscal year 2010, you are proposing an additional 35 percent increase. And in fiscal year 2011, you want a 1 percent increase. And I am assuming this does not include cap-and-trade administrative costs, because that hasn't been, sort of, implemented yesterday.

Do you think it is realistic—and, you know, we have seen all of these different administrations—do you think it is realistic that you are going to have these incredible double-digit increases in these agency budgets and then you are going to have these incredible decreases the following year?

Mr. ORSZAG. Well, it is not decreases, but slower growth. But I think the answer is yes, because—here is the context. From our perspective, there have been key areas that have been under-invested in or starved of resources. We need some reprioritization. But then, once that is accomplished, it will be sustainable to have slower growth rates.

So this budget is not based—those NDD numbers are not based on just kind of making the numbers up in the out-years. It is programatically based. So, for example, in 2019 we build into the Commerce Department additional funding because we know the next census will be coming up.

So I think this is a very important question. We think there is some reorienting of priorities that is necessary, and some reinvestment, and then we think it will be sustainable to perpetuate that over time.

Mr. RYAN. Yeah, I think the problem around here is the most permanent thing is a temporary increase. And that is what Congress ends up usually doing with these budgets. And we will join you in helping you restrain the growth of these programs, because I think you are going to have a hard task at hand. I recall the last administration was deeply criticized for doing the same kinds of things.

Then, I don't want to take up all of the time, but this is obviously what all administrations start with. They give us a blueprint, sort of a "CliffsNotes" version of the budget. You only had 5 weeks, so we understand that. You are going to bring the big, full budget in April some time.

Mr. ORSZAG. Correct.

Mr. RYAN. But I am assuming we are going to have a markup in this committee on the budget before April. So that means there are lots of questions that we would like to get answers to before we start moving a budget resolution going to the floor.

So, in the interest of time, I have some questions I would like to submit to you for the record to get more details to what you are planning on rolling out in April so that we can make better decisions when this committee begins to mark up the budget resolution. And if you could respond to me on these in a prompt way before we actually consider our budget resolution, I sure would appreciate that.

Chairman SPRATT. Without objection, so ordered.

Mr. RYAN. Thank you. I yield back.

Chairman SPRATT. Ms. Schwartz.

Ms. SCHWARTZ. Thank you, Mr. Chairman. And thank you for this first hearing on the budget.

And, Peter Orszag, welcome back. We saw a good bit of you over the last few years. And congratulations on your new position and your new challenges for this administration.

We certainly appreciate how well you have laid out the crisis, both economically in this Nation and the fiscal demands and situation that this country faces and the President and you face, all of us face. And I think you have made clear that this is a very different kind of budget. It is more honest in laying out our expectations for the future and makes very clear that we need to move towards fiscal balance, recognizing that that is going to be hard to do. And it is very clear about the investments that we have to make if we are going to be economically competitive and certainly if we are going to be able to grow in the future and meet that fiscal balance.

I did want to follow up specifically on health care. The Chairman [JF1]did very well, but it is a very big part of—as you said, health care is key to the financial future, in terms of meeting our obligations as a Nation and meeting our budget goals. But it is also very important to families and to businesses. I hear a great deal about the cost of health care, the fact that it has risen in the last 8 years about 75 percent for businesses covering health benefits. It means a lot more of those costs passed along to employees. And of course I hear from families who are deeply worried about the costs, both the cost-sharing and the bankruptcies it often causes when they don't have full coverage.

I wanted to ask you to flesh out a little bit further both some of what we already have set out in the economic recovery package. We did major work—I want to congratulate all of us, at least on this side of the aisle; we did not get the bipartisan support we would have liked, even though I think there is a good bit of agreement on the other side—on health IT in particular, that we ought to be making this kind of very significant investment, and what that can mean for us moving forward in terms of improving quality and saving lives and saving dollars.

Could you flesh out two things? One is, what additional policy changes, reforms do you think that we need to be making, not only to affect Medicare/Medicaid but also that could have an effect in the private sector, on cost in the private sector? And I am talking about the comparative effectiveness.

We have gotten a good start, in terms of the $1 billion you have set aside. There are a lot of questions about how that is going to really improve quality. Payment reform, physician decision support, and really the kind of savings going forward. These raise some questions and concerns; I wonder if you could flesh that out for us. Basically, I am talking about what else might you be encouraging us to do so that we can actually see the kind of improvement in quality and savings?

And secondly, if you could also speak to, if we don't do this, what effect it might have on our economic competitiveness and on our budget if we, in fact, don't tackle health care costs going forward.

Mr. ORSZAG. Well, let me start with that question. Again, remind yourself of that graph with Medicare and Medicaid just rising, rising nonstop over time. If we don't act to reduce the growth rate in health care costs, nothing else from a fiscal perspective is going to save us from a fiscal crisis eventually. Those rising costs of health care are going to become so burdensome, not just for the Federal Government but also for State government and for workers, that we simply have to start the hard process of bending the curve on health care costs.

The Recovery Act takes an important step. As you already mentioned, health information technology, so that we have more data. Not only that—let me just also stop for a second since we shouldn't get lost in the policy details, and also realize that, as patients—I mean, I am looking forward to a world in which I don't have to fill out medical forms over and over again every time I go to a new doctor, because it is a nuisance that none of us needs.

But in addition to that, it leads to a more efficient health care system in which errors are reduced and higher quality is produced. Comparative effectiveness is about measuring what works, evaluating what works and what doesn't, and then having medical professionals evaluate ways of changing practices so that we get the stuff that does work and not the stuff that doesn't.

And then, finally, you already mentioned incentives. Right now we have a health care system that pays for more care rather than better care. And it is not surprising that what we get is more care. What we want is better care. And the budget includes a variety of proposals, from bonus-eligible organizations, to incentives to reduce readmission rates, to incentives for hospitals to improve quality, and so on and so on and so on, that will start to reorient the payment system towards efficiency and quality and not towards just higher costs.

Ms. SCHWARTZ. Well, thank you. I think we are going to be seeing a lot more of that fleshing out. But you make a very, very important point—and my time is up—but that this is actually intended to create efficiencies but improve quality, and not, in fact, limit access to care but improve that quality. And that will save lives and save money.

Thank you.

Chairman SPRATT. Thank you, Ms. Schwartz.

Mr. HENSARLINg is next.

Let me tell everyone the clock is not working. So when you get down to 4 minutes and you have 1 minute to go, I will tap the gavel. When you have 5 minutes, I will rap the gavel.

Mr. Hensarling?

Mr. HENSARLING. Thank you, Mr. Chairman.

Welcome back, Dr. Orszag.

Since Congress has come under Democrat control, they have recently achieved a trifecta of trillions. We have a trillion-dollar government stimulus bill that includes a fleet of cars for government employees, more money for the National Endowment for Arts, more subsidies to Amtrak. Then we had about 2 weeks later, less than 2 weeks later, a trillion-dollar appropriations bill, first time in our Nation's history, complete with thousands of pork-barrel projects, including lobster research protection for mouse habitat. Now we have a trillion-dollar budget deficit to boot. On top of that, now, we have the Democrat administration proposing a budget with red ink as far as the eye can see.

Two questions, Dr. Orszag, to make sure I have my facts right. At 27 percent of GDP, would this be the largest peace-time budget in our Nation's history?

Mr. ORSZAG. The budget that we are inheriting, yes, for peace time, that is correct.

Mr. HENSARLING. Oh, I am sorry, are you inheriting this budget, or are you proposing this budget?

Mr. ORSZAG. The 27 percent is for a year in which we are in the midst of a severe recession and includes the steps that have been necessary to address the downturn.

Mr. HENSARLING. Well, I am just looking for a simple—so the answer is yes.

Mr. ORSZAG. Yes.

Mr. HENSARLING. Thank you. Also, with this budget, would this double the national debt in 8 years? Is that true?

Mr. ORSZAG. Under current policies, the debt increase would be even larger. We reduce the deficit, but there still is a significant——

Mr. HENSARLING. But is it true that, in 8 years, that the debt would be doubled under this budget?

Mr. ORSZAG. Yes. But, again, the debt increase is less than if we fail to act.

Mr. RYAN. Could I ask one?

Mr. HENSARLING. I would be happy to yield to the ranking member.

Mr. RYAN. Is that if you include the surge that lasts for 10 years?

Mr. ORSZAG. That is if you include the traditional way of doing baselines, yes.

Mr. RYAN. Okay.

Mr. HENSARLING. You said earlier in your testimony that you wanted to avoid the mistakes of the past. Let me read you a quote from one of our former Secretaries of Treasury. Quote, "We are spending more than we have ever spent before, and it does not work. We have never made good on our promises. And after 8 years of this administration, we have just as much unemployment as when we started and an enormous debt to boot." You probably recognize the quote. It was President Roosevelt's Treasury Secretary, Henry Morgenthau, and that quote was given in 1939.

I have no doubt, Dr. Orszag, that you have also studied carefully the lessons of Japan that had a similar real estate bubble that burst, and I am sure you have studied their lost decade.

Recently, the New York Times, not exactly a bastion of conservative thought, wrote about the experience, where it talks about, "Japan accumulated the largest public debt in the developed world while failing to generate a convincing recovery"—this coming from the New York Times. Quote, "This has led many to conclude that spending did little more than sink Japan deeply into debt, leaving an enormous tax burden for future generations. Among ordinary Japanese the spending is widely disparaged for having turned this nation into a public-works-based welfare state and making regional economies dependent on Tokyo for jobs" unquote.

My question is, given our own history, given the Japanese history, what historical precedent is the administration basing its budget on and its belief that they can borrow and spend our way into national prosperity?

Mr. ORSZAG. Well, let me take the Japanese example. I think the lesson from the Japanese example is that the failure to deal aggressively and up front with problems in the financial system ultimately proved to be a big mistake, in which the lost decade occurred.

I am going to defer to Secretary Geithner and the other members of the administration's economics team in terms of how to address problems in the financial market, but I know that they are motivated by a desire to avoid that mistake. So I think the key to avoiding that outcome to is to get at the nub of the problem that occurred in Japan, which was the, sort of, rope-a-dope strategy on the banking and financial market problems.

Mr. HENSARLING. Okay. Let's move on to taxes in the limited time I have left. Is it not true that, under this budget, we are looking at a $636 billion tax increase that would be a tax on carbon-based energy used by almost everyone in our Nation, and a tax on small businesses since the overwhelming majority of small businesses pay tax at the top two individual rates? And, if so, how is this going to help the family budget? How is it going to help create jobs?

Mr. ORSZAG. Let's talk about small businesses. The budget proposes some tax changes starting in 2011 that will affect the top 3 percent of small-business owners. The rest will not be affected. And, in fact, many of them will receive a net tax cut through other provisions in the budget, including a zero percent capital gains rate on qualified stock owned in small businesses.

But I think more important than any of that, the problem facing most small businesses today is the lack of economic activity and the lack of access to credit. The most important thing we could do to get small businesses back on their feet is get the economy moving again and get credit flowing. The budget includes $28 billion in loan guarantees to help small businesses, including through the so-called 7(a) program that has been very effective in the past. I think that is the key to getting them back on their feet——

Chairman SPRATT. The gentleman's time has expired.

Mrs. Kaptur?

Mrs. KAPTUR. Thank you, Mr. Chairman.

I would like to begin by saying to my colleague from Texas that there isn't a single Member on this side of the aisle that belongs to the Democrat Party. We belong to the Democratic Party. So the party you were referring to doesn't even exist. And I would just appreciate the courtesy, when you refer to our party, if you are referring to the Democratic Party, to refer to it as such. We wouldn't say Republic Party in the instance of the party that you belong to. And I think that that really was unnecessary.

Mr. HENSARLING. Would the gentlelady yield?

Mrs. KAPTUR. Not on my time. You will have to wait. But I think the gentleman heard the message.

I would like to thank Director Orszag, Dr. Orszag for being here today, and say that America's needs your razor-sharp mind, and we are really happy to have you in the position that you are in.

May I ask you, did the Bush administration, in its 8 years in office, ever produce a balanced budget that was submitted to this Congress?

Mr. ORSZAG. No.

Mrs. KAPTUR. No, it did not. And may I ask you, of the enormous debt that we are facing, do you have the numbers with you or could you provide to the record how much of that deficit is due to unpaid war costs in Iraq and Afghanistan and also money for Wall Street bailouts that was not paid for?

Mr. ORSZAG. Yeah, we can provide you with that in writing.

Mrs. KAPTUR. All right. Would you say that those together constitute over a trillion dollars at this point?

Mr. ORSZAG. Again, it depends how you do the accounting, but the cost of the war in Iraq is close to that figure by itself.

Mrs. KAPTUR. I thank the gentleman very much, and we will appreciate those figures for the record.

Let me move to the topic of the frozen credit lines, which you referenced on the first page of your testimony, in the banking system of this country.

I am very concerned about the lack of involvement at full measure of the Federal Deposit Insurance Corporation and the Securities and Exchange Commission in helping to resolve this serious credit crunch problem. Through TARP, which adds to our deficit every day, the U.S. Treasury has replaced less than half of the capital that mark-to-market accounting has destroyed across our banking system.

Do you have the ability, as the Director of the Budget Office, to convene at the executive level the FDIC, the SEC, the Treasury, and the Fed to conduct an overarching policy discussion of mark-to-market accounting and its contribution to the financial crisis that we are facing?

Mr. ORSZAG. Congresswoman, I think that question is probably best directed to Secretary Geithner, and that would be the appropriate official with whom to have that conversation.

Ms. KAPTUR. I will ask him that tomorrow, but I am hoping in your role, as you look at the budgets for these different agencies, such as FDIC and SEC, that you might play an important role understanding how these accounting practices work, and we can't possibly, through the taxpayers, keep dumping all of this money into Treasury without dealing with the accounting side of the ledger.

I thank the gentleman very much.

Let me also ask you, the enormous challenge to our country to change the psychology of debt to one of savings, every American family has to participate in this. Could you as a leader in the new administration convene principals in the administration to look at the U.S. savings bond campaign in a manner that would create an effort in very small denominations, even down to postage-stamp-sized denominations, selling them like stamps, to involve large numbers of the American people? We have to change an entire psychology of the Nation. I am just suggesting that to you. These bond campaigns occur every year. I know who manages them inside the government over at Treasury. But I think in your role, with your intelligence, you could really have an influence within that administration, and I ask you to consider that.

Mr. ORSZAG. Thank you. Let me touch upon savings for a minute. One of the provisions that has not gotten very much attention in the budget is something that I think maybe we can all work together on to get done very quickly.

The evidence strongly suggests that the best way of getting Americans to save for retirement is to make it easy and simple so that they are automatically enrolled in a 401(k) but have an opportunity to opt out.

Most of us with kids or busy lives, we don't want to be handed a big binder by our employer who says wade through this and get back to me if you want to sign up. I would prefer, and I think most Americans prefer, to know that if they don't take action, something good is happening anyway. And if they want to wade through the binder, great. And then they can make their own decisions. But most of us are too busy with other things to spend the time doing this. The evidence suggests that has a big impact.

You all have already moved to make automatic enrollment opt-out 401(k)s more prevalent among companies, and that has occurred over the past several years. The budget includes a proposal to move towards universal accounts outside of Social Security by creating an automatic IRA at those firms that don't offer a 401(k) plan.

The point would be that, whenever someone went to work at a new employer, the worker would be automatically enrolled in some form of savings vehicle unless they opted out. The evidence strongly suggests that is a very effective way of getting people to save, and I am hoping we can get that done soon.

Ms. KAPTUR. I would just ask for the record if you could please provide an estimate of how many homes you expect to be foreclosed this year in the United States, and whether that number is above or below last year's number, and where in your analysis do you account for the trillion dollar trade deficit and how that impacts on GDP?

Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Ms. Kaptur.

Mr. Garrett.

Mr. GARRETT. Thank you, Mr. Chairman.

Thank you, Director, and thank you for being here. Again, I join my colleagues for complimenting you for enacting some of the reforms that we have supported in the past such as the AMT patch and the so-called doc fix in the baseline. While I certainly don't agree with all of the decisions you and the administration made on accounting aspects, I do agree with those that you made there.

I do have a few questions about some of the accounting methods that you have had going forward. And to give you an idea what I am talking about, I am referring back to the other day with what the Department of the Treasury and the Fed has done with regard to AIG.

Under the latest bailout, the Treasury Department will set up a new $30 billion fund that AIG can draw down from as needed in exchange for preferred stock for the Federal Government. Treasury will also exchange $40 billion in the preferred shares it already has received in AIG for new shares that “more closely resemble common equity,” similar to what the administration did on Friday with respect to Citigroup.

Both of these moves greatly increase the risk to taxpayers if the institutions fail. As I am sure you are aware, preferred shares usually are the first in line to be paid when a company liquidates, but these common shares will be last in line. And these shares will not pay a dividend as well, which in the past would be compared to the interest that we were getting. So, without this dividend or interest payments and with the substantial increase in risk to the taxpayers, these outlays by the Treasury Department appear to be less and less like a loan and more and more like a direct outlay.

Furthermore, it was announced that the Federal Reserve will reduce a $60 billion credit facility in exchange for taking a preferred interest in AIG’s subsidiaries, such as American Life and American International Insurance Company, Limited.

The Fed’s exposure to AIG now totals something like $93 billion, and this could put it in line for sizable losses should the value of those stakes deteriorate. This is just one of many, many unusual acts, for the Federal Reserve’s terminology, they do during exigent circumstances, enacted by the Treasury Department and the Federal Reserve over the last year and a half.

For example, back on February 18, a week ago, Secretary Geithner announced plans to double the size of U.S. funding commitments to the GSEs Fannie and Freddie to $400 billion. And in March of this year, the Federal Reserve set up a special limited liability corporation to hold the portfolio of J.P. Morgan, which was too risky for them to take in its fire-sale prices.

I refer you also to what is happening in Britain. The British government there has just announced that they intend to classify Lloyd’s of London and the Royal Bank of Scotland as public corporations. Their liabilities now will be assumed of $1.5 trillion pounds, and that will be added to the taxpayers’ balance sheet. This reclassification will more than double the British national debt.

So in the budget document here, it says that the budget supports the administration’s new financial stability plan as well as the management of the TARP, emphasizing effective transparent accounting programs. In addition, it says that the President’s budget includes $250 billion contingent reserves for further efforts to stabilize the financial system, which would support the $700 billion in asset purchases.

So while I appreciate your desire to make some accounting corrections to anticipate future policies that could be enacted to stabilize the financial sector, my question is, do you feel that the OMB has done enough to accurately account for all of the actions taken by both the Federal Reserve and the Treasury Department in your baseline? And secondly, as the Fed continues to take risky actions under their and 13-3 exigent circumstances charter, is there any way for us to account for this in the budget?

Mr. ORSZAG. Again, I think what we need to do is separate Treasury activities from Federal Reserve activities just given the way the Federal budget works.

The Federal Reserve's activities are reflected in the Federal budget only through the transmission of net profits from Federal Reserve back to the Federal Government. So a lot of what is happening there is not reflected in the Federal budget, and that has always been the case.

Mr. GARRETT. And if you want an honest budget, shouldn't that be on the line?

Mr. ORSZAG. There are complicated issues in bringing the Federal Reserve's full balance sheet.

Mr. GARRETT. Complications aside, should it be included?

Mr. ORSZAG. I don't know that I would say it should or shouldn't be included. I think I can understand the motivation for looking both at the budget and the Federal Reserve's activities combined.

But focusing just on what is covered by the Federal budget, this document does reflect, you mentioned AIG. As you know, that is covered under the existing TARP legislation that is embodied in the budget.

Another way of putting the same point, we are hearing about large numbers, and there are very large numbers that are involved in the financial stabilization effort, even the part covered by the Federal budget. If you include the placeholder that we hope is not necessary to stabilize financial markets but nonetheless is incorporated to be responsible in the budget, there is something like $2 trillion in purchases of financial assets that is reflected in these numbers.

As you know, the way the budget is done, it is on a net-subsidy basis, so the number that shows up in the budget is smaller than that. But the gross value of financial asset purchases that is consistent with the numbers in this budget is something like $2 trillion. Obviously a substantial sum.

Mr. GARRETT. And so should we be able to move towards the British system to include the entire risk that is assumed by these, not just the numbers that you are saying are out there?

Mr. ORSZAG. Again, there is some attempt to incorporate risk in the Federal budget already, but it is a partial reflection. So, across a whole variety of areas, the treatment of risk in the Federal budget I think is an important topic. It is not just with regard to financial market transactions but also with regard to a whole variety of other proposals.

This came up with regard to Social Security several years ago and how risk was reflected in the budget there. It comes up in area after area, and I would say the treatment of risk in the budget is somewhat inconsistent, and that is an area that would be beneficial to move towards a more coherent or consistent system of treating risk in the Federal budget. It is not currently the case, and that is going to be difficult work, and it will take time to do.

Chairman SPRATT. The gentleman's time has expired.

Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman.

Dr. Orszag, good to see you again. Congratulations on your appointment.

We are hearing quite a bit about this deficit and the long-term debt, much of which the President has indicated he came into office having to live with. We all inherit things from our families and otherwise, and we make the best we can with that, and I appreciate that the President is trying to make due with the fact that, and I don't think he wanted to come into office facing a $1.4 trillion deficit and trillions of dollars of added debt over the next several years.

Be that as it may, we appreciate very much that he has come out with an honest budget that really does give Americans a chance to understand how the government will be collecting revenues and spending the taxpayer money that it collects.

On health care reform, I appreciate that the President in his budget articulates a vision for how we will reform a very broken system where we have some of the best technology and some of the best care, and perhaps the best trained professionals, but we still have close to 50 million people without health care. I am wondering if you can give me a sense, I believe you dedicate about $634 billion for health care reform?

Mr. ORSZAG. That is correct.

Mr. BECERRA. I don't recall seeing that where we, in a budget presented by a President, had that much money ready to invest in real meaningful health care reform. Can you give us a comparison, say for example, of the cost of the Iraq war? How much have we spent, more or less, on financing the cost of the Iraq war over the last 5 or so years?

Mr. ORSZAG. I would have to get back to you with an exact number, but I believe the cumulative cost is now in the range of a trillion dollars.

Mr. BECERRA. So we could do health care reforms to provide universal coverage, make it far more cost-effective for people with insurance to be able to send their families to a decent doctor or hospital for far less than the cost, than what we have paid so far in our involvement in the Iraq war?

Mr. ORSZAG. Well, I would say a couple of things.

One is, clearly, there is a time dimension to this. But more importantly, I do want to make clear the $634 billion is historic and substantial, but it is also only a down payment. More is necessary to reform the system, to bring down the cost and improve quality.

Mr. BECERRA. If you take into account the trillion dollars you estimate for the Iraq war so far, plus the money we will continue to spend, even if we are successful as the President hopes to bring that war to a close, we will have spent significant moneys that could have been used to take us a long ways toward resolving this health care crisis that Americans face day in and day out.

AMT relief. Do you have a sense of how much it would cost over the next several years, 10-year window, to try to provide relief to the Americans who never believed that they would fall within the jaws of the alternative minimum tax?

Mr. ORSZAG. The budget includes $576 billion in such relief.

Mr. BECERRA. And didn't the President, when taking office, have to live with a financial bailout for the financial services industry totaling $700 billion?

Mr. ORSZAG. Yes.

Again, coming back to the point that I made earlier, if you look at the situation that the President inherited along with the steps that have been necessary to address it, so the impact of the weaker economy on revenue, the imperative for a recovery act to jump start the economy, and the need for financial stabilization efforts, the total impact on the deficit for this year and next year combined is $2 trillion.

Mr. BECERRA. So if we look at what we did in the past and realize that had we had different policies and done things differently, we could have planned better for this country and its people. There are many things we could do, including, for example, our small business community. More than 91 percent of small businesses have income of less than $250,000. If I recall correct, with the different initiatives and proposals you have, small business men and women and their employees are likely to receive tax cuts under the President's policies and budget that you have proposed?

Mr. ORSZAG. That is correct.

I want to come back to the point I made earlier, which is, in addition to that, and I started and ran a small business, the most important thing for small businesses is economic growth and access to credit. That is what we are focused on doing over the next year or two. The recovery act is intended to get the economy moving again. There are proposals as both the financial stabilization efforts and in this budget to get credit flowing again to small businesses so that they can play the role in our economy that they traditionally have played.

Mr. BECERRA. I appreciate your being here.

I yield back the balance of my time.

Chairman SPRATT. Mr. Harper.

Mr. HARPER. Thank you, Mr. Chairman.

Congratulations and good luck in your job. I know it is going to be a lot of fun, isn't it?

Mr. ORSZAG. Everything is relative.

Mr. HARPER. That is right.

In the President's speech last week, he started out by saying we had gone to a new high level of importing foreign oil, and he said we pay a high price for our dependence on oil; he did not say on foreign oil. Are you anticipating that we are getting away from, in this budget, from going after our existing supply of fossil fuels that we do have available? Is there anything in this budget that calls for increased domestic supply of oil and gas that you see?

Mr. ORSZAG. The way I would put it is, given the dependence on foreign oil that exists, we can either try to heavily subsidize and promote to sort of beyond what the market would otherwise produce domestic production, or we can try to move towards a cleaner energy future in which overall dependence on oil is reduced and that has the very significant benefit of also reducing our dependence on foreign oil. The budget chooses that latter course because I think that is the more sustainable path to choose.

Mr. HARPER. When we talk about the economy and the activity that you talked about, in my State, when the gas prices hit $4 a gallon, it killed the small businesses. I don't know how we can endure another episode of that, and we have done nothing to try to increase that supply. So if we have another great fluctuation in the price at the pump, it is going to be very hard to sustain that.

One thing that I noticed also in the President's speech and a question I had as I looked at the summary here, I didn't see any mention of nuclear energy. I saw some discussion about what to do with nuclear waste, but nothing about nuclear energy. And of course, that is not considered a renewable, although it is extremely clean. What does the President's budget call for regarding the use of nuclear power?

Mr. ORSZAG. Well, as you noted, there are proposals in there with regard to the end part of the nuclear fuel cycle. I guess what I would say is we are going to have a legislative debate over climate change. Clearly, one of the things that is affected by whether carbon emissions has a price associated with it or not is nuclear power, and that discussion will occur as we move forward on climate change legislation.

Mr. HARPER. From a global warming perspective, nuclear would be good, would it not?

Mr. ORSZAG. The evidence suggests that nuclear energy has lower carbon emissions than, for example, coal-fired power plants.

Mr. HARPER. We had a protest yesterday, and I understand some people couldn't get here because of winter weather, for the global warming protest, which is always of some interest there. But aren't the citizens ultimately going to be the ones who pay the cost of the cap-and-trade system?

Mr. ORSZAG. Ultimately, one of the things that will happen as part of a cap-and-trade system will be higher energy prices which will be borne throughout the economy.

I want to back up and say two things. One is, we have significant investments in energy efficiency which will help mitigate any upward pressure on energy prices. If we actually get the battery technology in place, if we actually build the electricity superhighway so that wind from North Dakota can reach Chicago, all of the energy price effects are substantially dampened.

Secondly, we do have compensation that is included in the budget through the Tax Code for middle- and moderate-income families. The vast majority of families all in are going to be substantially better off under this budget than without it.

Mr. HARPER. And I know our time is almost up. One final question dealing with the national defense. Of course, in the news was the fact that the President indicated he was willing to talk about removing missile defense as some part of components talking with Russia in working with Iran. Does this budget call for any continued development of the missile defense system, or is that now off the table?

Mr. ORSZAG. Again, I am going to defer to both Secretary Gates and Secretary Chu with regard to a variety of our Defense and related programs. I think you will be hearing more from them on those topics.

Mr. HARPER. Thank you for your time.

Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman.

And thank you, Dr. Orszag, for your excellent testimony and your important work on this budget.

Like President Obama's address to the Nation last week, your presentation on the budget recognizes that we cannot postpone resolving the dual challenges of both the health care crisis and the global warming energy challenge, nor can we expect the American people to share in the burden of climbing out of the giant hole in which failed Republican policies have placed our country unless there is greater tax fairness.

On this latter point, I appreciate your specifically including codification of the economic substance doctrine to void transactions that no fool would engage in except to dodge taxes. It is a proposal Republicans have blocked consistently since I first introduced it in 1999.

Your budget outline also refers generally to the thriving business of international tax evasion. I would just ask, as you prepare your more complete budget document, that you consider, as Senator Levin and I have asked you, to include the Stop Tax Haven Abuse Act that he, Congresswoman DeLauro, and a number of members of this committee, and last year when I introduced it, Rahm Emanuel and, over in the Senate, a Senator named Obama joined as cosponsors of it.

Mr. ORSZAG. So you think that would mean favorable reviews within the administration?

Mr. DOGGETT. The new evidence out is over 80 percent of our largest corporations use tax haven subsidiaries, and I think it is long past time to try to stop some of this offshore tax abuse, especially from those who turn to the government for bailouts with taxpayer dollars at the same time they have dozens of offshore companies.

But let me turn to the issue you were just discussing about global warming because I believe that the vote we will take on this budget resolution will be the first major test of our commitment here in Congress to support President Obama in implementing an effective cap-and-trade or cap-and-invest system to place a price on carbon pollution and transition to an economy that is both more energy-independent and more carbon-independent.

Like the hearing that you participated in over in the Ways and Means Committee with us last September, we had another hearing on this subject in Ways and Means last week. And, unfortunately, the Republican reaction ranged from many old-fashioned globalwarming deniers to those who aggressively attack any role for government regulation.

I would like you to explain, if you would, why you and our President recommend auctioning 100 percent of pollution allowances rather than just giving away pollute-free cards to the polluters. I believe the revenues that you have included, and I think it is conservative, it is kind of, the bottom end of the revenues through 2019 in this budget outline is about $650 billion. How is it that the American people are better served by auctioning the revenue instead of just returning the value to the polluters who created the problem?

Mr. ORSZAG. The reason is, if you didn't auction the permit, it would represent the largest corporate welfare program that has ever been enacted in the history of the United States. In particular, all of the evidence suggests that what would occur is that corporate profits would increase by approximately the value of the permits. So whatever that is, $600 billion, $800 billion, whatever the value is, would go in a sense almost directly into corporate profits rather than being available to fund energy-efficiency investments and to provide a cushion or some compensation to American households. That is why the President, I think, has made absolutely the right choice in saying that the permits should be auctioned.

Mr. DOGGETT. In that regard, we learn from the misadventure and experience of the Europeans who did give away many of those permits, and the revenues that you get from auctioning off those permits and then letting the free market set the price for carbon market reliance, those revenues, $650 billion or more, are a very essential part of your budget proposal; are they not?

Mr. ORSZAG. They play an important role. There are lots of pieces to the budget, and I want to come back. We need to move to a clean energy future, and we need to do it in a fiscally responsible way. This is a way to do it.

Mr. DOGGETT. Thank you.

Chairman SPRATT. Mrs. Lummis.

Mrs. LUMMIS. Thank you, Mr. Chairman.

Dr. Orszag, we heard such good things about you when we were looking at the new CBO appointee and what big shoes that person had to fill.

Mr. ORSZAG. He is doing a good job.

Mrs. LUMMIS. It is a pleasure to meet you.

My first question is about the cumulative effect of the stimulus and the budget and now the proposed budget. The President has acknowledged the need for program elimination and reductions after a line-by-line Federal budget analysis, but I am looking at it from the perspective of someone who has been voting on these bills that have been coming before us. And since he took office, he has helped enact a $787 billion stimulus bill, and then he now appears to be willing to sign the $410 billion omnibus appropriations bill that had something like 8,500 earmarks. And his budget proposes to increase nondefense spending by over 9 percent.

My first question is this: Did he consider freezing spending for his first budget so we, as Congress and the President, could go shoulder to shoulder with the American people who are trying to make ends meet and are trying to hopefully use the stimulus package that passed to recover the economy, why would we want to raise discretionary spending in this budget after we just passed a $1.1 trillion stimulus package that by itself should have been able to stimulate economic growth?

Mr. ORSZAG. Let's come back to nondefense discretionary spending. The graph I put up shows over time this budget does reduce nondefense discretionary spending to the lowest share of GDP, to the lowest share of the economy on record, by the end of the budget window.

As I said earlier, there are certain areas that require some reprioritization, and that is what is occurring. I will give you an example. One of the problems that we have that has occurred over the past several years, if you look at government contracting and procurement, the contracts have more than doubled, acquisitions have more than doubled over the last 8 years. The number of contract officers has stayed flat. The result has been significant cost overruns and problems in administering those contracts. We need to address that problem. Once you start to address that problem, you don't need to keep growing thereafter. This is a one-time fix that is necessary. And that is why, that is one reflection; it is a little microcosm of what we are trying to do in this budget, address some of the problems that have arisen and then put us on a path to a sustainable spending level. And again, that graph shows you, this is not a big spending budget.

Mrs. LUMMIS. Did the President consider freezing spending for this very first budget in order to give you all time to incorporate the big spending that we have been doing in the last 2 months into the American recovery effort? The question is, did he consider, did he consider freezing spending?

Mr. ORSZAG. I am not positive, I don't remember whether that proposal was discussed with the President or not.

Let me just talk about it for a second. As one example, take the defense budget, which came up earlier, the budget includes a 2.9 percent increase in pay for our soldiers and other military personnel. If you have a flat-line, zero-growth, either you are not going to finance their health care or you are not going to provide them a pay raise, or it is going to be implausible that you are going to turn the ship so quickly that you can get all of the necessary funding out of procurement and other parts of the Defense budget. That is just one example. It is the kind of thing that I think it would be nice if it worked, but especially after years in which problems have arisen, it is not the standard that the Defense budget, for example, should be held to.

Mrs. LUMMIS. Mr. Chairman, I am going to mention something that I am tremendously concerned about in this budget, and then go on to another question. That is the abandoned mine land moneys. You are proposing that you change the law in this budget that was passed in 2006 to ensure that States that produce coal receive their abandoned mine land dollars over a 15-year period, and now you are using this budget to reverse the law. And I am curious about what your justification is for doing that?

Mr. ORSZAG. And I was actually just confirming you were from either Wyoming or Montana.

This is the kind of thing that I think as you go through the budget, there is not a single line in the budget that doesn't have some backer or someone who cares a lot about that line. We can talk specifically about the abandoned mine land payment system.

There was a program put in place to clean up abandoned mines. As part of legislation a couple of years ago, it was decided that we would provide payments to States for cleaning up mines even after they had finished cleaning up their mines.

So what we are proposing is that we would no longer continue providing funding for cleaning up mines after the mines have been cleaned up. And that is what that provision does.

I understand nothing is easy in this life. But if we want an example of what is involved in changing the course of our budget, that is an example.

Mrs. LUMMIS. One more question, Mr. Chairman.

Speaking of changing the course of our budget, the President as a candidate went over and over and over his commitment to end pork barrel spending, and yet he is going to sign a bill that has 8,500 earmarks, when he said he was opposed to earmarks. So when can we expect him to put out an earmark policy, and what will it look like?

Mr. ORSZAG. Let me comment on that because I know that this has received a lot of attention. Are the level of earmarks in the omnibus bill larger than the President would like? Yes. Are they reduced relative to the peak in 2006? Yes. Does the President want to reduce them further and move towards a more transparent system for earmarks? Yes.

I think you will be seeing in the very near future a statement of principle from the President on working with the Congress on how to address earmarks.

But we also face this question that this was a deal that was done by basically the past Congress, and unless we are going to, you know, up-end the government and not continue to provide FBI protection and homeland security protection and what have you, we do need to move past this. I know I have been criticized for saying, but this was a deal done last year. This is last year's business. Does it contain more provisions like that beyond what the President would like? Yes. But we need to move on. Part of moving on will be to move to a new system in which earmarks are yet more transparent. There has been progress that has made, but yet more transparent and further reduced.

Mrs. LUMMIS. Thank you.

I yield back the balance of my time.

Chairman SPRATT. Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

Mr. Orszag, I appreciate your point. We have, I think, a quarter of the earmarks, as opposed to what the Republicans had when they were in charge. I think putting that in perspective is important.

I agree with my friend, Mr. Ryan. There are areas of agreement. I think it is important to acknowledge them. I agree with him about the point about agriculture reform. There are a number of people who have been working on this for a number of years. You have identified items in this budget, and if we could have gotten an up-or-down vote on the floor last time, that probably would have been enacted into law, for example, agreeing with President Bush in a bipartisan group to take it down to a quarter million dollars a year. What I would like is your assistance in framing for us what the impact is going to be on the typical farmer in America, not rich sugar and rice farmers on a large basis, but focus on the average farmer and the benefits that they are going to get from health care, from energy, from the opportunity for the tax cuts. The vast majority of farmers don't get a half million dollars a year, but they are going to be getting tax cuts. If you could help us frame a picture of that, would that be possible?

Mr. ORSZAG. Absolutely. Under Secretary Vilsack's leadership, the budget includes substantial benefits for family farms, not only with regard to micro-enterprise provisions, not only with regard to moving towards green farming, not only with regard to a dramatic expansion in rural broadband.

Mr. BLUMENAUER. I would like your help in bringing it forward. Could you help us frame this in terms of how many farmers there are, how many would be affected, how many would get benefits from the tax health care and energy? I think it would help us move forward.

I just want to note one area of transportation, and this is not your area, I know. But we are going to have, the chairman indicated, a hearing on transportation. The budget, as I think Mr. Ryan pointed out, drives off the cliff because of the structural deficit in the Highway Trust Fund going forward. We are going to have a hearing on Transportation. I wonder if we can work with you to have the appropriate people in the administration who could be a part of the discussion with us. We have a large and growing consensus out in the real world, from the chamber to organized labor, environmentalists, local government, a whole array of businesses, that we need to put more resources in the transportation trust fund. Would you be able to work with us to get a team to help us flesh out how the administration would work with us on solving that problem?

Mr. ORSZAG. There is really only one answer to that question, right? Yes.

Mr. BLUMENAUER. Super.

I would like to conclude on the area of Medicare reform, because I deeply appreciated what you put on the graph, that there are lots of opportunities in this proposed budget for reform that aren't Draconian, that just take a little bit away from coal mines that have already been cleaned up, for Heaven's sake, and go to parts of the country where they aren't, or reducing burdens on some.

I want to focus on Medicare for a second because you have identified, it is a huge opportunity for savings, and your past research, I think, has been terrific. I have actually got some legislation introduced modeled on some of your prior research in this area. You soft-pedaled one point that it looks like, in some cases, there are actually negative results correlated to all of these tests. With that as the context, is it possible, as we are looking at Medicare Advantage, that we could consider one reform alternative that had people competing for what is the national average right now or for the national average for Medicare, and use that to allow people to compete with standards and performance-based measures so you don't penalize States like Wisconsin or Oregon, and you help encourage people to change their practices? Could we consider that as an alternative?

Mr. ORSZAG. I would never want to be accused of soft pedaling anything, so let me first say that, in many cases, the more intensive approaches are not only more costly but actually harmful to health.

With regard to Medicare Advantage, we think the proposal we have, which is competitive bidding with the benchmarks being set based on bids in the local area, is a preferable way. But we can talk to you.

Mr. BLUMENAUER. But doesn't that wire in these extraordinarily high-cost areas? Why couldn't, if it is Medicare Advantage, which was supposed to provide lower cost, why can't we move towards more of a national?

Mr. ORSZAG. Actually, we believe that the competitive bidding process will lead to the largest cost reductions in Medicare Advantage, precisely in those high-cost areas, like Florida.

Mr. BLUMENAUER. Can't we superimpose the two?

Mr. ORSZAG. There are lots of ways of doing this. We have put forward a proposal that we think works well.

Chairman SPRATT. Mr. Diaz-Balart.

Mr. DIAZ-BALART. Thank you, Mr. Chairman.

Thank you. Good to see you, sir.

This is the largest budget ever submitted and the largest share as a share of the economy since World War II. I would like to know how you developed this. The President has been talking about transparency and openness, and so I am going to ask you a series of questions, and I may have to ask some more in writing.

Mr. ORSZAG. Let me preface this by saying that, obviously, the discussions we had with the President, I am going to not fully answer just to protect our internal discussions. But go ahead.

Mr. DIAZ-BALART. Well, I just wanted to know if you personally met with people outside the government to develop proposals that are reflected in this budget, and who those individuals would be?

Mr. ORSZAG. To my knowledge, I did not personally meet with outside representatives while this budget was being discussed. But we can get a fuller answer to make sure——

Mr. DIAZ-BALART. E-mails, correspondence, phone calls?

Mr. ORSZAG. I don't live entirely inside a bubble, so inevitably people contact me through e-mail and other means as budget proposals are being developed.

Mr. DIAZ-BALART. I ask this because, in the budget itself, the President states, quote, that it is no coincidence that the policy failures of the past 8 years have been accompanied by unprecedented government secrecy and unprecedented access by lobbyists and the well-connected. The New York Times recently reminded us that now, according to them, quote, liberal groups are flexing new muscle in lobbying wars. So there is no secret that, on the right and left, there are interest groups that want to have input.

The President himself in this budget said that was horrible, and he has talked about transparency and openness. That is why I am asking these questions. I think it is important that we follow the President's own words, and that is why I am asking these questions, because he is the one who has been talking about transparency and openness.

Yes, I would like to know, e-mails, faxes, any other contacts you have had from interest groups; will you provide those for us?

Mr. ORSZAG. As you know, there is a long history of discussion between the Congress and the White House as to a balance between transparency and also not revealing—we would not want the internal discussions with, especially the President, to be undermined in terms of their frankness from—well, period.

Mr. DIAZ-BALART. You are starting to sound a lot like the previous administration, I just I would mention that, which is not necessarily a bad thing.

Mr. ORSZAG. I didn't intend to, and I hope that is not the case.

Mr. DIAZ-BALART. Well, you clearly are.

Mr. ORSZAG. Let me just say, in terms of transparency, we are taking several steps to improve transparency. And I will give you one example. When I was CBO director, folks did like the fact that I had a blog to be able to talk about what we were doing. I have started a blog at OMB, and you will see a lot of output on that blog so we can provide more transparency about what we are doing.

Mr. DIAZ-BALART. I understand your concern about contacts between staff and the President. How about, did the President meet or call or e-mail anyone outside regarding this budget proposal?

Mr. ORSZAG. Again, I understand the road you are trying to take me down here. I am going to just, if you want to submit questions in writing, we will get the appropriate White House Counsel and other ethics officers to provide the answers.

Mr. DIAZ-BALART. Well, again, and I am not trying to put you on the spot, but the reason is that I am actually reading from the President's own words in this budget that was submitted where he talks about that.

Mr. ORSZAG. I think this administration is happy to be held to a historic level of transparency and accountability. And again, given the questions you are asking, I don't want to make a mistake with regard to the law or existing procedures. So I will defer to answering in writing.

Mr. DIAZ-BALART. And I understand that, and that is right. But, again, since the President has talked about a historic level of transparency, let me ask, did those White House staffers consult with or receive input from any outside interest groups before giving you instructions regarding this budget?

Mr. ORSZAG. I guess we are going to play this game for a couple of more minutes.

Chairman SPRATT. Would the gentleman suspend? I think the witness has stated his position and stated it correctly, and stands thereon. I think you are just harassing the witness by continuing to pursue this line of inquiry.

Mr. DIAZ-BALART. Thank you, Mr. Chairman.

Let me just clarify something. I am not trying to do that. The witness right now just said that they are trying to have unprecedented transparency. I just want to see what that means. What does unprecedented transparency mean? Does it mean the same standards that the previous administration used, or different standards? What I am hearing right now, Mr. Chairman, and I understand what he is saying, it is basically the same standards that the previous administration used, and I just wanted to see if there is any difference.

I have not heard any difference, Mr. Chairman.

Mr. ORSZAG. I think you will see a difference. But again, I will defer to the appropriate officials to get back to you in writing.

Chairman SPRATT. The gentleman yields back.

Mr. Boyd.

Mr. BOYD. Thank you, Mr. Chairman.

I appreciate you ending that line of questioning. My dear friend from Florida, and I agree with so many things that have been said here in complimenting Director Orszag about the budget, particularly in the fact that, for the first time in many, many years, the first time maybe in 8 years, we have been presented an honest budget, and Mr. Ryan and others have acknowledged that and shown their gratitude to the director.

Mr. RYAN. Only in a few places.

Mr. BOYD. And what do I mean by that?

Simply, I mean that the administration has brought us a budget which accounts for all of the spending that the government is going to be doing, including the war costs, including the AMT, including the Medicare doc fix, those things which we traditionally over the last 8 years around here said, no, that is not really going to happen; we will deal with it later. And I am quite confident that Mr. Ryan and his colleagues are very happy they don't have to defend that system any more. So I want to join them in complimenting you, Mr. Orszag, for what you have done.

It is difficult for me to believe that we sit here today looking back where we were 8 years ago. Eight years ago, we asked the President to do three things. Remember where we were 8 years ago. Surpluses as far as the eye could see. Number one, pay down debt; number two, reform broken entitlement programs; and number three, reduce taxes in a way that would as much as possible ensure the economic prosperity and continued growth of the middle class of this Nation.

Number one, we didn't pay down any debt; we doubled the debt. Number two, we didn't reform broken entitlement programs. We have expanded entitlement programs in a way that makes them more broken. And number three, even though we reduced taxes, we didn't do it in a way that would expand economic prosperity and actually narrowed the middle class rather than expand it. So the policies we have been dealing with over the last 8 years have gotten it all wrong, and this team is trying to fix it.

Now I want to ask you a very simple question, one that we have actually had some discussion about before, and I am sorry that Mr. Blumenauer went right before me and banged about agriculture.

Mr. Orszag, how do you answer those that say a health care reform initiative should save money in the long run and not be an additional cost to the Treasury?

Number two is, are you aware that taking on too many issues in this budget reform, in this economic recovery plan, might sink the whole ship?

Softballs, Mr. Orszag.

Mr. ORSZAG. Let me deal with the second question first. It is unfortunately the case that too many problems have been left. We have not addressed the problems in our education system. We have not addressed the need to move to clean energy. We have not addressed the huge inefficiencies in our health care system which drive up costs for American workers and for the Federal Government and for State governments.

So, would I like it if we didn't have so many things that need to be done? Sure. But that is not the situation that we face. Given what we do face, what is the alternative rather than trying to address these key problems?

Now, with regard to health care, the proposals that you see both in the recovery act and in the budget will reduce health care costs over the long term. And not only that, but we are committed to a self-financing health care reform so it doesn't add to the budget deficit even over the next 5 or 10 years while those investments are bearing fruit and the curve is being bent.

But I think we need to remember, the rate at which health care costs grow, the power of compound interest is so strong that that becomes a dominant force. Just as an example, health care costs have grown a little bit more than 2 percentage points per year faster than income per capita over the last four decades. If that were reduced to 1 percentage point faster, still a significant amount, but from 2 percent to 1 percent a year, go out 50 years, health care expenses are 20 percent lower as a share of GDP, 20 percent of GDP lower than at the 2 percent growth rate. That is the whole ball game. That is the entire size of the Federal Government today just in reduced health care expenditures out after 50 years. That is what we have to keep our eye on because, again, and I know I keep repeating myself, but that is the key to our fiscal future.

Mr. BOYD. Okay, I like that answer, 50 years at 2 percent a year, that, pretty soon you take the whole gross domestic product for health care.

But the thing I wanted to say to you is that, in the end, this is a political process here in the House of Representatives and the Senate. And you need to be careful about taking on too many issues because we really do want to pass a budget, and we want to pass a good budget, and we think you have the basis for a good one, but it probably needs some tweaks.

Thank you. I yield back.

Chairman SPRATT. The gentleman's time has expired.

Mr. McGovern.

Mr. MCGOVERN. Thank you, Mr. Chairman.

And, Director Orszag, congratulations. You have inherited a mess: The worst economy in my life time and the biggest debt in the history of the United States of America, so you have a tough job ahead of you.

I want to say, for the record, I have confidence in you and the new President and the team he has put together to help dig us out of this ditch that the previous administration got us into. I think the budget you presented here today reflects the priorities that I think most people of the United States want the Federal Government to advocate. I wish you success, and I do have confidence in this administration.

I want to talk about an issue that doesn't get talked about a lot, and that is the issue of hunger, which is getting worse in this country and around the world. Currently, in the United States, one in every eight Americans struggle with some form of hunger or food insecurity, as the Bush administration relabeled it. That is 12.2 percent of our people. This big figures include close to 700,000 children. I should add that this hunger issue adds significantly to our health care costs. And if we want to get health care costs under control, we need to deal with the issue of food and nutrition for all of our people.

Globally, nearly 1 billion people suffer from hunger and malnutrition. And of these, over 400 million are children. I was glad and proud to see President Obama has made room for hunger on his plate of priorities. He has stated that he will eliminate child hunger in America by 2015, and he will work with the international community and provide the necessary resources to cut global hunger in half by 2015.

Like the President, I believe this is doable. I also believe it requires a White House led government-wide comprehensive strategy on hunger and food security to make achieving these goals a reality. Most of our domestic hunger programs, especially those focused on children, fall under the USDA and Health and Human Services. Addressing global hunger and food security is not a simple matter either. Here programs are spread throughout a number of agencies and jurisdictions, including the Departments of Agriculture, State, Treasury, Energy and Labor and agencies, such as USAID, the Millennium Challenge Corporation, the Peace Corps and USTR.

I think this is one of the moral challenges of our time, and I will be honest with you that, as a United States Congressman, I am ashamed that there are so many people in our country, 35 million plus, who don't get enough to eat, and we are the richest, most prosperous country in the world. We need to do something about this.

Can you please tell me and the committee more specifically how the President's fiscal year 2010 budget and his 5- and 10-year projected budgets will achieve these goals?

Mr. ORSZAG. Yes, and I think you have identified a very important issue. First, let's start with what has already happened. The recovery act, for example, includes a significant increase in food stamp benefits or SNAP, the program has been renamed, but to help reduce the cost of purchasing food for moderate- and low-income households.

In addition to that, the budget includes $1 billion annually for the Women, Infant and Children Program so that program can serve 9.8 million women and infants and provide needed nutrition to them and also to support the child nutrition programs that are part of this budget, including the school lunch program and other initiatives.

One of the things that I know we are very interested in doing is moving towards not just providing adequate funding but also healthier options as part of those programs so that we are addressing, as you mentioned, not only the need for calories but the need for nutrition, which was the underlying rationale for those programs in the first place.

Mr. MCGOVERN. As I mentioned, the programs that actually respond to the issue of hunger and food insecurity fall under the jurisdiction of many different committees. What I am concerned about is there is a lack of coordination. I would urge very strongly that somebody in the White House be appointed or be charged with coordinating the different agencies to respond more effectively to domestic hunger and also to global hunger. I think this is a national security issue, one that I think we can play a very positive role in.

But it is not just about funding this program and that program, but it is about coordinating all of the different agencies and departments. I really think there needs to be a point person in the administration to do this.

Mr. ORSZAG. I would just add, in addition to the nutrition side, better integration of our food safety efforts would also be warranted and is something that the administration is looking into with the split responsibility between FDA and the Department of Agriculture for food safety.

Mr. McGOVERN. The President's goal of ending childhood hunger by 2015 is a laudable goal, and is a good benchmark. I want to make sure that we reach that goal. I think it is going to require that the budget responds to try to move us in that direction, but I think there needs to be a coordinated effort and a comprehensive plan. I don't know what the plan is. I expect it will be developed. You have only been in office for a few weeks, but I think this is the moral challenge of our time, and I appreciate all of your work.

Chairman SPRATT. Ms. Tsongas.

Ms. TSONGAS. Thank you, Mr. Chairman.

Thank you, Dr. Orszag.

I have to say that I applaud our new President for presenting us with a budget that does focus on the challenges of health care, education, and energy independence, and global warming. As I go about my district, there is a commonsense understanding that these are the great failures of the past decade in not looking at these and beginning to put in place forward-looking approaches to them.

But I would like to ask you about individual savings. I think it is great what you have included in the budget really beginning to look at ways to encourage people to save in retirement. But as we know, retirement savings are only one piece of the pie. And especially for those who have been dependent upon home equity to borrow against the value of their homes in the case of a personal emergency, that no longer is a resource. I am wondering if the administration is looking at ways to encourage individual savings aside from retirement?

Mr. ORSZAG. I think there are a variety of discussions going on, some focused on financial education, which is one mechanism that people have put forward to encourage saving. We have already discussed retirement saving. So the short answer is, yes, I think a lot of that activity is focused in the Treasury Department because at least part of the answer involves the Tax Code. Part of the effort is surrounding the Department of Education and financial education efforts. And I know this is something that the Vice President feels strongly about, and it has already come up frankly in our first task force meeting of the Middle Class Task Force. It was one of the topics that was discussed.

Ms. TSONGAS. It is an issue of low- to middle-income families. I represent three cities where the average income is well below the norm and where much of the subprime lending crisis originated. We see what happens when we don't put in place incentives to encourage savings so that people can begin to get a head start.

Mr. ORSZAG. Let me raise another topic which is included in the budget, which is one of the things that doesn't make a lot of sense to my mind. We encourage saving on the one hand, and for people who do save, if a crisis like we are currently facing comes along and they need assistance under food stamps or other means-tested benefit programs, we have very outdated asset tests that apply. We basically are saying, please, go save, and then we hit you over the head if you do, should you ever need assistance in the future in ways that even conservative economists have identified as being a very high, implicit tax on savings.

The budget includes a set of proposals to start modernizing those asset tests so we are achieving a better balance between targeting the benefits on those who most need them but not discouraging people so much from saving in the first place.

Ms. TSONGAS. I welcome hearing that, and I look forward to reading the particulars. Thank you very much.

Chairman SPRATT. Ms. McCollum.

Ms. MCCOLLUM. Thank you, Mr. Chairman.

I am going to quote President Obama here: Government has failed to fully confront the deep systematic problems that year after year have only become a larger and larger drag on our economy. From the rising cost of health care to the state of our schools, to the need to revolutionize how we power our economy, to our crumbling infrastructure, policymakers in Washington have chosen temporary fixes over lasting solutions.

It goes on to say that the time has come to usher in a new era, and I will conclude with this: To lay a new foundation of growth upon which we can renew the promise of America.

So we have heard some discussions about the recent past and our failures to really build a strong economy. Look at where we are today. So we don't want Congress and this administration to repeat the mistakes in the future. Can you maybe contrast three or four major choices or decisions that took place in putting this budget together that, when you looked at the past 8 years, that contributed to the financial nightmare we find ourselves in? What are some of the lessons learned in the Obama administration in putting this budget together that you would like to share with Congress so we don't repeat the mistakes in the future but instead take $1 and invest it wisely to benefit a child, a community, or our country to make it stronger, healthier and more prosperous?

Mr. ORSZAG. Let me highlight three. The first is, previous budgets would present a picture of the future that was unrealistic because they excluded lots of things that everyone in this room knew were going to happen. I have ticked through the list, but again, excluded the alternative minimum tax, let it take over the Tax Code when everyone know that wouldn't happen; assumed that Medicare physician payments would be reduced by 20 percent when, year after year, Congress would act to prevent that from occurring.

So one choice that was made was, we are not going to do that, even if the reported number is higher, the deficit is higher, and I could make the deficit look a lot smaller by playing those games. The President decided and I fully support this, let's be grown-ups here and be real about the situation that we face and start working our way out of it. So that was the first choice.

The second choice was to take a variety of inefficient subsidies and eliminate them. Subsidies to Medicare Advantage plans that are overpaid by 14 percent relative to traditional Medicare, according to estimates from CBO and GAO and MedPAC and others; subsidies to middlemen on education loans that add $50 billion in cost without helping students at all; and you can keep going down the list. So I think there are a series of changes that were targeted at eliminating inefficient subsidies.

Finally, I would again focus on health care. Previous budgets did not put on the table a significant down payment and a focus on health care like the President has done that will help bend the curve on health care costs over the long term and thereby make working families better off because their take-home pay will go up. Right now, it is burdened by the weight of health care costs, and also address the key to our fiscal future. I think that is the single most important thing we can do to put the Nation on a sounder long-term fiscal path and also help working families and State governments.

Ms. MCCOLLUM. Could you point out how, by investing a dollar in education or investing a dollar in IT technology, how we are going to see fruits of that?

Mr. ORSZAG. Sure. Let me give a few examples across a variety of areas. Let's take the government's own operations. There is credible evidence that shows investing a dollar in combatting health care fraud, that is making sure that, under Medicare, money only goes to the providers that should receive it, saves $1.60 in health care costs. We have underinvested in program integrity. This budget corrects course and saves $50 billion in erroneous payments that would otherwise have occurred.

Actually, I think that might be, perhaps, the most compelling example. But you can keep going down the list. In early education, the evidence is very clear that high-quality early education programs help to produce better life outcomes for individuals who go through those programs but also helps to reduce crime and other things that as a society have costs.

In health information technology, we have already discussed, that is one of the key—necessary but not sufficient. By itself, it won't solve the problem, but it is a key step on the road to a more efficient health care system.

The analogy people have drawn is it is like plugging the toaster into the wall. By itself, the toast doesn't come out just because you plug the toaster in; you also have to put the bread in and press the button down and what have you. But if you don't plug the toaster in, you are not going to get any toast out of the toaster.

Chairman SPRATT. Mr. Edwards of Texas?

Mr. EDWARDS. Thank you, Mr. Chairman.

Dr. Orszag, if I could borrow on the words of my colleague, Mr. Hensarling, I think what the administration has inherited is a trifecta: a trifecta that is the result of 8 years of Republican, trickle-down, deregulation ideology that led to, first, the largest deficits in American history; the second-to-the-worst job loss since World War II; and, thirdly, to potentially the largest, longest, deepest recession we have had since the 1930s.

I salute you and President Obama for putting together a budget that is honest in its assumptions and, once again, tries to show real respect to American middle-class working families that have lost, I believe, between $1,000 and $2,000 a year in real income over the last 8 years under the policies of our Republican colleagues.

I would ask American citizens who watch these debates to just take into account that some of the loudest, most vociferous critics to the Obama proposals were the architects of the disastrous economic trifecta that has hurt millions and millions and millions of American working families, senior citizens who have lost their savings, families wondering how they will make their next mortgage payment because they have just lost their jobs.

I also want, as chairman of the appropriations committee that funds veterans, I want to salute President Obama for something that the press has paid very little attention to. In this budget, President Obama proposes the largest increase in veterans' health care and benefits funding ever proposed by any President—the largest ever.

For far too long, we have had administrations who have paid respects, genuine respects, to our veterans on Veterans' Day and Memorial Day, but yet did not fully respect them with their budget proposals. I salute President Obama for keeping his promise to those who have kept their promise to serve our Nation.

And because of the $25 billion increase over the baseline over the next 5 years proposed by the President, more veterans will receive VA care, including a lot of middle-income veterans and lower-income veterans who have been locked out of our VA hospitals because of the previous administration's arbitrary cap on income eligibility for VA care. The 5.5 million veterans receiving care every year are going to get better care, better quality care, with shorter waiting times for physicians appointments.

And I could go on and on, but the bottom line is this budget shows a historic level of respect to America's past service men and women. And I think that deserves the attention of the American people. I know there are 25 million veterans and there are millions of dependents who will greatly respect the President's initiative in this area.

The one question I would like to ask is this. I was very critical of Republican budgets over the last decade because they assumed constant economic growth with no potential recession over a 10-year timeline, and then they followed policies based on those unrealistic assumptions.

What is the policy of the President if either Congress refuses to bring about the savings proposed by the President or economic growth doesn't meet the projected growth, I think 2.6 percent for the last 4 or 5 years in the decade proposed? Will you adjust spending downward, or will the spending be committed and we will just increase the deficit in that case?

Mr. ORSZAG. Well, again, I think in those out-year projections, the assumptions are actually lower than the Blue Chip economic growth forecast. So the whole point of putting together—addressing the long-term challenges that we face is to generate that economic growth. And that is the whole point of the budget.

Mr. EDWARDS. If those numbers turn out for 2010, 2011, or 2012 even in the short run, turn out to be a little optimistic, because nobody can predict the future with absolute certainly—the Republicans certainly didn't. They projected balanced budgets for the next decade.

Mr. ORSZAG. Right. We could wind up being too high, we could wind up being too low. There is significant uncertainty. Of course we will revisit things as the world evolves. And, you know, we will have a budget next year and we will have one thereafter. And part of the policymaking process is to readjust to reality as it occurs, and that is what we will do.

Mr. EDWARDS. Great. Thank you.

Chairman SPRATT. Now Mr. Etheridge, then comes Mr. Scott, and after that Mr. Langevin if he is here, Mr. Larson if he returns, Ms. DeLauro of Connecticut, and Mr. Melancon.

Now Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

And thank you, Dr. Orszag, for being here to discuss the 2010 budget. And I appreciate your efforts and your staff and the administration to really put out, I think, a clear view of our current economy and not try to hide the costs of those policies and have them omitted from the budget. I think it is critical to have that, because to budget is to govern, and we certainly have to do that.

Let me ask a question, though. Having served as a former State superintendent of schools, there is an issue in here I have a question about, because I do believe education is a key in the foundation for the future growth. And I am pleased that this budget really invests in that high priority of education.

But I am concerned about the proposal to end the Federal Family Education Loan Program and to have all those loans originate through the Federal Direct Loan Program. And for the past 4 years, the College Education Foundation of North Carolina has assisted over a half-million North Carolina students and families with college loans.

Could you comment on the eliminated savings the budget has associated with these through that program? And is the Department of Education ready to scale up to deal with these programs?

And the budget assumes a $4 billion to $6 billion savings—which, directed costs might be expected to increase the deficit by, my numbers say, $100 billion. How are these savings calculated? And is OMB assuming these savings on the basis of current low interest, and might this change in the future?

Mr. ORSZAG. Well, let me first say all of the estimates from OMB, from the Congressional Budget Office, from elsewhere suggest that the direct lending program is a more efficient system than providing subsidies, basically, to middlemen in the education loan process. Now, let me also say——

Mr. ETHERIDGE. But North Carolina is a nonprofit run by——

Mr. ORSZAG. I understand that, and there are obviously some more efficient and less efficient intermediaries. But as part of this expanded direct lending program, there would be substantial opportunities for both private-sector entities and others to service the loans, which is part of our proposal.

So this is an area where the current system contains an inefficiency. We are trying to move towards a more efficient system, and there would still be activity for servicers to service the direct loans.

You had also asked about the ability of the Federal Government to ramp up, and that is something that we had considered and evaluated. And the short answer is I am confident that the Federal Government could ramp up the direct lending program in a timely and effective manner under this proposal.

Mr. ETHERIDGE. I look forward to talking to you more on that, because I know how ours works, and that would be moving those jobs to North Carolina and Washington, and I am not so sure that is efficient.

Mr. ORSZAG. No, we won't be doing that. No, no, right.

Mr. ETHERIDGE. Okay. But I would like to talk with you about it.

Let me move to another one, if I may, because I am excited about the investment that this budget has in health care, because I think that is a critical area that everyone is affected by. And the President needs to seriously think about making some real reform in this critical sector of our economy. And I appreciate his bold call for curing cancer and other serious diseases that the administration is emphasizing and the money that is being placed in as investment in health research at NIH and through the SIRB and other initiatives as part of keeping America globally connected and competitive.

Can you discuss the mixture, though, of public and private scientific investments in the President's budget and how such research will create jobs, public and private sector, and puts the Nation on a sounder foot financially? Because I think this is a critical piece as we move forward.

Mr. ORSZAG. And now we are outside of health care, we are talking about science writ large?

Mr. ETHERIDGE. Absolutely. Which will reflect on health care at some point.

Mr. ORSZAG. Absolutely.

The Recovery Act included historic investments in science. The budget builds on that with significant investment in with the National Science Foundation, in other parts of our scientific community, because we need to remain at the forefront of scientific knowledge if we are going to have a high-performance economy.

So the evidence strongly suggests that, by having the Federal Government focus not just on basic research but some aspects of applied research, there are very significant spillover effects that help boost economic performance. So, even when the research is done or funded through the National Science Foundation and done at a university, the impact and the benefits spill over into the economy. And, for example, you do have significant growth clusters that arise around research universities, which is one manifestation, but the effects, the evidence suggests, are even broader than that. And technological progress is one of the keys to our long-term economic performance, which is why we are investing in science, not only in the Recovery Act but in the budget.

Mr. ETHERIDGE. I couldn't agree more. And you can look at spots in North Carolina and around the country where that is absolutely true.

Thank you, Mr. Chairman. I yield back.

Chairman SPRATT. Thank you, Mr. Etheridge.

Mr. SCOTT of Virginia?

Mr. SCOTT. Thank you, Mr. Chairman.

Dr. Orszag, thank you for coming.

And you have been faced with the, kind of, national debate with two competing theories, economic theories, one of which was put into effect in 1993 and one in 2001. And the debate sounds like you ought to receive these with equal credibility, when, in fact, the 1993 plan created record numbers of jobs, median income up substantially, Dow Jones Industrial Average more than tripled. If we had kept going at the rate we were going, we would have paid off the entire debt held by the public by last year.

On the other hand, the 2001 budget went into effect, the worst job performance since the Great Depression, median income went down when adjusted for inflation while health care costs, college tuition, and housing costs actually went up. The Dow Jones Industrial average was worse than it started. And we overspent the budget by eliminating $5 trillion of surplus and overspending it by another $3 trillion or $4 trillion, overspending the budget by $9 trillion.

Now, the Republicans want some credit for this, because they took over the House and Senate in 1995. But you will remember that their contribution to the economic theory was producing budgets that President Clinton vetoed and refused to sign. In fact, the government closed down because he kept he kept vetoing their budgets.

Now, you are faced with this. Now, do you think that the 1993 theory—what is in this budget that is closer to the 1993 budget than the 2001 budget?

Mr. ORSZAG. Oh, this budget is clearly more spiritually aligned with the 1993 budget than anything resembling the 2001 budget. But I would also say that it goes beyond what was done in the 1990s in many key areas.

But I think what you are really getting at is a very important point, which is there are two theories of the case here. A theory of the case, that the only thing that drives economic performance is the top marginal tax rate or the top two marginal tax rates that affect a very small share of people and that the way we are going to get markets to work well is funneling lots of subsidies to corporations, has been tested. It does not work.

Mr. SCOTT. Thank you.

Now, you also mentioned honesty in budgeting. When the 2001 and 2003 tax cuts passed, the AMT was not mentioned, when everybody knew that we would adjust it every year. Is it true that about two-thirds of the total cost of those tax cuts was in the annual fixing of the AMT?

Mr. ORSZAG. It is an important interaction, so it is a very large share. Exactly what the share is depends on how you do the calculation, but a very significant share.

And, in a sense, to be more precise about that, the cost of the 2001 and 2003 tax legislation was artificially reduced, or made to look low, by assuming that the AMT gradually took back a growing share of those tax cuts. That is not what is done in this budget, and that is a very significant change.

Mr. SCOTT. Now, you have a placeholder for over $600 billion in health care. What can we expect with that?

Mr. ORSZAG. What you can expect from that is not only efficiency improvements on the provider side but also funding to get overall health care reform done this year, which is what we want to do.

Mr. SCOTT. Now, interest on the national debt—had we paid off the national debt, we would have, by 2013, in fact not only paid off the debt held by the public but also restored the money to the trust funds. How much money are we going to spend every year in interest on the national debt going out, which would have been zero?

Mr. ORSZAG. You know, you always ask me that question, which is why I frantically—yes, it would have been zero. With the policy path that we are on, without the budget interventions, total net interest is almost $5 trillion over the next 10 years.

Mr. SCOTT. And for about one-tenth of that, you are going to make profound changes in health care.

Mr. ORSZAG. We believe that the health care system could be made much more efficient and that we need to do that this year, yes.

Mr. SCOTT. Now, we have heard complaints about earmarks. Compared to earmarks when the Republicans had total control 2 years ago, isn't it true that the number of earmarks in this bill and the bill we just passed, the omnibus appropriations, the number is substantially lower than anything that passed when the Republicans had total control of Congress and the White House?

Mr. ORSZAG. Yes. In particular, the number has been reduced from something like 15,000 to something like 8,000 or 9,000—still higher than the President would like, but a significant reduction.

Mr. SCOTT. Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Scott.

Mr. Schrader?

Mr. SCHRADER. Thank you, Mr. Chairman.

A series of, hopefully, quick questions.

The Blue Chip forecast that was alluded to earlier, did it take into account the beneficial effects of the Recovery and Reinvestment Act, do you know?

Mr. ORSZAG. The long-term one, no. The short-term one, to varying degrees. But, again, I think the folks who pay the most attention to lining up with our fiscal year projections and what have you is the Congressional Budget Office. And on that basis, at the time the forecasts were locked in, we are right in line with them once the Recovery Act is included in the analysis.

Mr. SCHRADER. A lot has been made over this is the largest peacetime budget, maybe, in recent American history or for quite a while. How many other administrations have had the vision to take on health care independence, if you will, energy independence, and education for the 21st century besides President Obama?

Mr. ORSZAG. I think it is clear that this is a bold and new direction for the country.

Mr. SCHRADER. And I assume that the administration feels this is the direction the people want to go.

Mr. ORSZAG. The direction people want to go and the direction we need to go if we are going to have the future that all of us desire.

Mr. SCHRADER. A lot has been made over tax increases or revenue increases in this budget. Isn't it true that, if you balance out of the tax breaks, the efficiencies, that we are actually getting to almost a $2 trillion reduction in revenues on the American taxpayer?

Mr. ORSZAG. There is a tax reduction for 95 percent of working families in this budget.

Mr. SCHRADER. And the AMT and numerous others, I believe.

Mr. ORSZAG. And we make sure that the AMT does not take over the Tax Code. And we continue the middle-class tax provisions that were provided as part of the 2001 and 2003 legislation.

Mr. SCHRADER. I am surprised at some of my Republican colleagues' dismissal of some of the business-friendly aspects of this budget, particularly in the small-business arena. Could you elaborate on what is in this budget and what was in the Recovery Act that is going to really free up—you alluded to it a little bit before, the credit markets and small businesses recovery?

Mr. ORSZAG. Yeah, let me—again, most small businesses now are struggling because of a collapse in demand for their products and because they are having trouble getting credit from their banks. The key thing that we can do over the next 6 months, a year, to get small business back on its feet is to get the economy back on its feet and to get credit flowing to those small businesses. The budget includes $28 billion in loan guarantees, the majority of which is provided through a well-known and effective program to get credit to small businesses.

The Recovery Act was intended to get the economy back on its feet. So, in addition to that, there are a variety of other targeted provisions—for example, a zero capital gains rate on stocks that are held in qualified small businesses for more than 5 years, zero percent capital gains rate.

But I think, rather than getting focused on the wrong thing, the right thing to focus on with regard to small business is getting economic growth back on track and getting credit flowing.

Mr. SCHRADER. Last but not least, not a lot has been made of the performance outcome reporting that has been suggested in this budget, and a chief performance officer. I think that is huge.

Has there been discussion about getting away from counting inputs and outputs and reports and all that stuff that gets in the way of good use of some of the taxpayer dollars at our local State and private enterprise level and maybe going to a more performance-based criteria?

I guess I would urge the administration to go down that road vigorously, work with States that are already doing this and, frankly, some of the congressional delegation that might be interested in pursuing that. That really is exciting.

Mr. ORSZAG. Absolutely. And I, again, just want to emphasize, the way that the Federal Government has measured performance has been focused on, as you put it, inputs, processes. To take the tax gap, $350 billion, the performance metric system that we have, the PART system, focuses on the audit rate, if you will, on how many audits are done. Well, that is great, but that is an input. What we really care about it getting the tax gap down.

So, rather than saying our target is to get the tax gap down to some dollar value or some percentage of GDP or something like that—and there are many mechanisms for doing that—we focus just on input. That needs to change, and we will be adopting a new system. It is going to take some time to develop the new system, but we are going to adopt a new system that will be based not only on consultation with you but with the agencies, and it will be more outcome-focused.

Mr. SCHRADER. Thank you very much. I yield my time.

Chairman SPRATT. I thank the gentleman.

Ms. DELAURO of Connecticut?

Ms. DELAURO. Thank you very much, Mr. Chairman.

Thank you, Dr. Orszag. I am looking around, and it is Mr. Schrader and myself, so my apologies for popping in and out.

But let me just say thank you to you for your honesty, for your clarity, and for your candor in this budget. And I think it is a remarkable document which demonstrates a clear commitment to priorities, but it also demonstrates a clear commitment to values and to what are the issues that are most pressing on the people of this Nation and how we try to address them.

I will make just a very quick thank-you to the President and to yourself with regard to the child tax credit, not only part of the recovery program and changing the income level from $12,000 to $3,000, but now a permanent part of this budget. I think that will go a long way, as a refundable tax credit can do, to really assist families.

I am going to move to an area that you have heard me talk about for a long time, and that is infrastructure. The budget proposes to expand, enhance existing Federal infrastructure investments through a national infrastructure bank that will deliver financial resources to priority infrastructure projects, those that are of significant national or regional economic benefit.

What you propose is $5 billion in each of the next 5 years, as I understand it, for a total of $25 billion for the bank and another $25.2 billion over the following 5 years through fiscal year 2019.

I am going to be introducing legislation very shortly which would create an infrastructure bank very, very much like the European investment banks. It has a similar amount of money, authorized annually for appropriation. The bank would function like a development bank: make loans, loan guarantees, issue bonds, purchase, pool, and sell infrastructure securities on the global market, leverage investment and so on.

Now, when the President was then Senator Obama, he supported an effort which was a bit different which created an entity that would similarly depoliticize the process and focus on projects of national interest, but not necessarily have all of these functions. Just the authority to prioritize funding for projects and to issue bonds, that was the limit.

At this juncture, can you provide any further detail as to how you envision the structure of this entity and, critically, what financial and other functions it will have?

What we are going to try to do in the legislation that I am going to propose is fund transportation, environment, energy, telecommunications projects. And so, a further question is how you define "infrastructure" in your vision of the bank.

Mr. ORSZAG. Well, let me first say one of the motivations for an infrastructure bank reflects a concern about the way we select infrastructure projects currently and whether they are based on efficiency and, sort of, what will most benefit the economy. I think we need to be moving more towards that type of selection process, which a bank will help do.

As I said before, there is going to be a lot more details coming from us in April in the full budget. I know that you have been very focused on this topic; I know Senator Dodd, your colleague from Connecticut, has been. There is a lot of congressional interest. So I would, at this point, just say we look forward to working with you to flesh out the details as we move into the full budget in April and as you move forward with the legislative process.

Ms. DELAURO. I thank you for that, and I will look forward to working with you and fleshing out the details.

Given at least the success that I understand that has come through the European development banks, is that I would hope that that is the kind of a model that we are looking at, which we would absolutely be creating a bank in which we can do that, which gets you to both processes, which is to depoliticize the way in which the projects are determined and what the common good is or the public interest is, as well as allowing for there to be really a critical public-private partnership.

Mr. ORSZAG. I remember one weekend spending the weekend reading a binder on the European investment bank because of your references to it, so thank you for that.

Ms. DELAURO. Thank you.

I have a quick 16 seconds. Early childhood education, we did $142 billion in the reinvestment and the recovery package. Just tell me, with the current budget, what kind of commitment are we going to be able to keep in serving all eligible children in this regard and to look to those kids and their providers or those programs and providers to meet the standards, the standards that were laid out in the recovery package.

Mr. ORSZAG. In early education?

Ms. DELAURO. In early education, yes.

Mr. ORSZAG. Yeah, again, the President's budget includes very significant increases, puts us on a—doubles Early Head Start. There are significant investments in early education because the evidence suggests it works.

Ms. DELAURO. Thanks very much. Thank you, Dr. Orszag.

Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Langevin?

Mr. LANGEVIN. Thank you, Mr. Chairman.

Director, thank you for being here. I know you have a tough job on your hands, and we appreciate the job you are doing and also the credentials that you bring to the new post.

I am particularly pleased, first of all, by the way that President Obama has made health care reform such a priority. And he is going to tackle it now looking forward to the future. And, really, it is one of the key components of how we are going to truly balance the budget and fix the economy for the long term, helping us to be competitive.

Let me just say this, Dr. Orszag. The President's budget obviously sets forth a very ambitious policy agenda while simultaneously adhering to an honest and sobering accounting standard that realizes incredible fiscal challenges. And it has become clear that, in order to rebuild our economy, we are going to have to make significant investments and keep priorities like energy, education, and health care while sacrificing in some other areas.

One of the priorities that he highlighted in the budget outline is a reserve fund of more than $630 billion over 10 years to finance health care reform, which I mentioned. Certainly, as a strong advocate for health care reform, I am very interested in hearing more about this initiative, in particular.

And so my question is, it is stated that the reserve fund will be financed in part by new revenue and in part by savings proposals that promote efficiency and accountability. So, on this point, can you please elaborate on that for me, and what specific budgetary and policy changes need to be made to fully fund this reserve?

Mr. ORSZAG. Okay, first, let's just again point out we want to get health care reform done this year. And the reason we want to that is, not only to put the Nation on a sounder fiscal path, since health care costs are the key driver of our long-term fiscal gap, but also to help working families, because their take-home pay is being reduced by excessively large health care costs and State governments that are facing problems financing their health programs and are having to starve other parts of their budget in order to finance health care.

The budget puts down $634 billion as a significant downpayment on getting health care reform done this year. It is split roughly half and half, half additional revenue and half savings in Medicare and Medicaid that are focused on making those programs more efficient.

So, as one example, $177 billion in moving to a competitive bidding program for the private insurance firms that offer Medicare coverage. Currently, they are paid $1,000 more per beneficiary than covering the same beneficiary under traditional Medicare because of artificial rules that were written to provide them those excessive payments. What we are saying is, bid for the business, and that is what you will get paid; it saves $177 billion.

Similarly, there are changes in—almost 20 percent, I think it is 18 percent of patients are readmitted to a hospital within 30 days after being discharged. We are trying to provide incentives to reduce that. MedPAC and other experts have suggested significant efficiency improvements could come from better management of patients after they are discharged from a hospital to avoid those readmissions.

And, by the way, it is not only a cost thing, but who wants to, you know, get admitted to a hospital, go through all of that, get discharged, and then have to wind up back in the hospital? If you can avoid that, it is not only a cost-saver, but it also makes people's lives better off. So we are trying to provide stronger incentives to hospitals to do a better job of avoiding the need for readmission.

So we can continue this conversation, but, basically, I have given you some flavor for the types of things that are already in that significant downpayment. And we want to work with the Congress to provide the full health reform package and get it done this year.

Mr. LANGEVIN. And so, the new account that you are setting up, that is going to be a set-aside in the sense as a downpayment that we could draw on to achieve a form of universal health care just as a starting point?

Mr. ORSZAG. Yes. Correct.

Mr. LANGEVIN. Okay. And can you tell me, at this point, is it the President's vision that the health care reform that we hope to achieve would be mandatory-type universal health care, where we would include everybody, as opposed to doing this piecemeal?

You know, I want to be on record as saying that I believe the only way to truly achieve universal health care is to have it mandatory, that everyone has to be in the system. It is not necessarily a one-size-fits-all, but everyone has to be in the system.

So can you give me, kind of, a glimpse into where you are going?

Mr. ORSZAG. Well, I think the goal is to move toward universal coverage. And I don't want to—there are lots of ways of doing that. You are going to see more details on Thursday at the health summit, and you are going to see more forthcoming thereafter. But I think we are all clear that the goal is to move towards universal coverage.

Mr. LANGEVIN. Okay. One of the things that I have also looked at and—two things I would hope you look at. First, one of the things that I have tried to do to achieve universal health care and move the debate forward is introduce a bill that achieves universal health care by using the Federal Employees Health Benefit Program as a template. Again, it is not a big government-run program, but it is government-negotiated. And what it does is it has the Federal Government negotiating this variety of different health care plans for the almost 9 million Federal employees, dependents, and retirees. I think it is an outstanding model for getting us closer to universal health care.

The other thing that I would hope you would look at as we move in this direction is looking at places like the New America Foundation that have estimated that we already spend about $80 billion to $120 billion each year—each year—on uncompensated care. Obviously, that is a big gap between whether it is $80 billion or $120 billion, but it a significant pool of money that we are, again, already spending on the uninsured; we are just spending it in the most inefficient way possible. And we can get closer to universal health care and achieve better outcomes and lower costs by spending that money up front and more wisely.

I don't know if you had any comment on that, on uncompensated care and how we are spending it right now.

Mr. ORSZAG. Clearly, one of the issues involved in the existing health care system is that there is a lot of cost-shifting that occurs from—like a game of hot potato, and uncompensated care is one manifestation of that phenomenon. Moving to a more efficient health care system will mitigate that. And that is one of the benefits of getting health reform done.

Mr. LANGEVIN. Is that my time?

Chairman SPRATT. Go ahead if you have one more question, please.

Mr. LANGEVIN. President Obama's reserve fund, obviously it represents, as you talked about, the beginning of a long-term path to reform. And I guess what I would like to do is, I would appreciate it if you could highlight some of the other maybe immediate funding investments made in the President's budget to address health care for 2010. Specifically, I want to talk about community health centers and the role that they play over the short term, providing health care access to the uninsured and underinsured. And also, how will their role in funding change as we move toward a system of universal health care?

And, by the way, I am a big supporter of primary care, particularly primary care physicians. And I hope, as you look at overall health care reform, in addition to health centers, that we also put more money into incentivizing doctors or people going through medical school to go into primary care. The statistics are very clear that, in those regions that have predominantly primary care versus specialty care, you get better outcomes and lower costs. And the reverse is true if you have a high percentage of specialty care versus primary care docs.

So health centers and then primary care, if you could comment on those.

Mr. ORSZAG. Again, I agree with your reading of the literature on primary care physicians. And that map that I put up with significant variation in health care costs is highly correlated with the ratio of specialists and primary care physicians, with a higher ratio, generating higher costs without, apparently, better outcomes.

With regard to community health centers, as you know, there was a very substantial investment made as part of the Recovery Act in community health centers. The evidence suggests they do provide quality care, especially to populations that have trouble getting access to other parts of the health care system.

And that raises a broader concern. We have heard a lot of about income inequality in the United States. There is also a degree of inequality in health outcomes that is growing over time. So, for example, if you look at life expectancy, the gap between better-educated and less-educated families or people in life expectancy has been growing very rapidly. Part of that has to do with health behavior; part of it has to do with access to health care.

Mr. LANGEVIN. Very good. Well, thank you for that. And, you know, I think the health centers have been a real godsend in the sense of meeting a demand for health care that is out there that we are not getting anywhere else.

And, anyway, thank you for your answers, and I look forward to working with you on all these issues.

Mr. ORSZAG. Absolutely.

Mr. LANGEVIN. Thank you, Mr. Chairman.

Chairman SPRATT. Mrs. Moore?

Ms. MOORE. Thank you so much, Dr. Orszag.

I am very impressed with the President's effort to cut the budget deficit in half within 5 years. But I am concerned about that, because balancing the budget as a primary budget outcome can somehow ignore other sorts of things that we need to do.

I am reminded of FDR's pledge to balance the budget when he was running against Herbert Hoover, and then, of course, when he got into office, he had to initiate the New Deal. And even though the budget deficit was 100 percent of GDP at the end of 1945, after a war, after the depression, our economy was stronger, because we, in fact, had made the investments, used deficit spending as an investment. So I am concerned.

I say all that to say, number one, I am concerned about the complete absence of any discussion of there being a safety net outside of health care benefits and this temporary increase in food stamps.

And I am also concerned that you didn't mention at all how we are going to deal with the trade deficit. As long as we have a trade deficit, isn't it inevitable that we are going to have a budget deficit?

Mr. ORSZAG. Well, let me deal with those in turn.

This budget includes very important investments, not only in health care, not only in education, but in a safety net, including—we discussed earlier some of the nutrition programs, for example, the WIC Program, which is a very important program for moderate- and low-income mothers and infants to provide with them nutritious food and other related materials and healthy nutrition—I am just repeating myself. Sorry. It is already becoming a long hearing.

Secondly, the budget perpetuates or continues very important changes that were made as part of the Recovery Act that will provide significant assistance to low- and moderate-income working families. For example, the child tax credit that Representative DeLauro mentioned——

Ms. MOORE. I just want to interrupt, because I don't have much time. That is the whole point: You have to be working in order for this to benefit you. You know, those women, for example, who used to receive AFDC, I mean, if you are unemployed, if you are one of the people who doesn't qualify for unemployment compensation, those are the people that I am worried about.

Mr. ORSZAG. Okay, and, again, even on unemployment insurance, one of the important things that occurred in the Recovery Act and that we proposed as part of the budget is to expand eligibility for unemployment insurance. The rules were written on unemployment insurance 70 or 80 years ago in a different era. And, as a result of outdated rules, lots of workers are excluded from being eligible for unemployment insurance when they should be eligible. So, as a result, fewer than half of unemployed workers receive unemployment insurance.

We are trying to rectify part of those problems. And the Recovery Act started us on that road; the budget will follow up on that.

Ms. MOORE. Okay. And then the other part: How do we get to cutting the budget deficit in half without dealing with the trade deficit?

Mr. ORSZAG. Well, one of the reasons that we have to get the budget deficit down over time is precisely because, if we don't, we will continue to borrow from foreigners to a degree that is not sustainable.

So one of the effects of moving towards a reduced budget deficit and then also increasing household saving, like through the automatic IRA, is that gradually the trade deficit will improve.

Ms. MOORE. Okay. Well, thank you.

I yield back 29 seconds.

Chairman SPRATT. Mr. Director, well done. You not only get an A for presentation but for endurance and forbearance, as well. Well done, indeed, and we look forward to working with you in the weeks ahead.

Mr. ORSZAG. Thank you very much, Mr. Chairman.

Chairman SPRATT. Thank you.

One final housekeeping detail: I would ask unanimous consent that all members who were unable to present questions today be allowed 7 days in which to file questions for the record. So ordered.

[Questions submitted and their responses follow:]

DIRECTOR ORSZAG'S RESPONSES TO QUESTIONS FOR THE RECORD FROM REPRESENTATIVE BLUMENAUER

1. ENERGY AND CLIMATE CHANGE

Dr. Orszag, I was pleased to see the FY 2010 budget assume revenues from comprehensive climate change legislation. Your summary document reads that the program will be implemented through a cap and trade system which will include 100% auction to "ensure that the biggest polluters do not enjoy windfall profits," and that a majority of the auction revenues will be spent on "investments in a clean energy future" and "returned to the people." Can you elaborate on why the administration favors a cap and trade approach and do you have any more details on how the administration envisions spending the revenues?

(a) Would you agree that transportation, which accounts for ⅓ of our nation's greenhouse gas emissions, should be a part of this legislation and a focus of some this investment? (b) There has been some concern expressed about fluctuation of allowance prices in a cap and trade program. Has the administration thought about mechanisms to provide price certainty to the economy? (c) Can you provide more detailed information which shows the projected revenues on a year by year basis?

RESPONSE

(a) The Administration believes a market-based approach such as cap and trade will promote energy security and mitigate climate change while spurring competitiveness. The Environmental Protection Agency's acid rain program provides strong evidence that the market can serve as an effective mechanism to achieve impressive environmental protection at lower costs than initially anticipated. While a climate policy will present additional challenges and opportunities, the Administration believes these same principles will hold true. Revenues from the cap and trade program will be devoted to the Making Work Pay tax credit as well as essential clean energy investments. Our best estimates for these commitments are detailed in the Budget, and any additional revenues will be returned to the American people to help with the transition to a clean energy future. For example, $15 billion per year over ten years will be targeted to help transition to a clean energy economy, including investments to develop technologies such as wind power and solar power, advanced biofuels, low carbon emission coal technologies, and more fuel-efficient cars and trucks built in America. We look forward to working in a collaborative spirit to identify an appropriate resource allotment to achieve the desired goals.

Reducing our reliance on oil and achieving energy security will require American industry to develop more fuel efficient cars and trucks and increased use of public transportation. The Administration plans to incorporate the transportation sector into its comprehensive strategy for America's clean energy future, including increasing fuel efficiency standards to 35 mpg by 2020, consistent with the Energy Independence and Security Act of 2007. As part of a comprehensive clean energy policy, we will also invest in a full suite of technologies to advance automotive energy efficiency, develop technologies to support plug-in hybrids, and develop the next generation of biofuels. Furthermore, most cap and trade proposals have included transportation under the cap by requiring allowances to distribute fuels that produce greenhouse gas emissions.

(b) We are evaluating several cost-containment mechanisms including price ceilings and floors, greenhouse gas offset provisions, and banking and borrowing of carbon credits. All of these issues must be carefully considered when drafting legislation and upon implementation may require periodic review to make sure the program is working as intended. A properly designed system can provide more certainty than we have today.

(c) Tables S-2 and S-6 of the budget show the estimated year-by-year climate revenues dedicated to Making Work Pay and an investment in clean energy technologies, totaling about $79 billion in the first year. These estimates are placeholders until legislation is more fully developed, but they are conservative projections of the amount of revenue likely to be available. We developed these estimates by considering various analyses of climate bills proposed in the 110th Congress and updates to underlying assumptions in these models. As the details of the cap and trade legislation take shape, we will work to further update the models and revenue projections.

2. MEDICARE GEOGRAPHIC COST VARIATION

As a representative from Oregon, a low-spending Medicare state that has high quality health outcomes, I am acutely aware that in order to fully address our health care crisis and reign in our unsustainable national health costs, we need to address the wild geographic variations in health care spending. These "culture of care" differences lead to over-treatment of patients in certain regions through longer hospital stays, greater numbers of procedures, and more doctors visits. Yet this increased spending fails to achieve higher quality outcomes or longer lives. If fact, according to researchers at the Dartmouth Atlas for Health Care lower spending regions often produce better quality care and better patient outcomes. In your time at the CBO, you studied these geographic cost variations and became exceedingly well versed in these problems. I think we can agree that we need all communities to practice medicine like we do in Portland and Minneapolis—how do you propose that we bend the curve in this direction? How will both your Medicare Advantage competitive bidding proposal and your traditional Medicare payment proposals address these geographic variations in spending and create incentives to promote quality of care as opposed to quantity of care?

RESPONSE

The first step toward addressing geographic variations in spending is to encourage the efficient delivery of care and to better align payments with the costs of efficient providers. For example, Medicare Advantage (MA) plans are currently paid, on average, about 114 percent of the amount a beneficiary would cost in traditional fee-for-service (FFS), which allows plans to be less cost efficient than they would be if they were paid closer to Medicare FFS levels. Some Medicare Advantage plan types have shown they can deliver care below the cost of traditional fee-for-service. MedPAC estimates that in plan year 2009, HMO bids averaged 98 percent of FFS spending. The Budget's Medicare Advantage competitive bidding proposal would allow local market competition to set the rate for MA plan payment. This will reward efficient plans and allow them to offer enhanced benefits to attract enrollees. Inefficient plans will have incentives to become more efficient through better care coordination, appropriate utilization management, and adherence to evidence-based care guidelines. As plans increase their efficiency and quality, they may encourage improved and more consistent patterns of practice among a broad range of providers, which may also help to drive a reduction in geographic variations in costs over time.

Research indicates that geographic variations in spending are driven in large part by differences in professional norms and by the supply of certain providers and services. High-cost areas tend to have greater use of specialty providers and more intensive services, even though it may not result in better quality of care on average. Examples of other Budget proposals that should help reduce geographic variations in spending include bundled payments for acute hospital and post-acute care settings, as well as addressing financial conflicts of interest in physician-owned specialty hospitals. Bundled payments would help encourage hospitals to follow cost-effective practice patterns and provide care in the most clinically appropriate setting. The proposal on physician-owned hospitals would help prevent supply-driven utilization of services (for instance, MedPAC found that physician-owned hospitals increase the rate of cardiac surgeries) by prohibiting new physician-owned hospitals from seeking reimbursement for services furnished to Medicare patients that had been referred to the hospital by a physician owner.

3. MEDICARE ADVANTAGE QUALITY STANDARDS

I'd like to highlight your proposal to encourage hospitals serving Medicare beneficiaries to reduce readmission rates, underscoring the importance of proper discharge protocols and care coordination after a hospital admission.

Health plans in Oregon, including our Medicare Advantage plans, have been focused on this effort for years and it is one of the reasons why Oregon has a more efficient health care system that spends less money, yet provides high quality care.

While MA plans in Oregon have created programs to better manage diseases and coordinate care, I know that not all MA plans nationwide have made this a priority. If done correctly, Medicare Advantage plans can provide the framework and financial incentives for better quality and delivery of health care services, while containing costs. What role do you see for the Medicare Advantage program in raising quality standards and how can we do a better job of holding plans accountable? (list of quality standards attached)

Examples of Quality Initiatives Adopted by Oregon Medicare Advantage Plans:

1) Reduce unnecessary congestive heart failure admissions. MA plans should be required to have a disease management program for congestive heart failure with measured outcomes. This is the chronic condition which has been consistently measured to be able to be impacted with a disease management program. (PHP)

2) Reduce acute coronary syndrome and stroke admissions to acute care facilities. MA plans should track and have in place a system to improve HEDIS measurements in cholesterol measurement after cardiovascular event. The system can be a disease management program, physician outcome transparency, pay for performance, and or a center of excellence in addition to educational materials. (PHP)

3) Reduce admissions to acute care facilities due to diabetes. MA plans should track and have in place a system to improve HEDIS measurements for cholesterol and hemoglobin A1C measurements in diabetes. The system can be a disease management program, physician outcome transparency, pay for performance, and or a center of excellence in addition to educational materials. (PHP)

4) Reduce barriers to medication adherence. Monthly cost of drugs is a barrier to adherence. Generic drugs are 10% of the cost of brand drugs. MA plans should create systems of care to cause generic percentage of drugs to be above 75%. (PHP)

5) Reduce later-stage colon and breast cancer. MA plans should be required to do HEDIS measurements for screening for colorectal cancer and breast cancer. MA plans will have systems in place to improve these measurements. The system can be an outreach program, physician outcome transparency, or pay for performance in addition to educational materials. (PHP)

6) Improved quality in ambulatory surgery. MA plans should be required to measure and improve quality in cataract surgery and colonoscopy procedures. MA plans will create systems of care to measure for example visual acuity and functional status prior to cataract surgery and give feedback to physicians and similarly measure colonoscopy procedures that meet gastroenterology society criteria for indication. MA plans will further have systems to improve outcomes with transparency, pay for performance or other quality measures. These two procedures are the major drivers of cost in the ambulatory surgery area. (PHP)

7) Reduce the percentage of smokers. MA plans should have in place systems of care to reduce smoking prevalence. This can include outreach, pay for performance, medication availability, stop smoking class availability in addition to educational materials. (PHP)

8) Reduce admissions for pneumonia. MA plans should have systems in place to reduce admissions for pneumonia. Strategies can include increasing influenza and pneumococcal vaccine utilization. Also, HEDIS measurement of spirometry in members with chronic obstructive pulmonary disease and correct medication for asthma should be measured. MA plans will create systems to improve these measured outcomes. They can include disease management, physician outcome transparency, or pay for performance in addition to educational materials. (PHP)

RESPONSE

CMS continues to explore ways to hold all providers accountable for quality, including MA plans. The Budget includes several proposals to advance Medicare's transformation from quantity-based to quality-based payments. This includes payment incentives for hospitals to improve the quality of care and for physicians to coordinate care and provide services that help prevent illnesses. These proposals will encourage hospitals and physicians to provide high quality care by linking Medicare payments to providers' adherence to evidence-based processes of care and patient outcomes.

The Budget's MA competitive bidding proposal should help to improve quality in the MA program by incentivizing plans to offer efficient and high-quality care. Plans that can reduce their bids compared to other plans will be able to offer additional benefits to attract beneficiaries. Plans that effectively implement high-quality care programs like care coordination and disease management should be able to reduce their bids and attract more beneficiaries. In addition, CMS is implementing the Medicare Improvements for Patients and Providers Act provisions that require PFFS and MSA plans to have quality improvement plans and to report on quality data (as is already required for other types of MA plans).

4. DEFENSE ENERGY EFFICIENCY AND ENVIRONMENTAL RESPONSIBILITY

The Department of Defense is both the largest manager of infrastructure in the world and likely the largest energy user in the world. The legacy of this dominance is millions of acres of US lands that lay contaminated with unexploded ordnance and munitions constituents, and, according to a recent Defense Science Board report, a Department lacking a comprehensive strategy for energy, to the detriment of the military's short and long-term mission to protect. Would you agree that a greater emphasis on the full cost of energy requirements and environmental use should be a priority for the Administration? What changes will we see in this Defense budget to ensure that energy efficiency and environmental responsibility are both adequately invested in and properly valued?

RESPONSE

The Department of Defense (DoD) is in the process of developing its 2010 budget, so details on funding are not available at this time. However, energy efficiency and environmental responsibility are key Administration priorities and will guide resource allocation.

Regarding environmental contamination due to unexploded ordnance, the Department has implemented the Military Munitions Response Program. To date, the Department has identified over 3,500 munitions response sites across the United States and currently estimates that the cost to complete munitions response at all sites is about $19 billion. The Department plans to complete inspections of all these sites by the end of FY 2010.

The Department has made significant strides in identifying and funding opportunities for increasing energy efficiency. It has increased investment in energy initiatives from $440 million in fiscal year 2006 to approximately $1 billion in fiscal year 2009. The Department is developing and procuring technologies that make good business sense both financially and operationally. It has also expanded programs such as the Energy Conservation Investment Program, which competitively awards funds for energy-saving construction projects.

Finally, the Department has made recognizing the full cost of energy a central part of its strategic energy plan.

5. MILLENNIUM DEVELOPMENT GOALS

President Obama has expressed great interest in returning to the Millennium Development Goals and doubling U.S. foreign assistance. His Budget includes a 9.5% increase over FY09 levels for the State Department and International programs and lists funding for key programs that advance U.S. foreign policy goals, including helping the world's weakest states to "reduce poverty, combat global health threats, develop markets, govern peacefully, and expand democracy worldwide." Securing clean water and sanitation is a key cross-cutting requirement to achieving each of these objectives; each dollar invested yields up to $34 in return. It is also a MDG commitment; in 2005 the US agreed to halve by 2015 the proportion of people without access to clean water and sanitation. How will the administration include an international investment in clean water, through the Water for the Poor Act or otherwise, in a full Budget, and to what extent will the Administration's budget reflect our commitment to the MDGs?

RESPONSE

The President has embraced the Millennium Development Goals to, among other things, cut global poverty in half by 2015. The Administration is committed to elevating development in U.S. foreign policy, and the FY 2010 International Affairs budget request of $51.7 billion puts the United States squarely on a path to doubling foreign assistance. I urge Congress to fully fund the President's Budget, which will support the U.S. commitment to achieving the Millennium Development Goals. Clean water and sanitation programs, another key element of the MDGs, are an important component of the U.S. development toolbox. The details of the FY 2010 Budget are being developed and we look forward to providing additional information, including planned investments in clean water and foreign assistance, when the full FY 2010 Budget is transmitted.

DIRECTOR ORSZAG'S RESPONSES TO QUESTIONS FOR THE RECORD FROM REPRESENTATIVE ETHERIDGE

SAVINGS FROM ELIMINATION OF FFEL

As the former Superintendant of Schools in North Carolina, I believe that education is the key to success and the foundation for our future. I am pleased that this budget makes education a high priority, because I truly believe that the best investment we can make in our future is to give more children access to a better education. I am pleased to see that the administration's budget expands access to higher learning, invests in early childhood education, and increases spending for child nutrition and school meals initiatives.

However, I am concerned about the President's proposal to end the Federal Family Education Loan Program and to have all loans originate through the Federal Direct Loan Program. For the past 40 years, the College Foundation of North Carolina has assisted over 550,000 NC students and families with college loans with one of the nation's lowest default rates. Dr. Orszag, could you comment on estimated savings in the budget associated with the elimination of the Federal Family Education Loan program? Is the Department of Education ready to scale up the Direct Loan program to cover all post-secondary student loans? The budget assumes a $4 to $6 billion savings while directs costs might be expected to increase the deficit by $100 billion. How are these savings calculated? Is OMB assuming these savings on the basis of the current low interest rates that might change in the future?

RESPONSE

In developing Federal Family Education Loan (FFEL) savings estimates, the Administration accounted for the program's sensitivity to changes in interest rates, as well as the probability that interest rates could fluctuate in future years. The approach we took is similar to the approach taken by the Congressional Budget Office in its FFEL estimates. Our savings estimates, therefore, are robust to almost any realistic set of interest rate assumptions; even if Treasury rates and Commercial Paper rates return to their historical average, eliminating FFEL subsidies and ramping up the DL Direct Loan (DL) program will continue to generate savings for taxpayers.

The Department of Education has been enhancing its servicing capabilities, both in response to the Budget policy and to support the FFEL loan purchase programs established last summer. The Budget proposal will maintain competition because the Department of Education will begin using multiple contractors to service DL loans. This will maintain competition between servicers, which will help students and families benefit from improved customer service and technological advances in loan servicing.

DIRECTOR ORSZAG'S RESPONSES TO QUESTIONS FOR THE RECORD FROM REPRESENTATIVE LANGEVIN

SAVINGS FROM HEALTH REFORM

Dr. Orszag, the President's budget sets forth a very ambitious policy agenda, while simultaneously adhering to an honest and sobering accounting standard that realizes incredible fiscal challenges. It has become clear that in order to rebuild our economy, we are going to have to make significant investments in key priorities like energy, education and health care while sacrificing in some others. One of the priorities highlighted in the budget outline is a reserve fund of more than $630 billion over 10 years to finance health care reform. As a strong advocate for health care reform, I am very interested in hearing more about this initiative.

Many policy experts agree that investing in the health of our citizenry now will yield tremendous savings later. In other words, by increasing quality and efficiency in our health system today through innovations in health information technology and early access to preventative care, we can ultimately reduce health expenditures over the long term, but it is often difficult to account for these savings under the House "pay as you go" rules: 1. To what degree are savings from these investments currently incorporated into the budgetary outlook?

2. If they are not incorporated, why not?

3. Can we expect unrealized budgetary savings not incorporated into current health care modeling?

RESPONSE

The Administration understands that reforming health care is critical to our nation's fiscal future. As a first step toward reform, the President signed into law the American Recovery and Reinvestment Act (ARRA). The ARRA will help curb health care spending by investing in computerized health care records, accelerating comparative effectiveness research, and scaling up prevention and wellness programs.

The President's Budget builds on the ARRA and commits $634 billion over ten years in a budget-neutral health reform reserve fund as a down payment on comprehensive health care reform. First, the Budget proposes changing the tax code by reducing itemized deduction rate for families with incomes over $250,000, which is expected to save $318 billion over ten years. Second, the Budget estimates $316 billion in savings over ten years in the Medicare and Medicaid programs. These savings result from promoting efficiency and accountability, aligning incentives toward quality, and encouraging shared responsibility.

The Medicare and Medicaid savings are included in the Budget projections and represent the Administration's best current estimate of the costs and savings of the Budget proposals. The independent actuaries at the Department of Health and Human Services have made projections, based on their in-depth program and industry knowledge, sound evidence and research, and up-to-date program data. These proposals include the following:

- Reducing Medicare Overpayments to Private Insurers through Competitive Payments. Under current law, Medicare overpays Medicare Advantage plans by 14 percent more on average than what Medicare spends for beneficiaries enrolled in the traditional fee-for- service program. The Administration believes it's time to stop this waste and will replace the current mechanism to establish payments with a competitive system in which payments would be based upon an average of plans' bids submitted to Medicare. This would allow the market, not Medicare, to set the reimbursement limits, and save taxpayers more than $175 billion over ten years, as well as reduce Part B premiums.
- Reducing Drug Prices. Prescription drug costs are high and rising, causing too many Americans to skip doses, split pills, or not take needed medication altogether. The Administration will accelerate access to make affordable generic biologic drugs available through the establishment of a workable regulatory, scientific, and legal pathway for generic versions of biologic drugs. To retain incentives for research and development for the innovation of breakthrough products, a period of exclusivity would be guaranteed for the original innovator product, which is generally consistent with the principles in the Hatch-Waxman law for traditional products. Additionally, brand biologic manufacturers would be prohibited from reformulating existing products into new products to restart the exclusivity process, a process known as "ever-greening." The Administration will prevent drug companies from blocking generic drugs from consumers by prohibiting anticompetitive agreements and collusion between brand name and generic drug manufacturers intended to keep generic drugs off the market. Finally, the Budget will bring down the drug costs of Medicaid by increasing the Medicaid drug rebate for brand-name drugs from 15.1 percent to 22.1 percent of the Average Manufacturer Price, apply the additional rebate to new drug formulations, and allow States to collect rebates on drugs provided through Medicaid managed care organizations. All the savings would be devoted to the health care reserve fund.
- Improving Medicare and Medicaid Payment Accuracy. The Government Accountability Office has labeled Medicare as "high risk" due to billions of dollars lost to overpayments and fraud each year. The Centers for Medicare and Medicaid Services (CMS) will address vulnerabilities presented by Medicare and Medicaid, including Medicare Advantage and the prescription drug benefit (Part D). CMS will be able to respond more rapidly to emerging program integrity vulnerabilities across these programs through an increased capacity to identify excessive payments and new processes for identifying and correcting problems.
- Improving Care after Hospitalizations and Reduce Hospital Readmission Rates. Nearly 18 percent of hospitalization of Medicare beneficiaries resulted in the readmission of patients who had been discharged in the hospital within the last 30 days. Sometimes the readmission could not have been prevented, but many of these readmissions are avoidable. To improve this situation, hospitals will receive bundled payments that cover not just the hospitalization, but care from certain post-acute providers the 30 days after the hospitalization, and hospitals with high rates of readmission will be paid less if patients are re-admitted to the hospital within the same 30-day period. This combination of incentives and penalties should lead to better care after a hospital stay and result in fewer readmissions—saving roughly $26 billion of wasted money over ten years.
- Expanding the Hospital Quality Improvement Program. The health care system tends to pay for quantity of services not quality. Experts have recommended that hospitals and doctors be paid based on delivering high quality care, or what is called "pay for performance." The President's Budget will link a portion of Medicare payments for acute in-patient hospital services to hospitals' performance on specific quality measures. This program will improve the quality of care delivered to Medicare beneficiaries, saving more than $12 billion over ten years.
- Reforming the Physician Payment System to Improve Quality and Efficiency. The Administration believes that the current physician payment system, while it has served to limit spending to a degree, should be reformed to give physicians incentives to improve quality and efficiency. Thus, while the baseline reflects our best estimate of what the Congress has done in recent years, we are not suggesting that

should be the future policy. As part of health care reform, the Administration would support comprehensive, fiscally responsible reforms to the payment formula. The Administration believes Medicare and the country need to move toward a system in which doctors face better incentives for high-quality care rather than simply more care.

Estimating future budget expenditures is a highly uncertain undertaking. It is very difficult to pinpoint specific out-year savings, since so little research has been done quantifying cost savings from such efforts. Some policy changes may only begin to produce significant savings outside the ten-year budget window. Therefore, when considering the merits of various policy proposals, Congress may also want to consider not only mid-term (ten-year) effects but also the potential for long-term savings.

The Administration believes that health care reform should be deficit-neutral over the short- and medium-term, and should "bend the curve" on health care costs over the long term. I believe we are doing the things considered to be the most promising for bending the curve on health care costs over the long term—such as investing in health IT, comparative effectiveness research, changes in incentives, and prevention and wellness efforts. We must continue and build on this effort.

Director Orszag's Responses to Questions for the Record From Representative Lummis

1. CAP AND TRADE—PRICE ASSUMPTIONS

President Barack Obama's Fiscal Year 2009 budget blueprint estimates $646 billion in "climate revenues" under his proposed cap and trade system. What price per metric ton of carbon emissions underlies these revenue projections? How do these prices compare with current prices in the European Union's carbon trading system?

RESPONSE

The estimates in the Budget are placeholders that provide conservative projections of the amount of revenue that would be available under a cap and trade program based on a 100 percent auction of allowances. We developed these estimates by considering various analyses of climate bills proposed in the 110th Congress and updates to underlying assumptions in these models. As the details of the cap and trade program take shape, we will work to update the models and revenue projections and make firm cost-per-ton estimates. By applying relevant budget scoring assumptions, we estimated that the cap and trade revenues would at a minimum offset the Making Work Pay tax credit as well as provide $15 billion per year investment in clean energy technologies.

In designing this program, we have learned from the European Union Emissions Trading Scheme (EU-ETS). As the Government Accountability Office reported, the EU over-allocated carbon credits to the point where supply exceeded the cap and led to a collapse of carbon permit prices (GAO-09-151). The GAO report also indicates the EU-ETS lacked reliable emissions data at the start of the program, creating uncertainty in the reductions achieved. By creating a robust emissions inventory and avoiding over-allocation of credits to particular industries, we can learn from the experience of the EU and create a strong carbon trading market.

2. CAP AND TRADE—EFFECT ON INDUSTRIES

Will these revenues be collected from all industrial emitters? What evidence is there that the affected industries, other than electricity generators, can either absorb or recover these additional costs?

RESPONSE

A viable program to reduce greenhouse gas emissions must cover a sufficient percent of large emitters, including some industrial sectors for which measurable, verifiable reductions can be accurately recorded. While it is not practical to cover all industrial emission sources, we strive to reach the right balance to lead the world with a strong program as well as consider practical limitations. We have already begun to consult stakeholders on this issue through EPA's rulemaking process for the development of the mandatory greenhouse gas reporting rule.

While there will be some additional costs to industrial sectors, a cap and trade system enables entities that lead their competition in effective emissions reduction to gain market share. Furthermore, the policy should provide targeted measures to address impacts on energy-intensive industries. We look forward to working with Congress as these issues are considered in the legislation.

3. CAP AND TRADE—PROTECTION OF DOMESTIC INDUSTRIES

How does the Administration plan to protect domestic businesses that will be forced to purchase carbon allowances—particularly smaller businesses in need of these allowances—from their foreign competitors who will not have to shoulder the financial burden of the carbon mandates in the President's cap and trade plan?

RESPONSE

Ensuring that domestic industries remain competitive is an essential component of the policy. First, only entities emitting above a particular emissions threshold will be included in the program; we intend to incorporate the largest emitters while excluding small businesses whenever possible. Second, the cap and trade system would offer flexibility to domestic businesses to meet their obligations by purchasing auctioned credits, trading in the domestic carbon market, or perhaps offsetting emissions through investment in verifiable emission-reduction projects. The policy would not require domestic businesses to purchase allowances from their foreign competitors. Furthermore, the United States will aggressively engage our major trading partners to insure they commit to significant, measurable and verifiable contributions to combat climate change.

DIRECTOR ORSZAG'S RESPONSES TO QUESTIONS FOR THE RECORD FROM REPRESENTATIVE MCHENRY

1. TRANSPARENCY OF FEDERAL SPENDING

During the Presidential campaign President Obama routinely stated that he would restore fiscal discipline to Washington and you yourself said, "you would work with Congress to provide greater transparency and accountability". Within the stimulus bill and the omnibus there were 11,297 earmarks at a cost of 25.6 billion to the American taxpayer. Do you believe during an era of new responsibility, as the President's budget and his address to the nation has outlined, that this type of spending that so open to waste and abuse can continue? And in order to create greater transparency in federal spending, as you and the President have promised to the American people, do you think it is important to create a specific website/office outside of the prevue of Congress and the White House but maintained by the Federal Government, to allow the American public to track every federal dollar spent, with the exception of classified projects?

RESPONSE

The Federal Funding Accountability and Transparency Act of 2006 required the Executive Branch to establish a website to track awards made by Federal agencies. As a result of this law, OMB developed the USASpending.gov website, which makes available information on Federal spending in a searchable format. Visitors to the site may search the spending database by State, awardee, Congressional district and other criteria.

In addition, the Administration is currently working with the Oversight Board established by the American Recovery and Reinvestment Act to develop the capability to report at the subaward level for all Recovery Act funding. Once this capability is established for Recovery Act funding, we intend to expand it to cover all Federal funding.

These efforts, once completed, will significantly expand the information available to all citizens on how Federal funds are spent.

2. FUNDING FOR 2010 CENSUS

As you know, the Census Bureau has required additional funding to stay on-schedule for execution of the 2010 Decennial Census. The recent stimulus bill contained an additional $1 billion for Bureau communications, and the House-passed version of the FY 09 Omnibus Appropriations bill contained $3.1 billion more for the census. What sort of funding can we expect to see for the Census Bureau in the 2010 Budget, and to what operations do you see the majority of funding allocated? Do you see this as being enough to meet the Bureau's goals of producing a full and accurate count?

RESPONSE

The decennial census is the largest peacetime mobilization the Federal Government undertakes and is a priority of this Administration. The 2010 Budget provides approximately $7 billion for the Census Bureau, an increase of $4 billion from the level provided in the 2009 Omnibus Appropriations Act. Including Recovery Act funds, nearly $8 billion will be available in 2010. We are particularly aware of the challenges of counting harder-to-reach groups, and the 2010 Budget provides all the resources necessary for a successful and accurate Census count in 2010.

Funding is provided to open hundreds of local census offices, mail out millions of forms, hire half a million temporary workers to visit non-responding households, and implement a nationwide advertising campaign. Significant funds are also provided for partnership and outreach activities, which will be focused on increasing the response rate of historically undercounted communities and groups.

3. IMPACT OF CAP AND TRADE ON JOBS AND HOUSEHOLDS

The President has outlined in his initiative to implement a Cap and Tax system beginning in 2012 on American families and businesses. You, yourself have provided testimony before this committee that a 15-percent reduction in emissions would result in a $680 to 2,180 reductions in household income. Do you know the affect this new policy will have on Americans who are on fixed incomes when it comes time to pay their heating and electric bills? And has the administration taken into affect the number of jobs that will be lost once this policy is implemented and do you have an estimate of the number of job losses?

RESPONSE

We will not allow struggling Americans to become overburdened with their electric and heating bills. We believe a market-based approach will spur American ingenuity and entrepreneurship to find the least expensive means to bring clean energy sources online. The program will invest $15 billion per year for ten years to develop clean energy technologies and to increase efficient use of energy; revenues will also finance the Making Work Pay tax credit. Any additional revenues will be returned to the public—especially to vulnerable families, communities, and business—to help them transition to a clean energy future. Furthermore, through the Recovery Act we are already making a significant down payment to weatherize homes that will help keep energy bills affordable for low- and fixed-income families.

A strategy to promote energy security and tackle global warming is critical to create new jobs and bolster the long-term viability of the economy. It is a major step to promote a stable, diverse and resilient energy supply while also taking crucial steps to avoid the most devastating effects of climate change. To help create the next generation of workers in the emerging fields of clean energy technology, a cap and trade policy should promote the creation of new jobs, and new and expanded job training programs.

As climate change legislation evolves, the Environmental Protection Agency, the Department of Energy, and others will analyze the projected impact on GDP, consumption, and net jobs. We will be working with Congress to mitigate any adverse impacts.

4. HEALTH CARE REFORM—PREVENTION AND EARLY DETECTION

Can you share with us the type of prevention and early-detection strategies the Administration would like to see as part of comprehensive healthcare reform?

RESPONSE

The Administration supports evidence-based prevention and early-detection strategies that will lead to a more efficient health care system, expanded coverage, improved quality, and reduced costs. The Recovery Act provides $1 billion for an historic effort to improve prevention and wellness by dramatically expanding community-based interventions proven to reduce chronic diseases. Prevention and early-detection strategies could support effective workplace and community physical activity programs targeted to high-risk populations. We look forward to working with Congress to determine the specific types of prevention and early-detection strategies that should be part of comprehensive healthcare reform.

5. HEALTH CARE REFORM—CHRONIC DISEASE

I was wondering if you could share with the Committee the Administration's vision for addressing the rising prevalence of chronic disease—as spending on chronic conditions now accounts for 75% of U.S. health care spending.

RESPONSE

The Administration's vision for addressing the rising prevalence of chronic disease is to invest in public health measures proven to reduce cost drivers in our system—such as obesity, sedentary lifestyles, and smoking—as well as guarantee access to proven preventive treatments. The Recovery Act provides $1 billion for an historic effort to improve prevention and wellness by dramatically expanding community-based interventions proven to reduce chronic diseases. As we work with Congress on health reform over the coming year, the prevention of chronic disease will certainly be part of the discussion.

6. HEALTH CARE REFORM—LIMIT ON PATIENT COSTS

What are your thoughts about how to ensure that more insurance plans include a total annual limit on patient costs, and to help lower income patients in particular?

RESPONSE

The Administration looks forward to developing a health reform approach through an open and inclusive process that explores all serious ideas that achieve the common goals of constraining costs, expanding coverage, and improving quality. Limiting costs Americans face for health care is a priority of this Administration.

7. HEALTH CARE REFORM—INCENTIVES FOR PATIENT COMPLIANCE

Given the prevalence of chronic conditions among Medicare beneficiaries, and the benefits of engaging patients more actively in their own care, what are your thoughts about how to measure and reward health plans and providers for efforts to improve patient adherence to the treatments their doctors' recommend?

RESPONSE

We need to improve care coordination and patient adherence to treatments. More than two-thirds of Medicare spending is for beneficiaries with five or more chronic conditions. Medicare patients with chronic diseases such as diabetes, congestive heart failure, renal failure may receive uncoordinated care from multiple physicians and providers at the same time. Encouraging providers to better coordinate care and help patients manage their conditions and follow treatment plans is needed to both improve the quality of care and reduce growth in health care spending.

The Budget includes proposals to incentivize physicians and providers to better coordinate care and to invest in patient adherence efforts. For example, the Budget includes a proposal that would strengthen incentives for Medicare providers, such as physicians, to form voluntary groups who would work together to better manage and coordinate care for Medicare beneficiaries. These provider groups could receive bonus payments if they improve the quality of care for patients and produce savings for the Medicare program.

Additional payment system reform will also improve care coordination. We need to better integrate the current fragmented fee-for-service system to create quality and efficiency incentives for a broad array of services and providers. As a starting point, the Budget includes proposals to reduce payments to hospitals in certain cases when patients are readmitted within 30 days and to link a portion of payments to performance on quality measures. Hospitals that have high-quality care; better communication with patients and post-acute care providers; and better discharge planning, coordination, and follow up (which would include ensuring patient compliance with treatment plans) will have lower readmission rates and higher scores on quality measures. Under these proposals, higher payments would go to hospitals with lower readmission rates and higher-quality care, which will save Medicare billions of dollars over ten years.

There are many other approaches that may reward efforts to improve patient compliance with doctors' treatment plans, including medical homes, disease management organizations, and community networks or teams to coordinate care. The Department of Health and Human Services is beginning to test these concepts and will make recommendations in developing future options for modernizing Medicare's payment systems. I look forward to continuing to work with you, other members of Congress, and other policymakers to consider all options in this area.

8. SATISFACTION WITH MEDICARE PART D

According to opinion polls, some 85% to 90% of those enrolled in Medicare Part D are quite happy with it. Is this your understanding as well? Sir, what do you think is driving this high rate of satisfaction?

RESPONSE

Opinion polls from groups such as AARP, Medicare Today, the Medicare Rx Education Network and the Wall Street Journal online indicate that beneficiaries generally are satisfied with Medicare Part D. For example, the December 2007 Wall Street Journal Poll showed that overall 87 percent of beneficiaries were satisfied with their Medicare prescription drug coverage.

In each of the polls cited above, the results suggest particularly high satisfaction rates with certain aspects of the program. For example, the October 2007 Medicare Today survey showed that 94 percent of beneficiaries consider their plans convenient to use. The Medicare Today poll also found that 91 percent of those surveyed reported they were enrolled in plans with good customer service. The November 2007 Medicare Rx Education Network, in turn, found that 87 percent of those surveyed were satisfied with the number of drugs covered by their plan. The poll also showed that 95 percent were satisfied in their ability to have their prescriptions filled.

To keep satisfaction rates high, the Administration continues to look for ways to improve the Part D program for beneficiaries. For example, we are evaluating methods to make information on the different types of plans available more understandable to beneficiaries. These changes will help beneficiaries to choose the most cost-effective plans that provide access to the medications they need.

9. INCREASING MEDICAID DRUG REBATE

Do you believe that increasing Medicaid rebates is likely to further increase cost-shifting and prescription drug costs for private payers? If so, do you still think it's a good idea to increase Medicaid rebates?

RESPONSE

The Budget includes a proposal to increase the basic drug rebate for brand-name drugs from 15.1 percent to 22.1 percent of the Average Manufacturer Price, which may help reduce the effects of existing price control-like mechanisms in the prescription drug market. Because the rebate amount is based in part off of the lowest price of a drug offered to any private purchaser, non-profit or government entity with certain statutory exceptions—a provision known as "best price"—drug manufacturers do not currently have an incentive to offer lower drug pricing in the private market because it increases their rebate obligation. Increasing the flat rebate percentage to 22 percent could mitigate the impact of best price by triggering that part of the rebate formula less often. This may actually encourage drug manufacturers to offer lower drug prices.

10. COMPARATIVE EFFECTIVENESS RESEARCH AND ACCESS TO CARE

There's been a lot of discussion about comparative effectiveness research in recent weeks. I believe this type of research holds real value for patients, and real dangers as well. In particular, I'm very concerned that this could lead to centralized value judgments about who should and shouldn't get access to medically beneficial care. We've seen this happen in other countries like the U.K., where patients with breast cancer, kidney cancer, Alzheimer's and many other serious diseases are denied access to beneficial treatment options that are widely available in this country. Do you share these concerns? What steps can we take to ensure this research achieves the goal articulated by President Obama—improving patient and provider decision-making—while avoiding these types of blunt, centralized access restrictions?

RESPONSE

I agree that this research holds real value for patients, and understand your concerns about its use. Current efforts at the Federal level—including the $1.1 billion included in the Recovery Act—are focused on increasing the quantity of comparative effectiveness research produced, in order to enhance medical decision-making by patients and physicians. As research and medicine progress and more studies become available showing what works best for people with different genetic markers, patients should be better able to obtain individually-tailored treatments that maximize the likelihood of positive health outcomes. For example, pharmacogenomics is a field of research that studies how different people respond to the same drug based on their genetic makeup. Such research recognizes that what works best for one group of people may not be what works best for another group. More research comparing the effectiveness of different treatments for different groups of people should eventually lead to higher-quality health care.

There are a variety of ways that private insurers can use comparative effectiveness research findings in coverage or reimbursement decisions. These approaches include mechanisms that are more refined than a simple on-off switch—for example, health insurers might reimburse providers at enhanced rates for treatments that are found to be more effective than others, but still provide reimbursement for other less-effective options. Insurers may also pay bonuses to providers who consistently deliver care that adheres to recognized clinical guidelines. In the future, if Congress were to decide to incorporate comparative effectiveness research into coverage or reimbursement decisions in public health insurance programs, there are a variety of ways this could be done to avoid blunt restrictions that block access.

Director Orszag's Responses to Questions for the Record From Representative Ryan

1. DISCRETIONARY OUTYEARS

The previous Administration did not provide account level detail for discretionary accounts beyond the budget year. Some Members of Congress and the Washington Post viewed this as hiding key details about the President's budget. In the interest of transparency and long-term budgeting, please provide account level detail through 2019.

RESPONSE

The FY 2010 Budget transmitted to the Congress on February 26 was an overview. The full details of the Budget are under development, and information on the discretionary outyears will be provided as part of that transmittal.

2. FEDERAL EMPLOYMENT LEVELS

Please provide the federal employment levels for FY 2008, 2009, and 2010. These are traditionally part of the budget submission.

RESPONSE

The FY 2010 Budget transmitted to the Congress on February 26 was an overview. The full details of the Budget are under development, and information on federal employment will be provided as part of that transmittal.

3. EMPLOYMENT AND UNEMPLOYMENT ASSUMPTIONS

What are your employment and unemployment assumptions used in the budget? Please provide your estimate of the impact that the stimulus bill had upon these assumptions.

RESPONSE

As described in Table S-8 of the FY 2010 Budget, the Administration assumes that the unemployment rate will average 8.1 percent in 2009 and decline from there as the economy recovers. Over the next four years, it declines steadily and levels off at 5.0 percent in 2014. The Chair of the Council of Economic Advisers has estimated that the American Recovery and Reinvestment Act will add approximately three and half million jobs to the U.S. workforce by the end of 2010. This estimate is reflected in the Administration's forecast.

4. CONCURRENT RECEIPT PROPOSAL

Please explain your concurrent receipt proposal for DoD and VA. Does your proposal do away with the phase-in of concurrent receipt?

RESPONSE

No. This proposal expands concurrent receipt to a previously ineligible population—veterans who are medically retired from DoD with fewer than 20 years of service. The proposal phases in concurrent receipt of VA disability and DoD retirement benefits for this group of veterans over a five-year period.

5. FINANCING FOR SURFACE TRANSPORTATION

In your budget, how much surface transportation funding comes from the dedicated user taxes that have funded this program since its inception in 1956? How much comes from appropriations of general revenue? How much comes from non-traditional financing mechanisms?

RESPONSE

The FY 2010 Budget presents baseline funding levels for surface transportation programs and does not include information about funding sources. The Administration recognizes that current law receipts are not sufficient to fund current law spending and looks forward to working with Congress to developing a sustainable surface transportation funding system—one that responds to our nation's changing needs.

6. BUDGETARY TREATMENT OF IMF QUOTA INCREASE

Your budget contains a proposal to increase the United States' quota subscription to the International Monetary Fund, but in a reversal of long-standing budgeting practices, you do not include any budget authority associated with this increase. Why did you not show budget authority from the increase in the quota to the IMF? Does the increase and the use of this authority impact the debt held by the public? If so, what is that impact?

RESPONSE

The proposal to increase the United States' quota subscription to the International Monetary Fund represents an exchange of financial assets. This is consistent with the budgetary treatment recommended by the Presidential Commission on Budgetary Concepts in 1967, and with the guidance contained in section 20(h) of Circular A-11. We note that quota subscriptions have never resulted in any outlays. We believe the prior practice of scoring IMF quota increases as budget authority is incorrect.

7. EARMARK TRACKING

Two years ago, OMB established a database to track congressional earmarks. The President's budget discusses earmarks and calls for greater transparency in earmarks and the President stated his pride in the fact that the stimulus bill was earmark-free.

Will you retain OMB's current definition of an earmark? If not, how do you define an earmark? When will you update the earmarks.omb.gov website? What changes do you plan to implement? Will you update the database to include earmarks in the FY2009 appropriations bills? If not, how many earmarks were in the FY 2009 enacted bills and the House-passed omnibus bill and what was the cost of these earmarks?

RESPONSE

The President's FY 2010 Budget states that the Administration will continue to maintain a searchable website of earmarks and sponsors. OMB is currently reviewing www.earmarks.omb.gov to determine how to proceed with tracking and posting earmarks in ways that improve transparency. OMB will post earmarks from FY 2009 appropriations bills on the website upon completion of this review.

8. EARMARKS EXECUTIVE ORDER

Last year, President Bush signed Executive Order 13457, which directs that "the head of each agency shall take all necessary steps to ensure that * * * agency decisions to commit, obligate, or expend funds for any earmark are based on the text of laws, and in particular, are not based on language in any report of a committee of Congress, joint explanatory statement of a committee of conference of the Congress, statement of managers concerning a bill in the Congress, or any other non-statutory statement or indication of views of the Congress, or a House, committee, Member, officer, or staff thereof;"

Is this executive order still in effect?

Do you plan to modify it or repeal it? If so, how will it be modified and how will the Administration determine the level of earmarks and their cost in legislation?

RESPONSE

Until the President rescinds or modifies the Executive Order, it is still in effect. The Administration will work with Congress to increase the efficiency and transparency of earmarks. We are currently reviewing all the Executive Orders issued by the previous Administration and have not yet made a decision as to Executive Order 13457.

9. ADMINISTRATIVE PAYGO

Is this Administration still abiding by previous OMB Director Bolten's memorandum requiring agency administrative actions that affect mandatory spending to comply with pay-go? Has the Administration made any changes to the baseline for the purposes of Administrative pay-go? If so, what are those changes and what is the budgetary impact of those changes? Please provide an account of all administrative actions affecting levels of mandatory spending that have been implemented since January 20, 2009, or which are assumed in your budget.

RESPONSE

The Administration supports requiring agency administrative actions that affect mandatory spending to comply with Administrative PAYGO. The Administration plans to implement Administrative PAYGO relative to the President's 2010 Budget. Administrative changes relative to the 2010 Budget would generally, therefore, require budget neutrality (except in cases where it is appropriate to waive Administrative PAYGO in accordance with established procedures).

The details of the FY 2010 Budget are being developed and when the full Budget is transmitted to Congress, the Current Services Estimates chapter of Analytical Perspectives will provide information on the budgetary impact of regulations and other important baseline assumptions.

10. PROPOSED PROGRAM REDUCTIONS AND TERMINATIONS

Please provide a list of proposed program terminations and reductions included in the President's budget and the savings relative to the FY 2009 estimated level.

RESPONSE

The FY 2010 Budget transmitted to the Congress on February 26 was an overview. While the full details of the Budget are under development, the Administration has identified cuts and savings that include: eliminating the Resource Conservation and Development program in the Department of Agriculture; reforming the Market Access program in the Department of Agriculture by reducing program funding for overseas brand promotion and minimizing the benefits that large for-profit entities may indirectly gain as members of trade associations; reducing Direct Payments to Farmers with sales revenue of more than $500,000 annually; increasing collection of delinquent taxes from Federal Contractors by streamlining administrative processes; eliminating small, ineffective Housing and Urban Development programs like the American Dream Downpayment Initiative and the Community Development Loan Guarantee program and reforming others like the Rural Housing and Economic Development program so that it is not duplicative of similar Department of Agriculture programs; and eliminating education programs with records of low performance.

11. PROPOSED PROGRAM INCREASES AND NEW PROGRAMS

Please provide a list of new programs and program increases included in the President's budget and the increase in BA and outlays relative to the FY 2009 estimate level.

RESPONSE

The FY 2010 Budget transmitted to the Congress on February 26 was an overview. While the full details of the Budget are under development, the Administration has identified several program increases and new programs that include: a doubling of funding for cancer research at the National Institutes of Health and basic research at the National Science Foundation; climate change research and development to invest in clean energy, end our addiction to oil, address the global climate crisis, and create new American jobs that cannot be outsourced; a National Infrastructure Bank that expands and enhances existing Federal infrastructure investments and is designed to deliver financial resources to priority infrastructure projects of significant national or regional economic benefit; a nursing home visitation program to support first-time mothers; creation of the College Access and Completion Fund to support State efforts to help low-income students complete their college education; and a change to the extended unemployment insurance benefits trigger to make benefits available more quickly to long-term unemployed workers.

12. PROPOSED DISCRETIONARY CHANGES IN MANDATORY PROGRAMS (CHIMPS)

Does the budget assume any changes in mandatory proposals (MSAVERS or CHIMPS) as discretionary offsets? If so, please provide a list as well as expected BA and outlay savings. Please provide the impact of "rebasing" levels for mandatory savings scored as discretionary spending in FY 2009 and a comparison of discretionary BA and outlays for FY 2009-2019 with and without rebasing.

RESPONSE

The FY 2010 Budget transmitted to the Congress on February 26 was an overview. The full details of the Budget are under development, and information on any proposed discretionary changes to mandatory programs will be provided as part of the full FY 2010 Budget.

13. PROPOSED ADVANCE APPROPRIATIONS

For programs where a request for advance appropriations will be made, please provide a list of the programs and the amount of the request.

RESPONSE

The FY 2010 Budget transmitted to the Congress on February 26 was an overview. The full details of the Budget are under development, and information on advance appropriations will be provided as part of the full Budget submission.

14. PROJECTIONS OF HIGHWAY TRUST FUND

Please provide revenue and spending projections for the Highway Trust Fund (both Highway and Mass Transit Accounts).

RESPONSE

The FY 2010 Budget transmitted to the Congress on February 26 was an overview. The full details of the Budget are under development, and information on spending projections for the Highway Trust Fund will be provided as part of the full Budget transmittal.

15. CAP AND TRADE PROPOSAL

Will the President be submitting specific legislation on cap and trade to Congress? What agency will be responsible for administering this program? How much do you estimate will be needed for administrative costs? How many federal employees and contractor employees will be required? Has the Administration modeled the economic impact on GDP and jobs of its cap and trade proposal? If so, what is the impact on GDP and jobs? In table S-2, $120 billion of climate revenues are devoted to "climate policy (clean energy technologies)." However, these revenues are also dedicated to deficit reduction in this table. Are the revenues double-counted?

RESPONSE

As we have seen through the various draft bills in the 110th Congress, developing energy security and cap and trade legislation is a complex undertaking that will produce the strongest result if it is informed by a wide group of stakeholders and experts. The Administration will work with Congress in developing the legislation to make it as effective as possible.

The level of resources needed to administer the cap and trade program will depend on the complexity of the legislation. Until the legislation has been drafted, it is difficult to predict the exact administrative costs, or the most appropriate agency to administer the components of the program. In working with Congress to develop legislation, we will weigh the benefits of various measures to design a program that is manageable, effective, transparent, and provides protections against market manipulation.

A strategy to promote energy security and tackle global warming is critical to create new jobs and bolster the long-term viability of the economy. This is a major step to promote a stable, diverse and resilient energy supply while also taking crucial steps to avoid the most devastating effects of climate change. To help create the next generation of workers in the emerging fields of clean energy technology, a cap and trade policy should promote the creation of new jobs, and new and expanded job training programs. As you are aware, the Environmental Protection Agency, the Department of Energy and the Congressional Budget Office analyzed several climate policy proposals in the 110th Congress and specifically modeled economic impacts such as GDP. As the details of the policy take shape through our work with Congress, we will use these modeling results and other information to inform the most effective and balanced approach.

The FY 2010 President's Budget proposes that revenues from the cap—and-trade permit auction be devoted to the Making Work Pay tax credit and to investments to help America transition to a clean energy future. The budget tables (S-7) show $15 billion per year in budget authority beginning in 2012 devoted to "Climate Policy (Clean Energy Technologies);" this investment will be paid for by cap and trade revenues. Table S-2 captures this discretionary spending under the category "other appropriated programs." Thus, the presentation in the budget does not double count the revenue because it shows the cap and trade revenues and the associated offsetting spending.

16. IMPACTS OF PROPOSAL TO ELIMINATE FFELP

This budget projects $47.5 billion in savings over 10 years by eliminating the private capital-based Federal Family Education Loan Program (FFELP) and using low-interest Treasury borrowing for all federal student loans. How much would the Treasury need to issue in additional debt for FY 2010-2019 to finance these new direct loans in lieu of the guarantee program? What are the risks associated with issuing the additional debt and is that accounted for in the scoring? If Treasury rates return to their historical average rates by 2011, how much less will the savings be from the conversion to direct loans?

RESPONSE

As our estimate shows, the proposal in the FY 2010 Budget to issue all student loans directly from the Department of Education produces savings that reduce the deficit in both the short and long term. To the extent that bondholders are mostly concerned about the deficit and the long-term ability of the U.S. to repay debt, the risks associated with additional debt likely generate additional savings rather than costs (although those savings have not been scored). Issuing student loans directly eliminates the basis risk associated with the Federal Family Education Loan (FFEL) program—the risk that the spread of the rate at which the Administration compensates lenders over the Treasury's cost of borrowing will widen. While eliminating that basis risk is an additional benefit of switching to direct loans, we did not score it as savings. The Administration was careful in developing FFEL savings estimates to account for the program's sensitivity to changes in interest rates, as well as the probability that interest rates could fluctuate in future years. The approach we took is similar to the approach taken by the Congressional Budget Office in its FFEL estimates. Our savings estimates therefore are robust to almost any realistic set of interest rate assumptions; even if Treasury rates and Commercial Paper rates return to their historical average, eliminating FFEL subsidies and ramping up the DL program will continue to generate savings for taxpayers.

17. YUCCA MOUNTAIN AND STRATEGY FOR NUCLEAR WASTE STORAGE

The budget contains a statement that says, "The Yucca Mountain program will be scaled back to those costs necessary to answer inquiries from the Nuclear Regulatory Commission, while the Administration devises a new strategy toward nuclear waste disposal." Does the new strategy propose to abandon Yucca Mountain as the primary repository of our nation's nuclear waste? Will the Administration's Yucca Mountain proposal hinder efforts to build additional civilian nuclear plants?

The courts have ruled that the federal government has a clear and binding obligation to accept this waste or to compensate facilities for failure to take this waste. How does the Administration plan on handling the government's nuclear waste storage liabilities if Yucca Mountain is abandoned? Will the government provide alternative storage facilities? If so, where? What is the projected cost of failing to meet the government's liabilities or to fund alternative storage facility arrangements?

Does the Administration support the construction of new civilian nuclear power plants? If so, how many new plants are projected to be built during the next 10 years under the Administration's policies?

If the Nuclear Regulatory Commission grants a license to the Department of Energy to build the Yucca Mountain facility, will the Administration request the necessary funding to complete the project?

RESPONSE

The Administration does not believe Yucca Mountain is a workable option. The Department is proceeding with the licensing process to provide insights to future licensing proceedings regardless of the future nuclear waste disposition alternative. All Departmental efforts for the Yucca Mountain repository that do not directly support this licensing effort, such as further facility design and detailed engineering, are being terminated, with DOE's focus solely on the licensing process with the Nuclear Regulatory Commission (NRC). The Administration understands that nuclear power is an important part of our energy mix and intends to devise a policy using the best available science to address this issue. The steps to revisit the direction the nation should take regarding the long-term disposal of the nation's spent nuclear fuel and high-level waste do not impact efforts to build additional civilian nuclear plants.

The government continues to have a binding contractual obligation to accept the Nation's commercial spent nuclear fuel and high-level waste. This continuing obligation will certainly be among the issues raised during efforts to develop a new strategy for nuclear waste, which may include new alternative storage facilities or technologies.

18. SOCIAL SECURITY TRUST FUND PROJECTIONS

Last year, the actuaries projected Social Security would run a cash deficit in 2017. Does the budget assume that Social Security will run a cash deficit earlier? Based on the budget's projections, does the date Social Security becomes insolvent change? What are Social Security's unfunded obligations (75 year and infinite horizon) under the budget's assumptions?

RESPONSE

The Administration relies on the Social Security Administration's Office of the Actuary for long-range Social Security solvency projections. The intermediate projections in the 2008 Report of the Board of Trustees of the Social Security Trust Funds have the Social Security cost rate declining slightly in 2008 and then increasing up to the 2007 level within the next two years. It would then begin to increase rapidly and first exceed the income rate in 2017, producing cash flow deficits thereafter. Cash-flow deficits are projected to be less than trust fund interest earnings until 2027. Redemption of trust fund assets will allow continuation of full benefit payments on a timely basis until 2041, when the trust funds will become exhausted. The actuarial imbalance over the 75-year valuation period was 1.7 percent of taxable payroll or 0.6 percent of GDP as of January 1, 2008.

There is uncertainty around these estimates, and the 2008 Trustees Report presents confidence intervals for the point estimates above based on a stochastic analysis of key variables. The projected actuarial balance under intermediate assumptions over 75 years is −1.7 percent of taxable payroll, and the 95 percent confidence interval based on the stochastic analysis is between −3.52 percent and −0.28 percent of taxable payroll. The projected date when cash deficits begin is 2017, and a 95 percent confidence interval under the stochastic analysis is from 2013 to 2021. Similarly, the 95 percent confidence interval for the date of trust fund exhaustion (2041 under intermediate estimates) is from 2033 to 2070. The 2009 Trustees Report, which is due out later in the spring, will reflect updated economic assumptions. The new report will project the cash flows and the actuarial balance of the Trust Funds over the next 75 years.

19. MEDICARE TRUST FUND PROJECTIONS

How much of a cash deficit does the Hospital Insurance Fund (Part A of Medicare) run in 2009? The actuaries projected insolvency by 2019 for Part A. How do the budget's assumptions affect this insolvency date? Does the CMS actuary concur with these insolvency estimates? What is Medicare's combined unfunded obligations under the budget's assumptions (75 year and infinite horizon)?

RESPONSE

The official projection of the status of the Hospital Insurance (HI) Trust Fund is provided every spring in the Medicare Trustees' Report. The Centers for Medicare and Medicaid Services actuaries contribute to this report and attest to the actuarial soundness of its projections. For the 2008 report, the Trustees projected that the HI Trust Fund would be exhausted by 2019 under intermediate assumptions. The Trustees projected a 75-year actuarial imbalance of about 1.6 percent of GDP for the HI Trust Fund. Put another way, payments from the Fund would have to be reduced or the income increased in an amount equivalent to 3.54 percent of taxable payroll to keep the fund solvent over the 75-year projection. The Trustees noted in the Report that, because Medicare Parts B and D have automatic general revenue financing provisions, there is no actuarial imbalance for these parts of the program, although the general revenue financing represents a draw on other Federal budget resources.

Total Medicare expenditures are expected to grow from 3.2 percent of GDP in 2007 to 10.8 percent of GDP in 2082 under the Trustees' intermediate assumptions. The Trustees will be producing the 2009 report shortly, which will have updated projections on the 2009 HI trust fund cash flows and other information on program financing. The proposals in the President's Budget are estimated to extend the solvency of the HI Trust Fund by about two years.

20. DATA FOR MAJOR TRUST FUNDS

Please provide data for major trust funds traditionally provided by the analytical perspectives volume, including the Social Security trust funds, Medicare trust funds, highway and transit funds, and airport funds (similar to table 22-4).

RESPONSE

The FY 2010 Budget transmitted to the Congress on February 26 was an overview. The full details of the Budget are under development, and information on government trust funds (including information similar to what was published last year in Analytical Perspectives Table 22-4) will be provided with the full President's Budget.

21. AVIATION TAXES AND FEES AND 25% PAYGO OFFSET

The 25% revenue offset rule applies to aviation excise taxes. Does it apply to the budget's proposed aviation fees? If not, please provide estimates of gross baseline revenues for aviation taxes, net revenues (with 25% offset), and the fee collections from the budget's new fee.

RESPONSE

The FY 2010 Budget transmitted to the Congress on February 26 was an overview. The full details of the Budget are under development, and information on aviation taxes and fees will be provided as part of the full Budget transmittal.

22. DATA ON GROSS OBLIGATIONS

Please provide data for gross and net outlays to the public that are traditionally provided in the analytical perspectives volume.

RESPONSE

As discussed in the Analytical Perspectives chapter, "Outlays to the Public, Net and Gross," accompanying the FY 2009 Budget, the data by agency are imprecise estimates of each agency's transactions with the public, and the level of imprecision varies by agency. These data are not exact because they include payments by each agency to other agencies, net of collections of payments received from other agencies. These payments and collections between agencies net to zero at the total Government level, but not at the individual agency level. We would, therefore, caution against using the data, except at the government-wide level.

23. DATA ON CURRENT AND PROPOSED USER CHARGES

Please provide data on current user charges and fees and proposed new or increased user charges that are traditionally provided in the analytical perspectives volume.

RESPONSE

The FY 2010 Budget transmitted to the Congress on February 26 was an overview. The full details of the Budget are under development, and information on new user charges and increases in existing user charges that the Administration is proposing will be provided with that transmittal.

24. FUNDING LEVELS FOR OVERSEAS CONTINGENCY OPERATIONS

Please provide BA and outlay levels for FY 2008-2019 for the BEA baseline, current policy baseline, and the budget's proposed levels.

RESPONSE

The FY 2010 Budget transmitted to the Congress on February 26 was an overview. The full details of the Budget are under development, and information on funding levels for overseas contingency operations (OCO) will be provided as part of that transmittal.

However, the FY 2010 overview provides information on the detail being sought. The outlay levels for 2009 through 2019 for the BEA Baseline and the Current Policy Baseline can be found on Table S-5 on page 121 on the lines identified as such. The policy outlay level can be constructed by adding the delta found on Table S-2 on page 115. The policy BA levels are provided through 2019 on Table S-7 on page 131. Although only the levels through 2014 are displayed, the footnote explains that $50 billion is the placeholder for 2011 and beyond. The Current Policy BA level can be calculated by adding the BA delta for OCO funding found at the bottom of Table S-2 on page 116.

25. DATA ON NON-EMERGENCY OUTYEAR BA BY AGENCY

Please provide non-emergency out-year levels (FY 2015-2019) by agency.

RESPONSE

The FY 2010 Budget transmitted to the Congress on February 26 was an overview. The full details of the Budget are under development, and information on agency totals for 2015 through 2019 will be provided as part of that transmittal.

26. FEDERAL AGENCY ENERGY SAVINGS

The budget shows $16.3 billion in savings for reduced energy consumption in federal buildings. How much will the energy efficiency investments that will produce these savings cost, and how does the Administration plan on verifying the actual savings achieved?

RESPONSE

The budget item for Function 920 of $16.3 billion includes, but is not limited to, reduced energy consumption in federal buildings. The Recovery Act contains more than $11 billion for modernizations, new construction, and/or repair and restoration of Federal buildings, with a focus on high-performance green federal buildings and energy efficiency measures, and billions of dollars more for other investments in Federal facilities and the purchase of advanced vehicle fleets. We expect to agencies to track these investments and their energy savings through the mechanisms agencies currently use to track energy management investments and performance under Executive Order 13423 and Recovery.gov.

Additional information on Federal energy efficiency investments and performance is available on the website of the Department of Energy's Federal Energy Management Program: *http://www1.eere.energy.gov/femp/regulations/facility—reports.html.*

27. BUDGET TRANSACTIONS WITH FANNIE MAE AND FREDDIE MAC

The Administration appears to keep Fannie and Freddie off-budget. Please provide data showing the transactions between the federal budget and Fannie and Freddie for FY 2008-2019 and indicate whether these transactions are recorded on a cash basis, a Federal Credit Reform Act (FCRA) basis, or a TARP-modified FCRA basis.

RESPONSE

The operating budgets of Fannie Mae and Freddie Mac are not presented in the FY 2010 Budget. However, financial assistance provided by Treasury to the GSEs is fully recorded on-budget.

The FY 2010 Budget includes the ultimate face value (liquidation preference) of the Senior Preferred Stock Purchase Agreements with Fannie Mae and Freddie Mac, estimated at $173 billion (displayed in Table S-9). This includes $2 billion in preferred stock issued in 2008 when the agreements were signed, plus an estimated $171 billion in payments to the GSEs from FY 2009 to FY 2011. This program is recorded in the Budget on a cash basis.

The Budget also incorporates the estimated subsidy cost of Treasury purchases of GSE mortgage-backed securities ($1.8 billion in negative subsidy receipts through January 2009), and the estimated subsidy cost of the GSE liquidity facility in Treasury (there has been no lending activity to date). Both of these programs are recorded on a standard Federal Credit Reform Act basis.

[Whereupon, at 1:44 p.m., the committee was adjourned.]

○