THE PRESIDENT'S FISCAL YEAR 2011 BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, FEBRUARY 2, 2010

Serial No. 111–21

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

54–756 PDF WASHINGTON : 2010

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

CONTENTS

	Page
Hearing held in Washington, DC, February 2, 2010	1
Statement of:	
Hon. John M. Spratt, Jr., Chairman, Committee on the Budget	1
Hon. Paul Ryan, Ranking Minority Member, Committee on the Budget	2
Hon. Peter R. Orszag, Director, Office of Management and Budget	4
Prepared statement of	6
Responses to questions submitted	67
Hon. Cynthia M. Lummis, a Representative in Congress from the State of Wyoming, prepared statement of	35
Hon. Marcy Kaptur, a Representative in Congress from the State of Ohio, questions submitted for the record	67
Hon. Betty McCollum, a Representative in Congress from the State of Minnesota, questions submitted for the record	68
Hon. Robert E. Andrews, a Representative in Congress from the State of New Jersey, questions submitted for the record	69
Hon. Rosa L. DeLauro, a Representative in Congress from the State of Connecticut, questions submitted for the record	69
Hon. Chet Edwards, a Representative in Congress from the State of Texas, questions submitted for the record	70
Hon. Robert C. "Bobby" Scott, a Representative in Congress from the State of Virginia, question submitted for the record	71
Hon. Michael K. Simpson, a Representative in Congress from the State of Idaho, questions submitted for the record	71
Hon. Steve Austria, a Representative in Congress from the State of Ohio, questions submitted for the record	72
Hon. Robert B. Aderholt, a Representative in Congress from the State of Alabama, questions submitted for the record	73
Hon. Robert E. Latta, a Representative in Congress from the State of Ohio, question submitted for the record	74

THE PRESIDENT'S FISCAL YEAR 2011 BUDGET

TUESDAY, FEBRUARY 2, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 2:10 p.m., in room 210, Cannon House Office Building, Hon. John Spratt [chairman of the committee] presiding.

Present: Representatives Spratt, Schwartz, Kaptur, Becerra, Doggett, Berry, McGovern, Tsongas, Etheridge, McCollum, Yarmuth, Andrews, DeLauro, Edwards, Scott, Langevin, Bishop, Moore, Connolly, Schrader, Ryan, Hensarling, Diaz-Balart, Simpson, McHenry, Campbell, Jordan, Lummis, Austria, Harper, and Latta.

Chairman SPRATT. Once again, Dr. Orszag, Director Orszag, welcome to the hearing.

Today we take up President Obama's budget for fiscal year 2011. Our witness is author Director Orszag, welcome to this hearing.

If I can borrow a line from your budget narrative, "in order to understand where we are headed, it helps to remember where we started."

Our economy began backsliding into a recession in December of 2007, one full year before President Obama was sworn in. Within weeks of taking office, his administration and Congress launched a massive supplemental to get this economy moving again.

The Recovery Act added to the short-term deficit, then estimated at $1.3 trillion to $1.2 trillion. The deficit was already swollen by the recession and by the Bush administration's own budgets and bailouts.

According to the CBO, the Recovery Act has made a difference. By their reckoning, the Recovery Act raised real GDP by 1.3 to 3.5 percentage points in the second half of 2009 and increasing employment by as many as 1.6 million jobs.

As recently as January a year ago, the economy was not growing. It was shrinking, contracting by 5.4 percent in that month alone; 741,000 workers lost their jobs in January of 2009. By contrast, in the last quarter of 2009, the economy grew by 5.7 percent. Job losses averaged 69,000.

From the start, the Obama administration has realized, under your guidance, that it would be almost impossible for us to bring the deficit down without moving the economy up. That is why the President's budget for 2011 has dual objectives; one lies on the economy, the other lies on the deficit.

We brought the economy back from the brink, but too many Americans are still feeling the recession and not the recovery. And no one—no one—can be satisfied when unemployment averages 10 percent, and in many places, my district included, it is far worse. One of the biggest initiatives in this budget is for a job bill, at least it makes provision for it.

The President's budget stays focused, however, on the bottom line. The deficit is cut by half, from $1.556 trillion in 2010, that is 10.6 percent of GDP, to $727 billion, that is 4.2 percent of GDP, in 2013. In 4 years, it is cut in half. The budget keeps bringing the deficit down in 2014 when it reaches 3.9 percent of GDP.

Now, $727 billion in the red is nothing to crow about, but halving the deficit in 4 years is a worthy goal. The President shifts the emphasis of the budget from big business to small business, from Wall Street to Main Street. This budget freezes non-security spending overall, but it singles out priorities like education for increases well above a freeze.

A 3-year freeze on non-security spending and a bipartisan commission, which you propose in the budget, is not enough to finish the job, and frankly, I would like to see a lot more deficit reduction, but these are concrete commitments on the President's part to bringing the deficit down. We are on an unsustainable path of deficits and mounting debt. And the longer we avoid the hard choices, the harder they become.

We proved in the 1990s that it is possible to reduce deficits responsibly, but it cannot happen without concerted effort. That is why the President's appointment of a fiscal commission is a step in the right direction. Later this week, the House will take another step in that direction; we will vote to reinstate a statutory pay-as-you-go rule, modeled on the rules that helped us turn record deficits into record surpluses in the 1990s.

On both the budget and the economy, there are hard choices ahead of us, but the budget sent up by the President today marks one more step toward moving the economy up while bringing the deficit down.

Director Orszag, we look forward to your testimony, but before I turn to you for your testimony, let me turn to the ranking member, Mr. Ryan, for any statement he may care to make.

Mr. Ryan.

Mr. RYAN. I thank the Chairman. And welcome back, Dr. Orszag, good to have you.

Throughout last year, Americans became increasingly focused on and troubled by the alarming growth of spending and debt pouring out of Washington, and they had a right to be.

No doubt the President inherited a difficult fiscal situation.

What is happening now is obviously our concern. By year's end, the House passed legislation to boost spending by $3 trillion over the next decade, raise taxes by $1.3 trillion, and increase deficits and debt by $1.7 trillion.

But just last week, in his State of the Union Address, and the discussion which we appreciated at our Republican retreat, the President was employing what I consider a far more open, inclusive tone, acknowledging the seriousness of our budget and entitlement problems and talking about the need for real fiscal discipline.

I personally was very heartened by his remarks. The President sounded as though he had received the message, and he sounded ready to moderate his agenda.

But yesterday, we got the actual budget, which, however you cut it, is remarkably similar to the plan we got just last year: more government spending, more taxes, more deficits, and more debt.

Here is how the New York Times summed it up, quote, "by President Obama's own optimistic projections, American deficits will not return to what are widely considered sustainable levels over the next 10 years. In fact, in 2019 and 2020, years after Mr. Obama has left the political scene even if he serves two terms, they start rising again sharply. His budget draws a picture of a nation that, like many American homeowners, simply cannot get above water."

Let's look at a few key points. This year's deficit is $1.6 trillion. It is a record. Under this budget, the deficit never falls below $700 billion, and it ends the decade at $1 trillion, 4.2 percent of GDP.

Taxes increase by $2 trillion, using the administration's own estimates. Debt held by the public more than doubles over 5 years. It exceeds 60 percent of GDP this year and consumes 77.2 percent of our economy by the end of the budget window.

We have heard a lot of hype surrounding a handful of proposals in this budget, supposedly aimed at tempering the government's explosive growth. So let's take a look at this "spending freeze" that applies only to nondefense, non-homeland, non-veterans, non-international affairs, non-Pell Grant, non-emergency discretionary spending, or in other words, about 13 percent of total spending.

The freeze would follow an 84 percent increase in nondefense discretionary spending that the President has signed since taking office, and it won't even start until next year.

PAYGO. I will note that Congress already has a PAYGO rule in place right now. And since the Democrats implemented it upon taking the majority in 2007, the deficit has soared from $161 billion to $1.6 trillion this year, a tenfold increase. So I am not sure how much hope we want to place in PAYGO to solve our spending problem for us. We rarely follow the rule. It is often waived. And when we do, it is just used to chase higher spending with tax increases.

And finally, I just simply want to bring attention to this chart and talk about the fiscal commission. You can't see this chart very well, but on page 146 of the budget, we have the administration's actual clearly unsustainable budget numbers up top, and then an advertisement for this commission at the bottom. That is in the box at the bottom. The box tells people basically: Don't worry, we will punt our problems to this nonbinding commission who will ostensibly fix the fiscal and economic mess this budget will just, admittedly, make worse. That is not what budgeting is. And I don't think anyone can claim that that is what governing is either. I know those are tough words, but we are in a very, very dire fiscal situation.

Now, the President has contended that many of our Nation's problems, fiscal and otherwise, lie in petty bickering and partisanship in Washington. And I will be the first to agree that we need to avoid the politics of personal destruction. We need to start talking about the substance of the budget and the decisions ahead of us.

Dr. Orszag, you do that.

But we cannot get lulled into avoiding a rigorous debate on policies that we truly believe are bad for our Nation.

I don't see anything in this year's budget that doesn't point to the exact same outcome of last year's budget, and that is to hasten our Nation's march down a disastrous economic and fiscal course and make an already unsustainable budget outlook even worse.

Dr. Orszag, I appreciate your candor in the past, and I look forward to your testimony.

Chairman SPRATT. First, a housekeeping detail. I would ask unanimous consent that all members be allowed to submit an opening statement for the record at this point.

Without objection, so ordered.

Dr. Orszag, you have been here before. You know the rules of the road. We will make your statement part of the record, as is submitted. You can summarize it in any way you see fit. But you are today's witness, and you can take all the time you need to explain the budget, using charts and any other aids as you see fit. We are glad to have you, and we look forward to your testimony.

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

Mr. ORSZAG. Thank you very much, Mr. Chairman, Mr. Ryan, members of the committee.

The fiscal year 2011 budget from the administration focuses on spurring job creation, securing the middle class, and putting the Nation back on a path to fiscal sustainability.

First, let us examine where we have come from. Over the past year, we have averted a second Great Depression. At the end of 2008, the economy was declining by more than 5 percent on an annualized basis. At the end of 2009, it was expanding by more than 5 percent on an annualized basis. A very substantial share of that shift has to do with the policy actions that were undertaken to avert a second Great Depression.

Now, while the economy is expanding, the employment market remains unacceptably weak. The unemployment rate is 10 percent. There have been 7 million jobs lost since December of 2007. That is why the President is stepping forward with proposals like the new Jobs and Wages Tax Credit, that is intended to help spur hiring today, especially among our small businesses.

It is also why we must, while investing in education, innovation, and clean energy, bring down our deficits over time, because eventually, those deficits will impede ongoing job creation.

Now, what about the preexisting condition with regard to our fiscal front? The President, in visiting with our Republican friends, pointed out that, on January 7, 2009, the Congressional Budget Office issued an Economic and Budget Outlook that showed very clearly an increase in spending from fiscal year 2008, at 20.9 percent of the economy, to fiscal year 2009, 24.9 percent of the economy, a 4 percentage point of GDP increase before the Obama administration even took office.

So what happened in reality? In reality, spending in 2009 was actually slightly lower than CBO initially projected, coming in at 24.7 percent of the economy. There is a different mix: mandatory spending was lower; discretionary spending somewhat higher because of the Recovery Act; but total spending was basically in line with what was initially projected in early 2009.

What about our medium-term deficits? In early 2009, medium-term deficits over the next decade of $8 trillion were already apparent, assuming continuation of the 2001 and 2003 tax cuts and the Medicare prescription drug benefit, neither of which were paid for and which added more than $5 trillion to our projected deficit, and because of the economic downturn, which reduces revenue and increases spending on certain programs like unemployment insurance and food stamps; the combined effect of those so-called “automatic stabilizers” adding more than $2 trillion to the projected deficit.

Now, that is all an explanation of the situation in which we found and find ourselves, but the key question is, I think both Mr. Spratt and Mr. Ryan identified, what do we do about it? I think the first step is to embody or embrace the basic principle that we shouldn’t make the situation worse.

The administration is glad that the Senate has joined with the House in passing statutory pay-as-you-go legislation which embodies that basic principle, that you should pay for new proposals or new tax cuts. If we had lived by this principle in the past, our outyear deficits would be roughly 2 percent of GDP, and debt as a share of the economy would be declining. We didn’t live by it then, but we should now.

Second, economic recovery will help to reduce the deficit. And under our projections, we move from a deficit of about 10 percent of the economy this year to roughly 5 percent of the economy by 2015, as the economy recovers. Unfortunately, that 5 percent of the economy is still higher than our fiscal target, which is roughly 3 percent of the economy. At that level, debt to GDP or debt as a share of the economy would stabilize.

So how do we get from five to three? The first thing we do is we put forward specific proposals to reduce the 10-year deficit by $1.2 trillion. Let me repeat that: The budget embodies, even not counting the winding down of the wars in Iraq and Afghanistan, $1.2 trillion in deficit reduction, more deficit reduction than embodied in any administration budget in over a decade.

How do we do that? A variety of steps: A new financial services fee, raising $90 billion imposed on financial service firms with more than $50 billion in assets, which will not only discourage leverage, but also meet the statutory requirement of repaying taxpayers in full for the cost of the TARP legislation.

Second, we allow the 2001 and 2003 tax cuts for those families with more than $250,000 in income to expire as scheduled in 2011. That reduces the deficit by almost $700 billion over the next decade.

Third, in order to help spur the clean energy economy of the future, a direction in which we must move, we eliminate fossil fuel subsidies, reducing the deficit by $40 billion over the next decade.

And finally, we have a freeze on nonsecurity discretionary, spending which reduces the deficit by $250 billion over the next decade. I note, that freeze is not across the board. We are investing more in education, in R&D, and in clean energy while reducing spending in other areas in order to achieve that overall freeze. I would also, perhaps during the question-and-answer period, like to address the claim about more than an 80 percent increase before the freeze was imposed.

Even with those steps, the out-year deficits are higher than we would like, which is why we are calling for a bipartisan fiscal commission to get us the rest of the way. It is very clear that in order to address our medium-term deficits we will need to act together. And that is the purpose of the bipartisan fiscal commission, to take the additional steps necessary to reduce our medium-term deficits to a sustainable level and thereby allow ongoing economic activity and avoid the harm associated with deficits that are too high.

Finally, let me just briefly point out that all of that has to do with our fiscal trajectory over the next decade. As you go out in decades beyond that, the key driver of our long-term deficit is the rate at which health care costs grow. And so I hope that we could come together to pass legislation that will help to not only improve quality and expand coverage, but reduce cost growth and reduce deficits over time in health care, because unless we do that, nothing else we do from a fiscal perspective will ultimately matter.

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 inviting me to testify this afternoon about the President's Fiscal Year 2011 Budget.

I come before you after a trying year for the Nation. One year ago, the economy seemed on the verge of a severe collapse, perhaps leading to a second Great Depression. Together with the Congress, the President worked aggressively to stabilize the financial system and bring the economy back from the brink. The worst now appears to be behind us. However, the country faces two significant and ongoing challenges: high unemployment and a medium- and long-term fiscal situation that will ultimately undermine future job creation and economic growth. It took years to create the current jobs gap and our budget deficits, and it is our responsibility to start addressing them without delay.

RESCUING AND REBUILDING THE ECONOMY

Let me start by reviewing where we have been.

A little more than a year ago, in the fourth quarter of 2008, real GDP was declining at a rate of more than 5 percent per year. In that quarter alone, household net worth fell by almost $5 trillion, dropping at a rate of 30 percent a year. In terms of employment, the fourth quarter saw a loss of 1.7 million jobs—the largest quarterly decline since the end of World War II and a number only to be exceeded by the next quarter when 2.1 million jobs were lost.

This bleak economic picture was reflected in the trillion dollar gap between how much the economy had the potential to produce and how much it was actually producing. Last year, for example, this output gap of roughly $1 trillion represented nearly 7 percent of the estimated potential output of the economy. This "GDP gap" motivated enactment of the American Recovery and Reinvestment Act (the Recovery Act) just 28 days after we took office, to start filling this hole and jumpstart the economy.

The Recovery Act contains three parts. Approximately one-third is dedicated to tax cuts for small businesses and 95 percent of working families. Another third goes toward emergency relief for those who have borne the brunt of the recession. For example, more than 17 million Americans have benefited from extended or increased unemployment benefits, and health insurance was made 65 percent less expensive for laid-off workers and their families relying on COBRA. In addition, aid to State, tribal, and local governments has helped them to close budget shortfalls, saving the jobs of hundreds of thousands of teachers, firefighters, and police officers.

The final third of the Recovery Act is devoted to investments to create jobs, spur economic activity, and lay the foundation for future sustained growth.

Over the past year, the evidence suggests that the Recovery Act has made a substantial difference. Estimates—from the Council of Economic Advisers, as well as respected private forecasters such as Goldman Sachs and Mark Zandi of Moody's Economy.com—suggest that the legislation added roughly three percentage points to economic activity in the third quarter. The result is that, as 2010 opens, the U.S. economy is back from the brink. Financial markets are far more stable, and real GDP is expanding.

Although real GDP growth has turned positive, American businesses were still shedding jobs in the third and fourth quarters. The unemployment rate was 10.0 percent in December 2009, and there are 7 million fewer jobs than when the recession began in December 2007. While there are some early indicators of labor market improvement, such as rising productivity and the hiring of temporary workers, there is much left to do.

The increase in unemployment has had devastating effects on American families. Far too many workers who would rather be earning a paycheck are forced to accept unemployment, and are worrying about how to pay their mortgage, keep their health insurance, and continue to provide for their families while they try to find another job. As the President has said, the coming months will continue to be difficult ones for American workers, and, regardless of the GDP numbers, the recovery will not be real for most Americans until the job market turns around.

This is why, in the short term, it is critical that we take steps to jumpstart job creation in the private sector. And that is why the Administration will work with Congress to implement a jobs creation package along the lines of what the President announced in December 2009. It should include:

- Help for small businesses to expand investment, hire workers, and access credit. Small businesses play a crucial role in a dynamic economy. The Administration is calling for expansions or extensions of Recovery Act tax relief for small businesses that will encourage investment and job growth, along with a new, short-term tax incentive to encourage small business hiring and support employment. More than 1 million small businesses will receive a tax cut from this latter proposal, which will extend a $5,000 tax credit to small businesses for every new job they add in 2010 and will also reimburse them for the Social Security payroll taxes they pay on real increases in their payrolls this year.
- Investments in America's roads, bridges, and infrastructure. The Administration is also calling for new investments in a wide range of infrastructure, designed to get out the door as quickly as possible and continue a sustained effort at creating jobs and improving America's productivity. And we support financing infrastructure investments in new ways, allowing projects to be selected on merit, as was done through the Recovery Act's TIGER program, and leveraging money with a combination of grants and loans.
- Investments in energy efficiency and clean energy. The Administration is seeking a new program to provide rebates for consumers who make energy efficiency retrofits; such a program will harness the power of the private sector to help drive consumers to make cost-saving investments in their homes. We are also calling for expansion of successful, oversubscribed Recovery Act programs to leverage private investment in energy efficiency and create clean energy manufacturing jobs.

In addition to these priority investments, the Administration supports immediate steps to lend additional help to those most affected by the recession. The Budget therefore proposes to extend emergency assistance to seniors and families with children, unemployment insurance benefits, COBRA tax credits, and relief to States, Indian tribes, and localities to prevent layoffs. And the Budget also extends tax relief to 95 percent of working families through an additional year of the Making Work Pay tax credit.

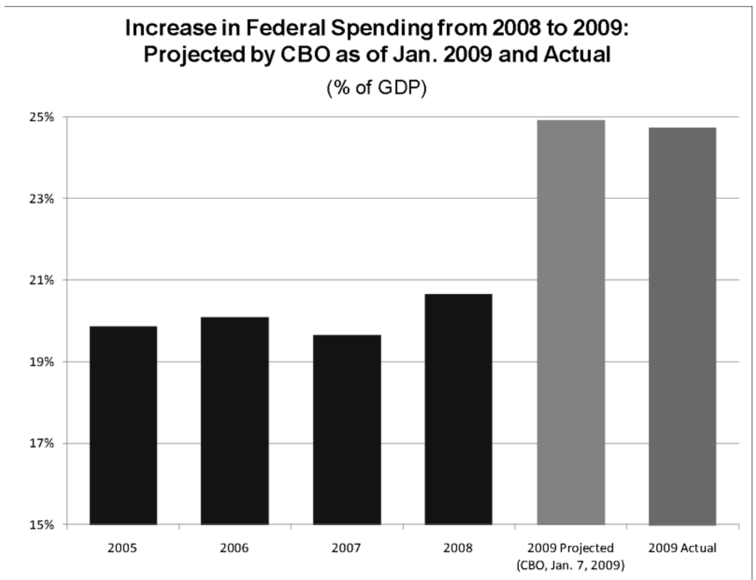
RESTORING FISCAL DISCIPLINE

Unfortunately, we face not just this jobs deficit but also a substantial fiscal deficit. On the day the Administration took office, the budget deficit for 2009 stood at $1.3 trillion, or 9.2 percent of GDP—higher than in any year since World War II. And, over the following ten years, projected deficits totaled $8 trillion.

Short-term deficits

The deficit increased substantially in fiscal year 2009, which began on October 1, 2008. Given the depth of the economic downturn in late 2008, an increase in the deficit as we entered 2009 was to be expected—and, indeed, such an increase was temporarily desirable because it increased aggregate demand in the economy. (During a recession, 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 beneficial to help put the economy back on track.) The increase in the deficit during 2009 reflected a decline in revenue and an increase in spending, both of which were primarily linked to the economic downturn and both of which were already apparent before the Administration took office.

For example, on January 7, 2009, the Congressional Budget Office (CBO) issued its Economic and Budget Outlook for Fiscal Years 2009-2019. In that document, CBO projected that government spending would rise from 20.9 percent of GDP in fiscal year 2008 to 24.9 percent of GDP in fiscal year 2009. In reality, government spending in fiscal year 2009 turned out to be roughly what had been predicted a year earlier (24.7 percent), according to CBO's updated Economic and Budget Outlook issued in January of this year. (The mix of spending was slightly different from what CBO had initially projected, with somewhat lower mandatory spending and somewhat higher discretionary spending as a share of the economy.)



Medium-term deficits

In addition to the 2009 deficit, the Administration also inherited an $8 trillion ten-year deficit. Even these figures, moreover, understate the fiscal shortfall the Administration actually inherited for the next decade. As of last winter, the depth of the current recession was not yet fully apparent. Since we released our Budget overview last February, the deterioration in our economic and technical assumptions added another $2 trillion to the deficit through 2019, as it became clear that we were in the midst of the worst recession since the Great Depression.

As a result, without changes in policy, deficits would total $10.6 trillion over the next ten years—and would fall from their current levels to an average of about 5 percent of GDP in the second half of the decade.

This unsustainable starting point largely reflects three factors: a failure to pay for policies in the past, the impact of the economic downturn, and the steps we took to mitigate that downturn.

- More than half of these deficits can be linked to the previous Administration's failure to pay for the 2001/2003 tax cuts and the prescription drug bill. Over the next ten years, these two unpaid-for policies are slated to add $5.8 trillion to the deficit, including interest expense on the additional associated debt. Put differently, if these two policies had been paid for, projected deficits—without any further deficit reduction—would be about 2 percent of GDP per year by the middle of the decade, and we would have been on a sustainable medium-term fiscal course.
- The recession that began in December 2007 also adds considerably to the projected deficits. When the economy enters a recession, the Federal Government's receipts automatically fall and the costs for certain programs, such as unemployment

insurance, automatically rise. Over the next ten years, these automatic stabilizers are projected to add about $2.4 trillion to the deficit, including interest expense.

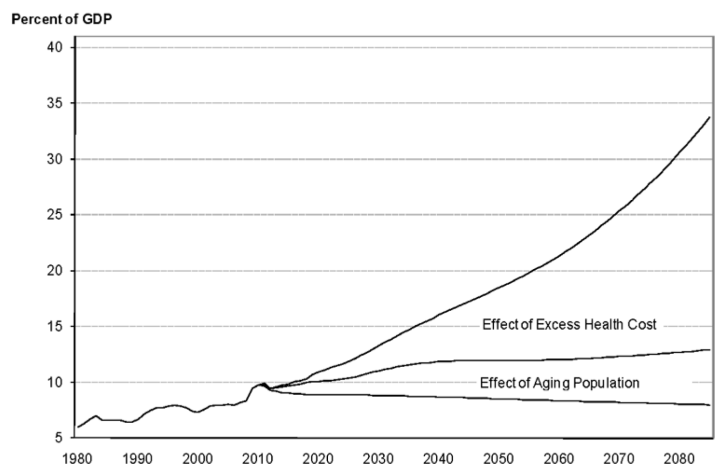
- Finally, it is worth noting that the Recovery Act—which, as discussed, has been key to restoring economic growth—plays a relatively small role in the projected deficits compared to these other costs. Over the next ten years, the deficit impact of the Recovery Act is less than one-tenth the size of the costs associated with 2001/2003 tax cuts, the prescription drug bill, and the automatic effects of the recession on the Federal budget.

Summed together, this fiscal legacy—the unpaid-for 2001/2003 tax cuts and prescription drug bill, as well as the worst recession since the Great Depression and our necessary response to it—accounts for $9 trillion of the projected deficits under current policies. They are the reason that our medium-term deficits are on an unsustainable course.

Long-term deficits

As our horizon extends beyond the next decade, the role of health care costs in driving our budget deficits becomes more prominent. The figure below shows the projected growth of Medicare, Medicaid, and Social Security spending over the next 75-years, assuming historical excess cost growth continues. This illustrates that we are on an unsustainable path. Within the next half century, spending on these three programs is projected to exceed 20 percent of GDP, more than double their current share of the economy. The fact remains that we cannot close the long-term fiscal shortfall without slowing the rate of health care cost growth. Reducing excess cost growth by 15 basis points (0.15 percentage points) generates more savings than closing the entire Social Security deficit over the next 75 years.

Sources of Projected Growth in Medicare, Medicaid, and Social Security



Policies to Reduce the Deficit and Restore Responsibility

That is how these projected deficits over the next decade arose and how our long-term fiscal future is dominated by health care costs. But whatever their cause, our future prosperity may be threatened if we do not address our medium- and long-term fiscal trajectory. So what are we doing?

First, we have already taken action to ensure that we do not make the hole any deeper. The Administration proposed and Congress is on the verge of enacting statutory pay-as-you-go (PAYGO) legislation. PAYGO forces us to live by a simple but important principle: Congress can only spend a dollar on an entitlement increase or tax cut if it saves a dollar elsewhere. In the 1990s, statutory PAYGO encouraged the tough choices that helped move the Government from large deficits to surpluses, and it can do the same today. To repeat what I have already said, the failure of the previous administration to abide by the PAYGO principle accounts for over $5 trillion of our projected deficits. And, while both houses of Congress had already taken an important step toward righting our fiscal course by adopting congressional rules incorporating the PAYGO principle, enacting statutory PAYGO will strengthen enforcement and redouble our commitment.

The President's Budget represents another important step toward fiscal sustainability. The Budget reduces deficits by $1.2 trillion over the next 10 years—not including savings associated with our presumed ramp-down of operations in Iraq and Afghanistan. If those savings are included, deficit reduction under our Budget comes to $2.1 trillion. Furthermore, the President's Budget cuts the inherited deficit in half as a share of GDP by the end of the President's first term,

The deficit reduction steps include:

• Imposing a three-year freeze on non-security discretionary funding. Over the past year, a surge in Federal spending has helped to bolster macroeconomic demand, while also funding long-needed investments that are helping to build a new foundation for economic growth. But, as the economy recovers, we need to rebalance our spending priorities, as we transition from jumpstarting the economy to restoring fiscal sustainability. That is why the President's Budget proposes a three-year freeze in non-security discretionary funding (that is, discretionary funding outside of defense, homeland security, veterans affairs, and international affairs), with funding thereafter increasing roughly with inflation. The proposed freeze in non-security discretionary funding from 2010 to 2011 is well below the 5 percent average growth in such funding since the early 1990s. And over the next 10 years, this policy saves $250 billion relative to continuing the 2010 funding levels for these programs adjusted for inflation.

The non-security discretionary freeze allows some agency budgets to expand even while others are constrained, and expands some investments while curtailing others. Education, job training, and R&D provide vivid examples. Sound investments in education are crucial to building the skills and productivity of the Nation's current and future workers. Even while expanding funding overall and significantly expanding the successful Race to the Top competition, the President's Budget will eliminate 6 discretionary programs and consolidate 38 K-12 programs into 11 new initiatives that emphasize competition in allocating funds. This will give communities more choices around activities and hold grantees accountable for results.

And to keep Americans building new and competitive skills throughout their working lives, the Budget provides $19 billion for job training and employment programs Government-wide, a $1.1 billion, or 6 percent, increase from 2010. This level includes two new innovation funds that will test and evaluate new approaches to training disconnected youths, building regional partnerships, and supporting apprenticeships. The Budget will also support a ten-year extension of Trade Adjustment Act assistance for American workers who have lost their jobs due to imports or shifts in production overseas, and provide additional support for training in green jobs.

Similarly, R&D is a cornerstone of a thriving economy, and the Budget features $61.6 billion for civilian research and development—an increase of $3.7 billion, or 6.4 percent, over 2010 levels. But while continuing the commitment to double funding for three key basic research agencies—the National Science Foundation, the Department of Energy's Office of Science, and the National Institute of Standards and Technology—the Budget also eliminates programs that are not effectively achieving their goals. For example, the Budget cancels NASA's Constellation program, which was intended to return astronauts to the Moon by 2020, but has run severely behind schedule and over-budget. In place of Constellation, the Budget proposes to leverage international partnerships and commercial capabilities to set the stage for a revitalized human space flight program, while also accelerating work—constrained for years due to the budget demands of Constellation—on climate science, green aviation, science education, and other priorities.

• Requiring the financial services industry to fully pay back the costs of the Troubled Asset Relief Program (TARP). Assisting the financial services industry was necessary to prevent an even worse financial meltdown—and even greater repercussions throughout the entire economy. But this step rewarded firms that had taken excessive and unreasonable risks. While the Administration's sound management of the TARP program has caused its expected cost to fall by $224 billion since the 2010 Mid-Session Review to about $117 billion, shared responsibility requires that the largest financial firms pay back the taxpayer as a result of the extraordinary action taken. Congress recognized this when it wrote the legislation authorizing TARP by requiring the President to propose a way for the financial sector to pay the costs of the program. The Administration is therefore calling for a Financial Crisis Responsibility Fee on the largest Wall Street and financial firms that will last at least 10 years, but longer if necessary, to compensate the taxpayers fully for the extraordinary support—both direct and indirect—that they provided. This fee would be limited to financial firms with over $50 billion in assets. As it would be based on an institution's size and exposure to debt, it would also further the Administration's financial reform goals by encouraging firms to reduce their size and leverage—which were two major contributors to the financial crisis.

- Allowing the 2001-2003 tax cuts for households earning more than $250,000 to expire. The Budget proposes allowing most of the 2001/2003 tax cuts to expire in 2011, as scheduled, for those families making more than $250,000 ($200,000 for single individuals). The additional revenues gained would be devoted to deficit reduction. These tax cuts were unaffordable at the time they were enacted, and remain so today. The 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 save $678 billion over the next ten years relative to current policy.
- Limiting the rate at which itemized deductions can reduce tax liability to 28 percent for families with incomes over $250,000. Currently, if a middle-class family donates a dollar to its favorite charity or spends a dollar on mortgage interest, it gets a 15-cent tax deduction, but a millionaire who does the same enjoys a deduction that is more than twice as generous. By reducing this disparity and returning the high-income deduction to the same rates that were in place at the end of the Reagan Administration, the Budget raises $291 billion over the next decade.
- Eliminating funding for inefficient fossil fuel subsidies. As we work to create a clean energy economy, it is counterproductive to spend taxpayer dollars on incentives that run counter to this national priority. To further this goal and reduce the deficit, the Budget eliminates tax preferences and funding for programs that provide inefficient fossil fuel subsidies and undermine efforts to deal with carbon pollution. The Budget proposes eliminating 12 tax breaks for oil, gas, and coal companies, closing loopholes to raise nearly $39 billion over the next decade.

HEALTH INSURANCE REFORM

In addition to these specific policies to address the medium-term deficit, the Administration has also faced head-on the primary driver of our long-term fiscal shortfall—rising health care costs. Both the House and Senate health insurance reform legislation would not only reduce the deficit over the next decade as scored by the non-partisan CBO, but perhaps more importantly would create an infrastructure that would help to improve quality and constrain costs over the long term.

Both bills would aggressively test different approaches to delivering health care and move toward paying for quality rather than quantity. In the Recovery Act, we took steps toward greater quality at lower cost by making historic investments in health information technology and research into which treatments work and which do not. Comprehensive health insurance reform would build on these investments by providing tools and incentives for physicians, hospitals, and other providers to improve quality. For example, by bundling payments and establishing accountable care organizations, as well as by creating disincentives for dangerous and unnecessary re-admissions and health-facility acquired infections, physicians and hospitals will be induced to redesign their systems, coordinate care to keep people healthy, and avoid unnecessary complications

It is also vital that reform include a Medicare commission—composed of doctors and other health care experts—that can enable the health system to keep pace with innovation and the dynamic health care marketplace. The commission will help to make sure that reforming the health care system is not a one-time event, but rather an ongoing process over time, creating a continuous feedback loop where we generate more and better information about what is working in the health care delivery system and then rapidly bring those initiatives to scale. Lastly, reform should include an excise tax on the highest-cost insurance plans. The proposed tax on "Cadillac" health insurance plans will do more than help pay for reform; it will curtail the growth of private health insurance premiums—by providing employers with an incentive to seek higher-quality and lower-cost health benefits that will generate higher take-home pay for American workers and their families. In other words, the excise tax will help to slow health care cost growth and thereby also give Americans a pay raise.

Congress must now deliver on this promise of fiscally responsible health reform—the stakes are high, both for the millions of Americans who lack a stable source of health insurance coverage and for the fiscal wellbeing of the Nation itself. I echo the President's commitment last week to hear any and all ideas for a better approach to fiscally responsible health reform, and I also echo his challenge to Congress that it must not walk away from comprehensive reform with the finish line so near.

Taken together, the more than $1 trillion in deficit reduction proposed by our Budget represents an important step toward fiscal responsibility over the medium term, and the health legislation under consideration would help to reduce deficits over the longer term.

FISCAL COMMISSION

The President has now proposed two budgets that reduce outyear deficits. But the Administration is not yet satisfied. Even with this substantial deficit reduction, we will still face unsustainable medium- and long-term deficits.

The only way to solve the remainder of our fiscal challenge is to solve it in a bipartisan fashion. That's why the President has called for the creation of a bipartisan Fiscal Commission to identify policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run.

Specifically, in addition to addressing our long-term fiscal imbalance, the Commission is charged with balancing the budget excluding interest payments on the debt by 2015. This result is projected to stabilize the debt-to-GDP ratio at an acceptable level once the economy recovers. The magnitude and timing of the policy measures necessary to achieve this goal are subject to considerable uncertainty and will depend on the evolution of the economy. In addition, the Commission will examine policies to meaningfully improve the long-run fiscal outlook, including changes to address the growth of entitlement spending and the gap between the projected revenues and expenditures of the Federal Government.

CONCLUSION

The policies we have enacted in the last year and those proposed in the President's Budget seek to restore economic and fiscal health after years of poor decisions. While we have much work left to do to accomplish this goal, our economic freefall has been stopped; financial markets have calmed; and the Recovery Act returned our economy to growth in the third quarter of last year. On the fiscal front, the President's Budget puts on the table more than $1 trillion in deficit reduction over the next ten years by imposing historic restraint on the growth of non-security discretionary funding and restoring fairness and balance to the tax code.

These are key steps forward, but they are not enough. Although the rate of job loss has slowed dramatically, job gain has not yet begun, and the Administration will not be satisfied until the many Americans seeking work can find it. Moreover, while our Budget significantly reduces projected deficits, they remain undesirably high.

The Administration is committed to addressing these challenges facing our Nation, and I look forward to working with you in the weeks and months ahead to do so.

Chairman SPRATT. Mr. Orszag, as I understand your presentation, the economy is assumed to grow at a rate of 4 percent, on average, for the first 5 years. Some commentators have noted this and commented that it is optimistic and blue sky-ish. How do you respond to that? How did you derive the 4 percentage point growth factor in developing this budget?

Mr. ORSZAG. The first thing I would say is, for those who are interested in the specific economic assumptions, they are contained in table S-13 of the budget. And basically they were developed at the end of 2009 under the leadership of the Council of Economic Advisors. At the time, they were fully in line with the Blue Chip—that is the private sector forecasters—consensus on the path for the economy. So there is a much more sophisticated process involved, but one of the benchmarks that we were using was to make sure we were lining up with the Blue Chip consensus at the time.

Chairman SPRATT. Would you describe it as conservative or liberal or——

Mr. ORSZAG. I think it is straight down the middle of the plate.

Chairman SPRATT. As you look at the projection of deficits over the next 10 years, the deficit is indeed cut in half from $1.556 trillion in 2011 to $727 billion in 2013, 2014. After that period of time, it hovers in the range of $720 billion to $780 billion, until about 2019 when it takes a decided uptick. So rather than seeing a continual downward trajectory in the far out-years, there is an uptick in the budget. What causes that, and is that something you are satisfied with?

Mr. ORSZAG. First, one of the reasons we are calling for a fiscal commission is we are not satisfied with the deficit numbers out in 2018 and 2019, and thereafter.

Second, the underlying driver there is basically two things: One is ongoing increases in Medicare, Medicaid, and Social Security costs because of the aging of the population and rising health care costs; and then also, rising debt as a share of the economy, imposing additional interest payments which then feeds into the deficit and causes that slight uptick towards the end of the decade.

The reason that we believe there are additional steps necessary and why a fiscal commission is imperative is that we need to get the deficit down before that, stabilize debt as a share of the economy, and avoid that uptick towards the end of the decade and thereafter.

Chairman SPRATT. One final question. My good friend, the ranking member, has written something recently called "The Road Map to Our Future."

Mr. RYAN. Something like that.

Mr. ORSZAG. "Road Map 2.O," I believe.

Chairman SPRATT. It is his contribution, which I respect. It is a solid piece of work if you happen to agree with the premises. If not, it is not exactly something I would endorse. But nevertheless, it is an earnest piece of work.

Mr. RYAN. Can I put you down as a cosponsor?

Chairman SPRATT. No, I wouldn't put me down as a cosponsor yet; I haven't finished it.

But I did see represented in the Wall Street Journal and other places. Have you had an opportunity to look at that, and do you regard this as a viable alternative to the situation we are in today?

Mr. ORSZAG. Well, I have had an opportunity to review it. The Congressional Budget Office has had an opportunity to review it. I think it is a serious proposal. It does address our long-term fiscal problem. It does so in a way that I think many policymakers might find objectionable. It do so by—the key driver is what it does, in particular, to Medicare. And there, for those who are currently 55 or younger, it will take the Medicare program and instead of providing the existing benefit structure, instead provide a voucher, which whatever its other effects will shift risk onto beneficiaries. And then the voucher increases at a much slower rate than health care costs, which means that you are also shifting expected costs onto beneficiaries, the net result of which is that, by the end of the CBO analysis period, Medicare and Medicaid have been reduced by more than 75 percent compared to their current trajectory, at the cost of shifting a lot of risk and expected costs onto individuals and their families.

There are other changes to. It changes the—it eliminates the tax benefit for employer-sponsored insurance. It introduces individual accounts into Social Security. It has fairly significant changes to the Tax Code, which will shift the tax burden down the income distribution and so on and so forth.

But since the author of the plan is sitting right next to you, perhaps I should defer to him to describe it.

Chairman SPRATT. In that connection, I now yield to recognize Mr. Ryan.

Mr. RYAN. All right. That is a lot.

I guess I am answering the questions now instead of asking them.

First of all, I thought it was important that we get off pointing fingers at each other and start putting plans out there so we can talk about how to solve this problem.

We pretty much all agree what the problem is here. I think we can probably even get agreement as to the size and the magnitude of the problem, given that we use the CBO, GAO and other nonpartisan fiscal authorities.

What we are proposing—what I am proposing, and some of my colleagues are proposing—is, look, let's tell current seniors, we are not going to mess with your benefit; you have already organized your lives around them. So that is why we are saying, people 55 and above, no changes. That is quite different than the health care bill moving through Congress right now. That takes roughly $400 billion out of today's Medicare from today's seniors to put into the creation of a new entitlement.

We are saying, let's not knock 86 percent of the people off Medicare Advantage. We are saying, let's tell those current seniors in Social Security and Medicare, your benefits are going to stay the same, but we know that the future is totally unsustainable.

And Dr. Orszag, just a quick answer if you could, you would agree that the spending in Medicare is on an unsustainable path, would you not?

Mr. ORSZAG. Yes, I would agree. And we have different solutions.

Mr. RYAN. And we will get into this. Absolutely, absolutely. The point we are making is, let's give younger people the chance to have the ability to plan for their future, and let's use our values that we have had consensus in society in how we approach it. A safety net for low income. Full support for low-income people. As people get sicker, they get more support. And don't subsidize wealthy people as much as we subsidize everybody else.

For Social Security, the same thing; don't increase benefits as fast as you do for wealthier people who can afford it on their own, and give younger people the opportunity, if they so choose to have it, of having a system like that which we here in Congress have. This system looks a lot like the system we have for our own health care for our families and our own savings for our retirement.

On the tax exclusion, I would simply say, most economists—and there is lots of talk about economic consensus. I would disagree with the consensus on stimulus, but I think most people would agree that the tax exclusion is not very good policy. It was written in World War II at a time when people had the same job throughout all of their lives. It is not the way the world works today. People change jobs all the time. They get out of work. They go work for themselves.

So why don't we end the discrimination of tax policy against people who don't get health care from their jobs? Let's give them the same benefit everybody else gets. So de-link that tax benefit from the job, which is changing all the time, and reattach it to the person, so that if they lose their jobs, they keep their tax benefit. If they change jobs, they keep their tax benefit. If they go work for themselves, they keep their tax benefit.

At the end of the day, what we are trying to do here is attack the root cause of health inflation, bring that down. And really, at the end of the day, I think the philosophical differences we have will probably be evidenced in the different approaches we take.

We simply believe the nucleus of our economy and society is the individual, not the government. And we believe we ought to have a safety net to help those people who cannot help themselves, to help people who are temporarily down on their luck, but we don't want to turn that safety net into a hammock that lulls able-bodied Americans into lives of complacency and dependency on the government. We want to give people access to equal opportunity so that they can make the most of their lives and reach their potential. That in a nutshell is the thinking behind the plan that I have been offering.

With all of that, and I appreciate the indulgence of the chairman, is it okay if I do my questioning time, or are you done?

I will give you a couple of brief questions, because I took a lot of time.

You agree that Medicare is growing too fast. It grows at 5 percent annually, which is 1.5 percent faster than the economy is projected to grow. That can't be sustained. You agree with that.

Mr. ORSZAG. I agree with that.

Mr. RYAN. So CBO is now telling us, with this new health care bill that is moving through Congress—and I don't know if it is going to pass or what is going to happen—but the most recent report we got from CBO says that this thing, this new entitlement grows at 8 percent, but the provisions being used to pay for it only grow at 5 percent. The Medicare savings and the tax changes grow at 5 percent versus 8 percent, so aren't we already locking in a new entitlement on top of these other unfunded liabilities we have that already is on a dangerous trajectory with respect to the resources being used to pay for it?

Mr. ORSZAG. I am not sure what CBO analysis you are referring to. The ones that I have seen suggest that the health legislation, both in the House and Senate, would not only reduce the deficit over the next decade but more—just as importantly, reduce the deficit in the decades thereafter. And that is because you have the deficit-reducing parts growing relative to the other components of the legislation.

And I would also note, just with regard to the underlying issue, that the legislation not only does that, but it puts in place an infrastructure where better information would be available, which presumably, even under your approach, you would want individuals to have, because in many cases now, individuals don't have the information that would allow them to make better choices. And that is just one example. There are a whole series of other structural changes that are crucial, regardless of how you want to move forward on overall health care.

Mr. RYAN. Well, assuming that I am quoting CBO accurately, growing a spending entitlement program at 8 percent and only paying for it with pay-fors that grow at 5 percent creates a problem.

Mr. ORSZAG. Yes, that would show up as a gap in the second decade. And we have been clear that we want deficit reduction in the first decade and then improving thereafter. So that would violate that principle.

Mr. RYAN. I am going to have a letter I want to send you about the allowance for health care reform. I won't get technical with you now. I will send you a letter, if you could get the response to that.

Last November, you stated, in the medium term, out in 2015, 2016, 2017, we need to get something around 3 percent of the economy, so that debt is no longer rising as a share of the economy. You went on to say how the credibility of the budget was at stake. Am I missing something?

The President's budget doesn't meet this standard. Why did the President submit a budget that does not meet the standard that you had laid out for a credible budget?

Mr. ORSZAG. Well, it does meet the standard, including the recommendations of the fiscal commission. We put forward specific proposals to get to about 4 percent, and then we said a bipartisan process is necessary. Now, you have put forward some ideas; those can be fed into the commission. I am hopeful that there will be other ideas.

Mr. RYAN. So minus the commission, it doesn't meet the standard.

Mr. ORSZAG. Correct.

Mr. RYAN. Okay. One last thing.

We will disagree on the levels of discretionary spending, absolutely. Let's not get into that. What about statutory caps? I mean, why not call for creating statutory discretionary caps to lock in whatever level it is that you want to achieve?

Mr. ORSZAG. We believe the regular congressional process through the 302(a) and 302(b)——

Mr. RYAN. Hasn't worked too well.

Mr. ORSZAG [continuing]. Is sufficient, but if you would like to explore strengthening that, that is a discussion we are open to.

Mr. RYAN. And I mentioned this to the President on Friday. It is short notice, so I don't expect much of an issue, but have you given any thought to the constitutional version of a line item veto, kind of giving you the scalpel you need to go after—sort of like an enhanced rescission procedure? Have you given any thought to that proposal?

Mr. ORSZAG. We are in favor of any constitutionally valid approach to eliminating unnecessary spending.

Mr. RYAN. So I will take that as a yes.

Mr. ORSZAG. I am going to repeat my answer.

Mr. RYAN. Okay. Thank you, Peter.

Chairman SPRATT. Mrs. Schwartz.

Ms. SCHWARTZ. Thank you for your testimony and for the fact that the administration is taking very seriously what is actually a difficult, I would say, balance that has to be struck this year in responding to and continuing to respond to the importance of economic growth and do what we can to stimulate the private sector to grow jobs and revitalize this economy, and of course respecting what we inherited, what the administration inherited a year ago, was pretty dismal; 741,000 jobs lost last January in contrast to 64,000.

While we are not happy with that job loss, we are not happy with any job loss, that certainly is a much better trend, as the President has talked about. And I appreciate the fact that you have really put forward the importance of making some investments for the future as we also are stimulating particularly small business job growth. I really appreciate some of the proposals from the administration.

I did want to follow up on some of the discussions about health care. And I want to see whether we can talk about this in a way that might be more comprehensible to everyone listening, if anyone is, because I think while we can and we should get into some of the budget terminology, the fact is that there is a very significant contrast between what has been proposed by the administration, by the Democratic Congress in tackling health care costs into the future, and the Republican alternatives.

Now, I realize that all the Republicans may not be on the same page, but Mr. Ryan, for his presentation here, really gives us an opportunity to really say—to really talk about the contrasts that we are seeing in terms of the health care reform legislation that we have been working on for a number of months and continue to work on being important, not only to improving access to health coverage for all Americans and containing costs for businesses, helping them to be able to be more economically competitive, and adding new employees because their health costs will go down over time, but also making it very clear, moving us in the direction of deficit reduction for the Federal budget.

Both of the proposals, the Senate and the House, have both received scoring reduction in the deficit going forward of over $100 billion and potentially more, as we look at the proposal for the budget and deficit reduction commission, which we believe the President will do through executive order.

But what Mr. Ryan is suggesting and has proposed—and I assume many of his colleagues have endorsed—is actually ending Medicare as we know it for future seniors.

Mr. RYAN. Will the gentlelady yield?

Ms. SCHWARTZ. No. I think, in fact, you have been able to give a really good speech here. I only have 2 more minutes, so let me just say that it really is offering a voucher to future seniors, basically saying, here is a voucher, go and use your individual clout with the insurance industry to be able to buy insurance for yourself. It doesn't matter how sick you are.

It doesn't matter—it also does end employer-based health insurance, which many Americans—in fact, most Americans get their health insurance through their employer.

Mr. RYAN. That is just not the case. Would you yield? That is just not the case.

Ms. SCHWARTZ. You have pointed out that the tax advantages for employers providing health insurance will——

Mr. RYAN. No, that is not correct. Employers can continue to deduct off their taxes; it is for the individual.

Ms. SCHWARTZ. It is for the individual. It ends employers being able to do it. It moves all of this to individuals.

Now, I think that that is a philosophical difference, an ideological difference to believe that individuals, whether they are seniors with serious medical conditions or whether they are actually employed workers across this country, you are really putting a couple hundred million Americans on their own to negotiate for the best price and best coverage they possibly can. Now, that is a very different philosophy.

But we have heard, many of us, in town hall meetings, et cetera, that seniors want to keep their Medicare, and those who are employed who have coverage would like more consumer protections in their coverage but in fact don't want to see that coverage go away.

So could you elaborate a little bit more on how important it is for us to move ahead in a way that does really address the major issues facing both American businesses and American families and our seniors and our budget to move ahead on comprehensive health care reform that would in fact address the real concerns, which is containing the rate of growth and cost for all of us, again, individuals, family, businesses and the Federal Government?

Mr. ORSZAG. Sure. And maybe it would actually just clarify things, and I think Mr. Ryan wouldn't object if I just read from the CBO letter about his plan because I think it just crystallizes the shift, both the pros and the cons, when CBO wrote that both the level of expected Federal spending on Medicare and uncertainty surrounding that spending would decline, but enrollee spending for health care and uncertainty surrounding that spending would increase. So what would be involved, I think Mr. Ryan would agree, is a shift of both risk and expected cost to individuals, and the results would be as CBO said.

Ms. SCHWARTZ. So it would save the Federal Government money, but it would all shift to the individual.

Mr. ORSZAG. Sure.

Ms. SCHWARTZ. All right. Thank you very much.

Chairman SPRATT. Mr. Ryan, did you want to comment?

Mr. RYAN. Just one thing.

I think that CBO letter also says that our health care reform gives more additional support to lower-income people than we currently do.

It does not remove the tax deduction for employers to offer health insurance to their employees. Employers can still deduct off of their taxes provision of health insurance for their employees. It is the employee tax benefit that goes from the job to the employee. It is a very confusing issue. I just want to make should that when we debate this, we are using facts.

Thank you.

Chairman SPRATT. Mr. Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman.

Welcome, Dr. Orszag. This is not personal to you, since I have a great amount of respect for your budget acumen and your integrity, but this is a breathtaking document.

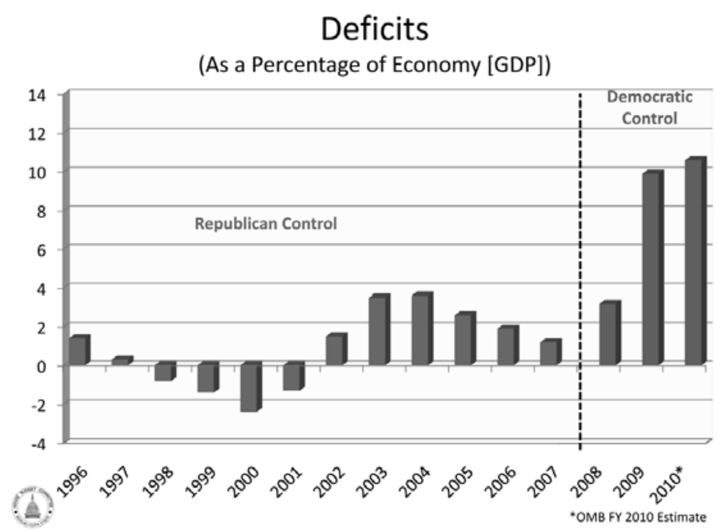
It is historic levels of debt. It is historic levels of deficit. It is historic levels of taxation. It is simply breathtaking. And I fear that the actions of this administration, if undertaken by this Congress, will simply bankrupt this Nation. I fear, I fear this budget document.

Now, Dr. Orszag, I had, I guess, my second opportunity to speak to the President on Friday. And if you would please relay to the President, I thought it spoke exceedingly well of him, to his leadership and his character, that he would come and speak to House Republicans.

In my exchange with the President, I laid out some facts. I guess, to put it politely, he pushed back on them. And I asked him a question that he declined to answer.

For the record, I said, the last Republican budget did not grow government beyond 20 percent of GDP, immediately froze non-defense discretionary spending, and spent $5 trillion less. For the record, the administration can go to the Budget Committee Web site, pages 49 and 39, and verify that in your own table, S-1, for your last budget to get the $5 trillion differential.

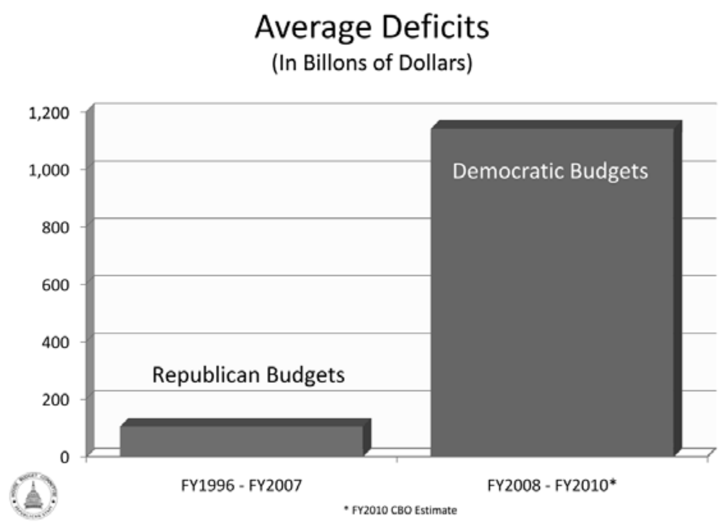
I also asserted that what were once old annual deficits under Republicans have now become monthly deficits under Democrats. Can you pull up chart seven, please?



Now, I don't want to spend a lot of talk looking backwards, but I continue to hear from my friends on the other side of the aisle that Republicans spent too much; Republicans created these deficits.

Guess what? We share the guilt. Yes. We ran up deficits. I am embarrassed about them. I regret them.

But as an order of magnitude, what we see, if you will go to chart eight, please, that the average deficit when Republicans controlled the purse strings was $104 billion. The average deficit when Democrats have controlled the purse strings, $1.1 trillion.



So I would submit, Dr. Orszag, to the extent that you inherited a bad budget deficit, you inherited it from a Democratic Congress, and I believe you are making it far, far worse.

Chairman SPRATT. Let the witness answer the question——

Mr. ORSZAG. And I am not sure there was a question, but I would be delighted to answer it anyway.

Mr. HENSARLING. I am sorry, Mr. Chairman, is the clock not working? Will it work now?

Mr. ORSZAG. I am confused. Would you like me to respond to that?

Chairman SPRATT. I am going to cut you off at a minute and a half.

Mr. HENSARLING. Thank you, Mr. Chairman.

Mr. ORSZAG. I am not sure there was a question.

Mr. HENSARLING. We are getting to the question, Mr. Chairman.

Mr. ORSZAG. I would like to respond to it, but I will let you ask your question.

Mr. HENSARLING. Well, to the extent I have any time, Dr. Orszag, I am happy to have you put this in context.

The question I asked the President was, will that new budget, like your old budget, triple the national debt and continue us down the path of increasing the cost of government to almost 25 percent of the economy? Again, table S-1 of this budget you have now presented shows that debt held by the public is said to rise from $5.8 trillion in fiscal year 2008 to $18.5 trillion in fiscal year 2020, which is three times larger. So perhaps the President misunderstood what I said. If not, I believe he was mistaken, so I will certainly provide you with these citations.

But Dr. Orszag, since the President decided to push back on my assertions, I have some other assertions I would like to share with you that you can talk about.

Now this is from CNBC today, "The deficit for this year would be 10.6 percent of the total economy, a figure unmatched since the country was emerging from World War II."

This is from the New York Times yesterday. "The budget projects that the deficit will peek at nearly $1.6 trillion in the current fiscal year, a post-World War II record."

CNN, "They are not calling it 'stimulus two,' but the Obama administration wants to extend the life of several Recovery Act provisions by building them into the Federal budget." CNN yesterday.

Reuters, "Even if all goes according to plan, the White House still forecasts U.S. public debt rising above 71 percent of GDP by 2013, up from 53 percent in 2009, levels that could spook investors."

Today's Wall Street Journal, "All of this spending must be financed, and so deficits and taxes are both scheduled to rise to record levels." Also in the Journal, "As a share of the economy, outlays will reach a post World War II record of 25.4 percent this year. This is a new modern spending landmark."

So if the administration pushes back on my assertions, do you wish to push back on the assertions of the New York Times, CNBC, Wall Street Journal and Reuters?

Mr. ORSZAG. Well, I think actually doing so is the same thing. Could I put up your chart of the deficits again for a second because I think this is important? So let's go back to your——

Ms. MCCOLLUM. Mr. Chair, point of personal privilege. Could I ask who prepared those charts because I can't read on the bottom, and I always like to know where the numbers are coming from?

Mr. HENSARLING. Minority staff.

Ms. MCCOLLUM. Minority staff, so they are Republican documents. Thank you.

Mr. RYAN. The chart is using CBO actual numbers. Minority staff prepared the chart using CBO actual numbers.

Mr. ORSZAG. Here is the key point, that increase in the deficit that you see there is the result of the economic downturn and of policies that were already in place under—while you were in control of the Congress. And in particular, if you take the projected deficits of $8 trillion—again, I am going to repeat, they reflect not paying for the 2001 and 2003 tax legislation and not paying for the Medicare prescription drug benefit and the economic downturn. So saying that this is the responsibility of the administration or of the Democratic Congress is like a guy who ran up a credit card bill, left before the credit card bill arrived in the mailbox, and then the new homeowner is there, and you are saying, you ran up the credit card.

Mr. HENSARLING. I am happy to hear your context and explanation, but what I don't hear is that you deny the facts.

Mr. ORSZAG. It is correct that the deficit is now higher than it was in 2007, yes.

Mr. HENSARLING. Thank you, Mr. Chairman.

Thank you, Dr. Orszag.

Chairman SPRATT. Ms. Kaptur.

Ms. KAPTUR. Mr. Chairman, I am going to give my first 15 seconds to yield to Mr. Doggett.

Mr. DOGGETT. Could we get your other chart back up there, Mr. Hensarling, that shows the Democratic and Republican control?

Yes, sir, that one. I don't fault you for wanting to give us 8 years of Bush and your claiming 4 years of Clinton, but that is all that that chart shows.

Mr. HENSARLING. Would the gentleman yield?

Mr. DOGGETT. If I have a few seconds left.

Mr. HENSARLING. Well, I am under the impression that it is Congress that controls the purse strings, and seeing how we both sit on this committee, I would think we would both know that.

Mr. DOGGETT. Again, I understand you want to burden us with 8 years of Bush which the country has been burdened with and the most irresponsible policies imaginable, and you want to claim the only balanced budget we have had in 50 years, which came under President Clinton's policies. That chart says more about what we face in trying to put together a budget than it does anything about the history of Democratic and Republican control.

Ms. KAPTUR. Reclaiming my time, I thank the gentleman very much for clarifying that.

Dr. Orszag, could you tell me, did President Bush ever submit a balanced budget to Congress in his 8 years in office?

Mr. ORSZAG. I don't believe so. But what I know for a fact is that he never proposed a budget that reduced the deficit like this budget does.

Ms. KAPTUR. Yes. I don't believe he ever produced a balanced budget in two terms in office.

Do you have numbers available, the total amount of accumulated debt at the end of his term?

Mr. ORSZAG. Yes. If you look at the historical table——

Ms. KAPTUR. Would you read that into the record, please?

Mr. ORSZAG. It will take me a second.

Ms. KAPTUR. And while you are looking, if you have the total war costs that he placed on the long-term debt, I would appreciate that.

Mr. ORSZAG. And I can give you that. The total war costs are now in the range of $1 trillion and, again, involve costs of roughly $160 billion a year at this point.

To answer your question on debt held by the public at the end of fiscal year 2009, that was $6.8 trillion.

Ms. KAPTUR. $6.8 trillion.

Mr. ORSZAG. Now, there is a question about exactly—let me give you, the end of fiscal year 2008 was $5.3 trillion.

Ms. KAPTUR. All right. I know one thing, until people go back to work, nobody's budget is balanced, including the family budget, the local school budget, the mayor's budget, the city budgets, the State budgets around this country. So let me ask you, at the end of the Bush Presidency, how many jobs were being lost per month?

Mr. ORSZAG. Roughly 700,000.

Ms. KAPTUR. All right. Over 700,000 jobs a month. And I come from one of those areas that was hit in the solar plexus.

How many jobs are being lost today after only 1 year of the Obama administration?

Mr. ORSZAG. Well, we will have new information on Friday, but well under 100,000, and hopefully, we are getting closer to zero. Most private-sector forecasters believe that by sometime this spring, we will be experiencing positive employment growth.

Ms. KAPTUR. Yes . That is an enormous turning around of the ship of state. I can tell you, in my district, what has happened is that people are buying lottery tickets in Ohio because the situation still remains bleak, but for two positions that were open in our corner of the State, 4,000 people applied. People want to work. The work ethic is still out there. And I have a hunch that this year it is going to get better, but the public is still hurting a lot.

Let me ask you, in terms of the job proposals you are proposing to us, which do you view as being the most effective in helping people move back to work? As you look at the range of jobs proposals, we never had any jobs proposals from the Bush administration. They just moved more of our jobs offshore; more people got thrown out of work. Which proposals are you making that have the greatest hope for our people?

Mr. ORSZAG. Let me just identify a few that the Congressional Budget Office has identified as being the highest bang for the buck in terms of employment effects. They include extending unemployment insurance benefits, which the administration proposes, and they include things like a tax break for firms that increase their payroll in line with our new wages and jobs tax credit, which is intended to spur hiring among small businesses.

Ms. KAPTUR. And you have some infrastructure proposals, I believe, in your budget.

Mr. ORSZAG. We do and we will, yes.

Ms. KAPTUR. And we know that those actually get the most bang for the buck in terms of what they return to the public, those individuals working, as well as to the taxpayer, because those are long-term, wealth-creation jobs. So I would just encourage you to do what you can there for the workforce and get something of lasting value for the American people. And I thank you so much for clarifying all those figures for the record.

Chairman SPRATT. Mr. Simpson.

Mr. SIMPSON. Thank you, Mr. Chairman.

Welcome, Dr. Orszag.

I guess if anybody wants to understand what the problem in Washington, D.C., is, all they need to do is listen to the debate that has gone on here the first little while, pointing fingers and trying to decide who is to blame for what. The reality is, is that the American people don't care who is to blame. What they want is the problem solved.

And I don't think it does any good to point at Bush or to point at this administration and say, this is that, and whatever.

And I am glad for the health care debate. I wish we would have had this health care debate on the floor, actually. It would have been a good debate. Unfortunately, we were denied any debate on the health care bill on the floor, or any alternatives.

So we need to get back to trying to solve the problems in this country. And while I think this budget is a problem in terms of long-term fiscal responsibility of this country, what the American people are saying is that, what you need to do up there is to quit spending money.

It is really that simple, quit spending money. They are saying, return the unspent funds from the stimulus package to the Treasury and pay down the debt. They are saying, quit taking the money that came back in TARP and using it to fund new programs; do what it was originally intended to do, and that is pay pack the Treasury for the money that was spent on TARP.

And it doesn't seem like the administration seems to have gotten this message.

And I know that you are in a difficult position. This is a tough time for all of us.

There are parts of this budget that I agree with; parts of it that I disagree with, obviously.

We have heard a lot about statutory PAYGO. Statutory PAYGO only means anything if you follow it. After the great rhetoric that was put out about, we are going to have statutory PAYGO, and we have enacted statutory PAYGO; the first year we enacted it, you exempted $412 billion of spending from PAYGO rules.

So if you put in statutory PAYGO, you better be willing to live with it and quit exempting it if it is going to have any impact in the long run. And so far, nobody has been willing to do that; all we do is go out and say the rhetoric about statutory PAYGO.

Do you know, in terms of a question now, do you know how much money we are spending budget-wide in addressing global warming and greenhouse gas emissions and those types of things? Because one of my concerns has been, I am the ranking member on the Interior Subcommittee, almost every agency in there has money for global warming studies, and I know in a lot of the other agencies, they have the same thing. How much are we spending, and how coordinated is all of this spending? And I am not trying to be a global warming denier or anything like that. I just don't see the coordination within the administration. It is like, if we spend a lot of money, then we will say we are doing good.

Mr. ORSZAG. We can get you the exact figures, but very roughly speaking, there is about $2.5 billion in the domestic agencies, places like NOAA doing climate research and so on and so forth, and then about $1.5 billion in the international affairs budget, too. So that would be about $4 billion. But we will get you the exact figures.

Mr. SIMPSON. But there are—the National Park Service has $10 million to spend on global warming. EPA spends a ton of money on global warming. We need to look at, across all of the agencies, what we are doing and what the coordination is within the agencies if we are going to be spending all of this money on studying global warming.

I compliment the administration, frankly. For the first time an administration has matched some of the rhetoric in support of global—in support of nuclear power with the funds in their budget. They have put together a pretty good budget in terms of nuclear energy and the research in nuclear energy.

I do have some concerns with some of the policy, obviously. The Yucca Mountain decision, that we are going to completely defund that; that we are going to withdraw our application for Yucca Mountain. What have we put in this budget to settle the lawsuits that are inevitably going to come and that we are going to lose when we withdraw our application for Yucca Mountain? How much money is in there for that? And how did we come up with that amount? And what do we assume the final amount is going to be?

Mr. ORSZAG. Let me first answer that, as you know, the President has appointed a blue ribbon commission to study longer-range waste management and other options for, as we expand this form of energy, what to do with the waste. So that is, I think, crucially important.

I will get back to you with the exact figures on—as you know, there are a set of payments that are already involved in the local storage that, as you know, the waste tends to be stored in secure facilities, but around the reactors themselves, and I will get back to you with the details on payment flows involved in that.

Mr. SIMPSON. Thank you, I appreciate that very much.

And Mr. Chairman, let's focus on problems and see what we can solve going forward.

Chairman SPRATT. Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman.

And, Dr. Orszag, as my earlier comments indicate, I understand that you have been given an incredible economic mess and budgetary mess, and that you cannot clean it all up overnight.

I do, however, have some concerns about certain aspects of your budget and the approach that you take.

I think that your proposed limitation on spending is important, but you apply it too narrowly. Revenue as a share of gross domestic product, as you know, is at the lowest level in this country in 60 years. It hasn't been this low since 1950. But the use of the Tax Code to give special treatment to certain types of income with preferences, exclusions and credits, tax expenditures, have blossomed. Many of these tax expenditures, just like the direct expenditures, are worthy. They serve a sound public policy and deserve our support. But some of them represent as much waste as any direct spending program.

I am not going to give you any tough questions. I just want to raise the same one that I raised with you last March when you, quote, agreed wholeheartedly with me about my concern that we needed a greater focus on the budget with tax expenditures. But as I look at the section of your budget this year on evaluating tax expenditures, it simply copies the same meaningless language that the Bush administration budgets used without crossing a T or dotting an I. There is no recommendation for a limitation of tax expenditures. There is no plan for substantive evaluation. How are we ever going to get our budget in balance if wasteful tax expenditures grow without restraint?

Mr. ORSZAG. Mr. Doggett, as I said before and as I will say again now, I fully concur that tax expenditures are worthy of scrutiny and are an important part of the fiscal problem that we face.

Where I guess I would part company with you is—I am just doing a quick calculation in my head—we have almost a half-trillion dollars in reduced tax expenditures contained in this budget. Limits on itemized deductions, elimination of fossil fuel subsidies delivered through the Tax Code, elimination of special tax preferences for corporations involving international activities get you to almost a half a trillion right there, and I think the list could continue. So I look forward to continuing to work with you on the more important issue——

Mr. DOGGETT. Thank you. I appreciate that. I am referring specifically to Appendix A, where you outline what the challenge is, but you don't do anything to provide the kind of evaluation and substantive review of those tax expenditures that we need.

As far as what you proposed on international tax avoidance, as I read your proposals, after the administration made a very compelling case for action last year, after President Obama even as recently as the State of the Union and his presidential radio address said he was in favor of closing unwarranted tax loopholes that reward corporations from sheltering their income or shipping jobs offshore, all that this budget does is reduce the amount of revenue that we expect to get from international tax avoidance proposals by 40 percent from what you had last year. And last year, once the budget was announced and his speech was given, I didn't see any action by the administration to try to secure any of those proposals and turn them into law.

Let me ask specifically in the remaining minute about your job tax credit. Because if we are going to borrow money to try to stimulate jobs, I know we want to be sure that we actually stimulate jobs that wouldn't have been created anyway. And I think this jobs tax credit talks a little better than it walks.

You are well aware that Congress rejected this proposal last year in the stimulus; that while the Congressional Budget Office has had some good things to say about it, it noted that the credit would not be very effective in the industries and regions that are hardest hit because it does not provide an incentive to maintain employment at firms that have been contracting. You are aware that a wide range of tax experts say that this proposal only encourages firms to do what they would have done anyway, in most cases. And that is especially true of this one since you apply it retroactively, not to the date of enactment. Other economists have questioned whether it doesn't have the effect of distorting the market and rewarding some firms at the expense of their competitors.

Can't we do better than this jobs tax proposal? And isn't, if we are to have one, the proposal that Senator Schumer has advanced that is much less costly a much better way to do it?

Mr. ORSZAG. Well, we are open to other suggestions, and Senator Schumer and others have put forward similar ideas. We think the approach that we have set forward is an attractive one, consistent with the CBO analysis. And I guess what I would say is it is targeted to small businesses because small businesses play a crucial role in economic activity.

You are right that some of the assistance provided will go to small businesses that would have hired workers or increased wages anyway, but I am not sure that is altogether necessarily a negative thing. Even in those cases—and, again, the purpose is to induce more hiring and induce additional wage increases. But even when it doesn't do that, it is injecting additional cash into small businesses, and that will help to alleviate the liquidity crunch that many small businesses face.

Mr. DOGGETT. You say it is targeted, but it is all businesses that get this. This is not——

Mr. ORSZAG. Yes, but, as you know, there is a cap. That means that it will go disproportionately to small businesses.

Mr. DOGGETT. Right. Thank you.

Chairman SPRATT. Mr. McHenry?

Mr. MCHENRY. Thank you, Mr. Chairman.

Thank you, Dr. Orszag, for being here.

Is this budget sustainable?

Mr. ORSZAG. I would say the fiscal course—and consistent with the earlier thought, let's try to avoid pointing fingers. But both the fiscal course we were on and the fiscal course that we remain on over the long term are not fully sustainable. And that is one reason why, frankly, we need to work together, including through a fiscal commission, to address the problem.

Mr. MCHENRY. Absolutely. So, if you are testifying in 6 years, let's just say we are having this hearing——

Mr. ORSZAG. Let's hope not.

Mr. MCHENRY. Well, let's just say, all right?

Mr. ORSZAG. Okay.

Mr. MCHENRY. Hypothetical, because I don't want to be sitting here in the minority in 6 years, looking at you as the budget director, unfortunately. Maybe Secretary of the Treasury.

But, anyway, if we are sitting here 6 years from now and we have acted according to this budget you have proposed, what would interest rates look like? Would we be in a fiscally sound position? Or would we have just major tremors in the economy, in terms of high interest rates and things of that sort?

Mr. ORSZAG. Look, what I would say is, right now, the most immediate problem that we face is that weak job market. As we go out over time—and, by the way, that very weakness means that private borrowing has collapsed. And it is one reason why, despite the elevated deficit, which even Mr. Ryan will admit traditional, mainstream economists believe helps to mitigate the economic downturn, that despite that, long-term interest rates are very low. The 10-year bond is yielding less than 4 percent today precisely because private borrowing has collapsed and, therefore, Treasury securities are relatively attractive.

As you go out over time and private borrowing picks up, that situation will gradually reverse itself. And we need to get ahead of that problem, which, again, is why we need additional out-year deficit reduction to avoid the risk that interest rates spike sometime in the future.

Mr. MCHENRY. Well, let's just be honest. I am in support of a commission that would actually look at entitlement reform and spending reform in a real way. I have a bill to that end. The only difference between my bill and what the administration is proposing is I say we have to take tax increases off the table and new taxation off the table and look at the spending side of this equation.

Are you willing to do that?

Mr. ORSZAG. Well, look, we have put forward what we believe is the right approach on both spending and revenue. But the fact of the matter is we need to let the commission do its work, and we think it would be premature to start taking things off the table at this point.

Mr. MCHENRY. Are you concerned that the bond vigilantes are going to take hold and realize that this administration isn't serious, that this commission isn't very serious, that there is no binding nature to us having a vote on these reforms proposed?

Mr. ORSZAG. And can I comment on that? Because there has been much——

Mr. MCHENRY. Yes, it is a question.

Mr. ORSZAG. Thank you. There is a difference between the statutory commission and the executive order commission. There is a difference, and we would prefer a statutory commission, if possible.

Mr. MCHENRY. So would I.

Mr. ORSZAG. But I think that commission has been exaggerated. Look, you have to realize, the structure of all these commissions involve a supermajority vote within the commission itself to report out a recommendation. That is the key challenge. If that actually were accomplished, the difference between a statutory guarantee of a vote and Senator Reid and Speaker Pelosi making a commitment that there will be a vote, which they have done, seems to me much less important.

The real question, and returning to the earlier comment about working together and finding solutions, is, will you succeed in getting the commission on a bipartisan basis to actually report out a recommendation? And, if you do, I think that means that we have recognized the severity of the problem together and we are then able to move forward. And the strength of voting guarantee is much less important despite all the attention that it has received today.

Mr. MCHENRY. Okay, but to address the real issue, do you have concerns about high interest rates in the out-years under a budget such as the one being proposed?

Mr. ORSZAG. One of the reasons that we are calling for not only the $1.2 trillion in deficit reduction we have put forward but also a fiscal commission, which will have to take difficult steps, is precisely to avoid that risk.

Mr. MCHENRY. So the answer is yes?

Mr. ORSZAG. It is a motivation to try to act before the problem arises, yes.

Mr. MCHENRY. Okay. Well, I certainly appreciate—you have always been very forthcoming with this committee, both in your service to the Congress and now in your service to the President and our country, and I appreciate that.

My concern, to be very straightforward, is, you know, if cheap lending and high spending were the answer, then the last decade would equal unrivaled prosperity in the current decade. It didn't. We had a tech bubble that, with low interest rates, led to the subprime bubble. We are now paying for the subprime bubble. And, as a result, we are actually going to create a new bubble with Federal spending, and this will be the Obama bubble that generations are going to have to pay for.

So, with that, I yield back.

Chairman SPRATT. The gentleman yields back.

Mr. Berry?

Mr. BERRY. Thank you, Mr. Chairman.

Thank you, Dr. Orszag. I know you have the easiest job in government, but we do appreciate you and appreciate the way you do it.

I am most disturbed. I found myself a few minutes ago listening to my good friend and colleague from Idaho and agreeing with him, and I probably won't sleep good for weeks.

I have a friend in Arkansas that likes to say he hasn't heard that much trash since he went to Western Auto and bought a $3 radio. Some of the comments around—we all agree we don't need to be pointing fingers at each other, but then we go right back and do it again.

I just want to say this: If we don't come together and deal responsibly with these problems—and to talk about trying to solve these problems and leaving taxes off the table, to talk about solving these problems and leaving reform of the health care system off the table, I don't think it is possible to do that. And everything has to be on the table if we are going to do it.

And we are going to all or at least a majority of us are going to have to come together and put forth the best ideas that are available and then do something about it, and I think that is what you all are trying to do. Goodness knows, we have needed to do it for a long time. We do know that we can do it, because we did it in the Clinton administration.

So, having said that, I will yield to someone that has got something more intelligent and a lot more technical questions that you will enjoy answering a lot more.

Thank you.

Mr. ORSZAG. You seem pretty wise to me.

Mr. SIMPSON. I thought your remarks were very enlightening.

Chairman SPRATT. Mr. Campbell?

Mr. CAMPBELL. Thank you, Mr. Chairman.

Thank you, Dr. Orszag.

So, because of this budget, every year it has deficits in excess of 3 percent of GDP, it is not sustainable, in your view, correct?

Mr. ORSZAG. Deficits above 3 percent means that debt continues to rise as a share of the economy. And that is why we need, in addition to the steps that we have put forward, a fiscal commission to get the rest of the way there.

Mr. CAMPBELL. Okay. What does "unsustainable" mean?

Mr. ORSZAG. Well, one way of interpreting it is that debt is rising as a share of GDP.

Mr. CAMPBELL. But what are the consequences of that? What bad things happen?

Mr. ORSZAG. Ultimately—and, again, we are still in a situation where Treasury securities are the safest in the world. And we have time to act, but we need to get ahead of the problem and get ahead of the risk. The risk is that, ultimately, when you are on an unsustainable course, interest rates will spike, and that will impede economic activity and harm the very job creation that we are trying to spur.

Mr. CAMPBELL. Okay. That is what I thought. But if you look at the budget as it goes out, despite the fact that the deficits are around 4 percent of GDP as they go out, GDP growth is healthy. You project it at 5 percent. Inflation low; you have it at 2 percent. And interest rates are under control; you have the 10-year Treasury at 5.2 percent on average, which means real interest rates are roughly 3 percent, 10-year real interest rates of roughly 3 percent.

I mean, that is all really good, you know, economic metrics, generally.

So if you are going to have this high deficit, shouldn't those interest rates be shown as higher in those later years?

Mr. ORSZAG. Well, we do—we, again, based on economic modeling, show an increase in interest rates that reflects not only a recovery of private borrowing but also some effect of higher debt as a share of GDP. I would note, CBO's projections are not altogether dissimilar in terms of economic activity, interest rates, and what have you.

The issue is not what the central projection is, because that is, I think, in line with what our projections suggest. The issue is, either after 2020 or even before then, is there some risk that the situation can deteriorate, and do you want to get ahead of that? And the answer is yes.

Mr. CAMPBELL. Okay. But, clearly, the deficit would be worse than projected if GDP was less than 5 percent or interest rates were higher.

Mr. ORSZAG. And vice versa, yes.

Mr. CAMPBELL. Right. Okay. All right. I guess the question I have, Dr. Orszag, is that, even with those I think fairly optimistic projections, that this budget doesn't work. I mean, when you say it is unsustainable, when you say it is—and it is not just you saying that. And, to your credit, you have been intellectually honest. You said that when you were CBO director; you are saying it today. The current CBO director says it, Brookings Institute says it, Heritage says it, CATO says it. Left, right, center, everybody agrees.

Why would the President submit a budget that doesn't work?

Mr. ORSZAG. Well, look, now I do have to just go back to the context again for a second, which is: This budget reduces the deficit by more than a trillion dollars. We have said that, despite that significant deficit reduction, we don't get to where we need to be, which is why we need a fiscal commission.

So the comments about unsustainability is if the fiscal commission doesn't work. We are hoping it will, and we need your help to do so.

Mr. CAMPBELL. Okay. Got it. So this doesn't work, and you are saying the fiscal commission will come up with something to get it to work.

Congressman Ryan, who is just one Congressman in the minority from Wisconsin, who is not here right now, has a proposal which you may disagree and many of you may disagree with the policies in it, but which, by your admission, fixes this. It works, it is credible, and fixes it. One guy, one minority Congressman did that.

The President can't make a similar proposal? I mean, clearly with different ideas, but he needs a commission to tell him what to do? The President can't come up with his own idea or make a suggestion on how to make a sustainable budget? He has to punt it to a commission, when one single Congressman from Wisconsin has one that everyone agrees actually does work, even if you don't like the policies that are in it?

Mr. ORSZAG. But it is not what—look, the policies are a dramatic shift. I mean, eliminating the Medicare program would solve the long-term fiscal problems, so——

Mr. CAMPBELL. I understand that. Granted. Dr. Orszag, I will give you all that. Granted. You may hate his proposal, but they work. So propose some that you don't hate that work. Why doesn't the President do that, instead of saying, "I don't know what to do here. We will give it to a commission, and they will figure it out"?

Mr. ORSZAG. Look, we have put forward $1.2 trillion in deficit reduction. To get the rest of the way there is going to require bipartisan support. I don't think Mr. Ryan's proposal would get anywhere near to bipartisan support. I am not even sure the majority of your caucus will support it.

So, just putting out ideas is what I used to do at Brookings. That is the easiest thing in the world. We need to move toward a situation in which, together, we actually come up with something that can be enacted.

Mr. CAMPBELL. Okay. Well, you can't do something together unless somebody gives a place to start. Congressman Ryan has done that. It would be nice if the President did that, too.

Chairman SPRATT. Mr. McGovern?

Mr. MCGOVERN. Thank you, Mr. Chairman. I apologize. I have laryngitis. I want to try to be brief here.

I want to thank you for being here, Dr. Orszag. I don't admire your job of having to clean up the mess that you inherited, but I think that this budget reflects an important start in the right direction.

Let me ask you three questions. First of all, the Republicans have asserted that the freeze on non-security discretionary spending proposed in your budget follows an 84 percent increase in spending in that category. Do you agree with that assessment?

Mr. ORSZAG. No. Let me be very clear about this. In 2008, spending in this category of the budget was $408 billion. It increased in fiscal year 2009 because of the Recovery Act. Then, in 2010, it was $447 billion. So that bump-up was gone. And that is the level, as you can see in our tables, that is the level at which we freeze non-security spending. And, in fact, it is lower than that in 2011.

So, to argue that we are freezing off of this grossly inflated base is just factually inaccurate.

Mr. MCGOVERN. Thank you for clearing that up.

My next question involves war spending. Ms. Kaptur earlier asked you about the cost of the wars, and I guess I want to go one step further, and that is the cost of these wars and the impact on the deficit.

The fact is that I want to give the administration credit for putting numbers in the budget that I think reflect the reality of what war spending is. I happen to disagree with the administration's policy on Afghanistan, and I disagree with the previous administration's policy on Iraq. But there is one indisputable fact, whether you are pro or con these wars, and that is they cost an awful lot of money and they are not being paid for.

I would be curious to hear your assessment on the impact on our deficits, as well as whether or not the administration would consider a proposal to actually pay for these wars, which is something that some of us have been suggesting for quite some time.

Mr. ORSZAG. Well, again, the spending on the war in Iraq and Afghanistan is contained within an overall budget that achieves this $1.2 trillion deficit reduction. So, from that perspective——

Mr. MCGOVERN. If we actually paid for them—I mean, some of us have proposed a war tax, which got shot down in a bipartisan way. But if there was such a revenue source, I mean, it would clearly reduce——

Mr. ORSZAG. It would reduce the deficit further——

Mr. MCGOVERN. Right.

Mr. ORSZAG [continuing]. If you had some additional revenue source, yes.

And I think, as I may have already mentioned earlier, the administration's budget for fiscal year 2011 includes $160 billion to fulfill the national security needs the President has identified associated with the wars in Iraq and Afghanistan.

Mr. MCGOVERN. I appreciate that. It is just that, when we propose a dollar increase in education funding or a dollar increase in health-care spending, we have to offset it. When it comes to the war, it seems that we don't have to worry about what it costs, when I think we should. World War II, we had a war tax; even during the beginning of Vietnam.

But, anyway, I raise that because I do think, in addition to costing us dearly in terms of the lives of our soldiers, it also is costing us a great deal in terms of our treasure. And I think that one of the ways to address the growing deficit is to address the war costs.

Let me go to another issue, and that is, we talk a lot about numbers here and people throw charts up and they have all these statistics, but the reality is budgets are about people. And in the United States of America, the richest country in the world, we have a hunger problem and we have tens of millions of our citizens who are hungry, many of whom are children.

The President, to his credit, set a goal to end childhood hunger by 2010. And I think that is a tough goal to be able to achieve, I am sad to say. But how does this budget seek to accomplish that goal? And what is in the budget to improve access to nutritious foods for those struggling to put food on the tables?

Mr. ORSZAG. Congressman, I couldn't agree with you more. Look, the fact of the matter is, almost 20 percent—I think the latest figure was 17 percent of our children are obese, which is one dimension of our food and nutrition problem. On the other hand, 8 million families in the United States have children who are, quote, "food insecure," which means lack full access to food, were hungry basically. And the President is committed to reducing that number to zero by the middle of this decade.

So what are we doing? We have $10 billion in reauthorization of child nutrition programs, the school lunch and school breakfast and so on and so forth programs. We have roughly $8 billion in the Women, Infants and Children's program, for example. And those are the two mainstays of our battle to fight child hunger and improve child nutrition.

But I would point out—and I think even today the First Lady was doing an announcement or an event leading this effort to try to address this issue. As you know, she is very focused on this particular topic.

Mr. MCGOVERN. And I appreciate that. And I wish there was a better understanding in government that, by not addressing the issue of food insecurity and hunger, especially amongst children, you end up paying for it in the long run. Kids who go to school hungry don't learn. Kids who are obese end up having chronic health-care issues for the rest of their life. And I praise the President and First Lady for what they are doing.

I would just make one final suggestion, and that is I think it would be a good idea to have a White House conference on food and nutrition, to get everybody together and to come up with one comprehensive plan to be able to deal with this scourge once and for all.

Thank you.

Chairman SPRATT. Mr. Jordan?

Mr. JORDAN. Thank you, Mr. Chairman.

Let me thank you, Director, for joining us today. I have one broad question, a kind of general question, and then one more specific.

Let me just start with this: I am convinced the American people get it, and I don't know if it was Congressman Ryan or who said earlier, they don't really care who is to blame for the situation we are in. One side says it is George Bush and you inherited this. I understand some of that. We said some of the charts that Representative Hensarling put up, the amount of spending that has happened in the last 3 years and in the last year has been just unbelievable.

But the American people get it. They know instinctively that we can't continue doing what we are doing. Several news sources talked about this budget, increased taxes, increased spending, increased borrowing. Americans understand you can't keep doing that. They understand you can't have deficits running at 10 percent of GDP, deficits averaging close to a trillion dollars over the next 9 years. They get that.

So the general question is, I think they want to know, what can you say to the American people about when they see this, they see the broad picture, what are you saying, what is the administration saying to them that can reassure them we are not on this path, as Mr. Campbell I think very appropriately pointed out, that is unsustainable?

Mr. ORSZAG. Well, as a start, we are freezing non-security spending, saving $250 billion over the next decade. And that includes a lot of choices that I know some people don't agree with. You know, there are additional investments in education, but you can go down the tables in this budget. There are a whole series of departments, from the Commerce Department to the Interior Department and so on and so forth, that are declining, even before you take into account inflation. So that is a start.

Now, some people say that is not enough, and we agree, it is not enough. That is why we put forward more than that in deficit reduction. Some people say even that is not enough, and we agree, which is why to get the rest of the way there, we think we need to work with you to come up with a bipartisan solution to that final piece to get us to where we need to be.

Mr. JORDAN. Okay. Let me ask a more specific question then. How much of the increase in spending we have seen over the last year in the stimulus package and, I guess to some degree, even the bailout, the TARP program, how much of that money is actually now built into—I know some of that was one-time, but how much of it is built into the baseline in the out-years?

Mr. ORSZAG. Well, see, that is another point I should have made. In addition to the argument made about the 80 percent increase not being accurate, it is also a significant accomplishment. Because I think one of the fears when the Recovery Act was enacted was that all the discretionary spending would be built into the base and perpetuated over time.

Mr. JORDAN. My question is how much?

Mr. ORSZAG. I am saying the non-security freeze means that is not happening. In fact, by the end of the freeze, by the end of the freeze, spending in non-security agencies will be below the baseline from 2008 projected forward. So that is perhaps the cleanest comparison. Forget about the Recovery Act. Forget about everything that happened since 2008. Take spending then, look at the baseline. By the end of the freeze, we are below that.

Mr. JORDAN. Let me just be clear then. None of the $787 billion in the stimulus package passed last February is built into any baseline going forward? Is that an accurate statement or not?

Mr. ORSZAG. In aggregate—let me just be clear. I am sorry to get technical, but there is no budget authority provided by the Recovery Act in 2010 in the discretionary budget. Our freeze is off the 2010 discretionary levels in terms of budget authority, and therefore my statement holds.

Mr. JORDAN. Okay.

Thank you, Mr. Chairman. I yield back.

Chairman SPRATT. Ms. Tsongas?

Ms. TSONGAS. Thank you, Mr. Chairman.

And thank you, Dr. Orszag. I think that we agree that President Obama inherited a very challenging situation, and Doug Elmendorf, the head of CBO, last week testified of the extraordinary impact of the recovery package. And we could be in quite a different place without that very bold effort to stop the job loss.

But we also know that unemployment or employment is a lagging indicator. And I happen to represent some communities that have been very, very hard hit. One community, in particular, has 18 percent unemployment. Another one hovers around 12 percent. It kind of goes up and down a little bit, but basically it remains unchanged. So I applaud the efforts that the President has proposed in the State of the Union Address and that we see in the budget here today.

But I am wondering, do you have benchmarks in place? Are you going to be able to assess whether or not these initiatives are working? I have had a proposal out there that we need to do some direct job creation, that the Federal Government needs to get engaged around direct job creation, particularly targeted to communities that have been particularly hard hit, and we don't see a lot of that kind of discussion today.

So I am wondering if that was ever on the table, if there is ever a point at which you say these tax credits are not having the impact we need, especially in those parts of the country that are just dealing with extraordinary circumstances?

Ms. KAPTUR. Will the gentlelady yield? I wish to associate myself with her remarks 100 percent. Thank you.

Mr. ORSZAG. While we were evaluating different ways of trying to attack this problem of a weak labor market, we evaluated a whole series of proposals. So I am not going to go into full internal deliberations, but rest assured that there were a wide array of options that were scrutinized, evaluated, before coming to the conclusion that we should focus where we did.

And I would just come back again and say, do not forget that the Recovery Act—because of the Recovery Act, there are 1.5 to 2 million people today that would otherwise be unemployed who have jobs. It is a huge accomplishment. There is more that needs to be done. The unemployment rate is too high. The jobs deficit, reflecting the job losses that have occurred since December 2007, is a hole that needs to be filled in. But it would be substantially worse without the Recovery Act.

Ms. TSONGAS. But with these tax credits, are you going to look to a specific number of jobs created on a month-to-month basis in order to say, this is working, this isn't? We really need to revisit it and come up with something that is more targeted to communities that have been particularly hard hit.

Mr. ORSZAG. I think we would welcome the additional kind of transparency and evaluation that has been built into the Recovery Act into additional jobs efforts, if the Congress also agrees that that would be worthwhile.

Ms. TSONGAS. Because as I talk to my colleagues on the floor who come from similar kinds of districts where we do see this extraordinary effort—and I applaud the administration for the Recovery Act, because I have seen in my district job after job that has been saved as a result of it, money spinning out into the private sector, primarily through the grant process, to begin to jump-start, for example, clean energy jobs. I think these tax credits for new hires are important. But there is still just this one element of our society that has been particularly hard hit and where we may need to do something more direct and get the government directly engaged.

Thank you. I yield back.

Chairman SPRATT. Mrs. Lummis?

Mrs. LUMMIS. Thank you, Mr. Chairman. I would like to submit an opening statement. It has to do with the history of the Federal Abandoned Mine Lands program.

[The prepared statement of Mrs. Lummis follows:]

PREPARED STATEMENT OF HON. CYNTHIA M. LUMMIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WYOMING

REAUTHORIZATION OF THE FEDERAL ABANDONED MINE LANDS (AML) PROGRAM: A BRIEF SYNOPSIS

In 1977, when the Surface Mining Control and Reclamation Act was passed, a tax was levied against every ton of coal produced to help clean up coal mines that were abandoned before reclamation laws existed. Half of that tax was promised back to states where the coal was produced, and the other half went to the federal government to run the Abandoned Mine Land (AML) program and direct more money to the states with the largest reclamation needs (primarily historic production states in the eastern U.S., such as Pennsylvania and West Virginia).

Unfortunately, money that was promised to Wyoming and other certified states and tribes was not sent back to those states and tribes. In addition, the majority of money that was intended to be used for reclamation purposes was not sent to states with reclamation needs. Instead of on-the-ground projects, collected AML funds were kept in Washington, DC to be spent on unrelated federal programs or used to make budget numbers look better.

Over the years, Members attempted to pass legislation to reform the program, but each time the needs of one group were taken care of, another group objected. In 2006, the Wyoming delegation worked with a bipartisan group of coal-state members including, Reps. Nick Rahall and John Peterson in the House, and Senators Jay Rockefeller, Max Baucus, Robert Byrd, Arlen Specter, and Rick Santorum among others to get the outside interests on board.

The coal companies agreed to continue paying the tax if it was slightly reduced. The United Mine Workers of America (UMWA) agreed to support reforms to the program in exchange for continued help with health benefits of orphan miners whose companies had gone bankrupt. Uncertified states like West Virginia and Pennsylvania agreed to support changes if there was a guarantee that they would receive additional money to clean up abandoned mines, and certified states like Wyoming agreed to support the reauthorization if there was a guarantee that they would receive the money that they had been statutorily promised.

The legislation began receiving serious consideration during consideration of the Pension Protection Act in 2006 and was passed by the House on a tax extenders measure that fall. However, that tax extenders measure failed to achieve cloture in the Senate because of unrelated provisions (primarily the inclusion of a death tax measure) and the legislation failed to move. The bipartisan group continued their efforts and in December 2006, passed the AML reauthorization as part of the Tax Relief and Health Care Act of 2006. Then-Senator Barack Obama voted in favor of this legislation as did current Interior Secretary Ken Salazar, who oversees the Office of Surface Mining, Enforcement and Reclamation.

Although there have been complaints about both the Bush and Obama Administration's implementation of the program, there is general agreement among the parties involved that the program has worked well. Its intended goals of cleaning up more abandoned mines, returning statutorily promised money to states, and providing healthcare benefits for retired miners have been achieved.

Contrary to the Obama Administration's portrayal of certified states as having cleaned up abandoned mines, states and tribes like Montana, Wyoming and the Navajo Nation continue to use AML funds to clean up high priority abandoned mines that were discovered after the states were certified. In addition to cleaning up as many abandoned mines as is feasible in a given fiscal year, states like Wyoming have used any remaining AML funding to move forward with President Obama's stated desire for clean, affordable energy through research initiatives and on-the-ground demonstration projects.

In order to reach agreement on reauthorization of the AML program, all parties had to accept ideas that they did not strongly support. At the end of the day, a bipartisan group in the House and Senate came together, from different interests, and reauthorized the program. President Obama's budget request proposes to eliminate certain provisions of the AML reauthorization measure, thereby jeopardizing the larger bipartisan agreement.

Mrs. LUMMIS. I just want to open by saying that an agreement was reached in 2006 on that program. And so, if you are going to open that agreement again, freeze everybody. Freeze the United Mine Workers' benefits, freeze the States from getting their money, freeze the States that are not certified, freeze everybody. But don't punish one person, because, quite frankly, Senator Obama did vote for that agreement, and now President Obama wants to change the agreement.

So I will leave you this opening statement on that subject and then switch again to something that President Obama said. And this was last Friday. This was in a conversation with Republicans, and I am quoting the source here, the Washington Post online transcript. So this is verbatim: "I think Paul Ryan has looked at the budget and has made a serious proposal. I have read it. I can tell you what is in it, and there are some ideas in there that I would agree with.” And then he went on to say, “But there are also some ideas I don’t agree with.”

He did say this: Quote, “The major driver of our long-term liabilities everybody here knows is Medicare and Medicaid and our health-care spending. Nothing comes close. Medicare and Medicaid, a massive problem down the road. That is where it is going to be what our children have to worry about.”

The reason, I would contend, that I am here in the minority is that Republicans ignored the American people when the American people said we are really concerned about overspending. And I would contend that if we don’t get a handle on spending that the Democrats who are now in the majority are going to earn the minority, just the way the Republicans earned the minority.

I don’t want to be here fighting over this in 6 years, with you as budget director, going back and forth about the same old things we have been talking about today. I really want to solve these problems. I don’t want to be old and be a former Member of Congress who sat and fought over things that we knew we could solve and we refused because we were too dug in, being partisans.

So, I want to tell you, I really do want to work with the administration or anybody who is willing to have a serious conversation about entitlements. That is—and the President acknowledged it—the only way to really get a handle on our budget problems and get to budgets that are sustainable and to do something responsible for our children and grandchildren.

So, with that caveat, I would say, is there anyone who has a proposal that is an alternative to Mr. Ryan’s proposal that we could all sit down and work on while we are here convened as a Congress? Do you know of a proposal out there, Mr. Orszag?

Mr. ORSZAG. I am not aware of a proposal that would involve—I am going to come back to the same point, which is that Representative Ryan’s plan works because it shifts substantial costs and risks to individuals. I am not aware of any other plan that achieves either of those, either the reduction in cost to the Federal Government or the substantial shifting of risk to individuals. And it would be a very dramatic shift from the system that we have today in which individuals would face much larger risks than they do in the current environment.

Mrs. LUMMIS. And is it fair to say Mr. Ryan’s proposal shifts that risk only for people under 55 years of age, so they would have a chance to prepare?

Mr. ORSZAG. Yes, but I don’t think that is something you can actually fully prepare for.

Mrs. LUMMIS. Does any Democrat in the House have a counterproposal to Mr. Ryan’s?

Mr. ANDREWS. Will the gentlelady yield?

Mrs. LUMMIS. I will.

Mr. ANDREWS. On November 7th, the House voted for a bill, which all of you voted against, that had, I believe, $480 billion in Medicare and Medicaid reductions that were done through eliminating things like Medicare Advantage or phasing them out, making changes to payments to hospitals and other health-care providers.

Now, you may quarrel with how the money was spent on covering people. But I would ask the gentlelady, if that were a freestanding bill, just those cuts, would you vote for them?

Mrs. LUMMIS. Mr. Chairman, I can tell you honestly, I don't know. And the reason is because they weren't freestanding; we didn't get to discuss them.

Mr. ANDREWS. But if they were?

Mrs. LUMMIS. And, Mr. Chairman, I would assert again, I don't know. The problem that I saw with what you were proposing there on health care is that it would affect people that are currently retired. And Mr. Ryan's bill doesn't affect anyone who is currently retired.

Ms. SCHWARTZ. If the gentlewoman would yield, the Republicans did, at the point when we were voting on health-care reform, also present an alternative to Mr. Ryan's proposal, which was spending $60 billion, insuring very few Americans, and actually raising the number of uninsured Americans to about 52 million. I think you did vote for that alternative. So you already did vote for an alternative to Mr. Ryan's proposal yourself.

I don't know for sure, but I would just point out to the gentlelady that you did actually have an alternative to Mr. Ryan's proposal that actually did increase costs for taxpayers that increased the number of uninsured Americans.

Chairman SPRATT. The proposal before us is the President's budget. Bear in mind that the President's budget takes a deficit of $1.556 trillion and reduces it to $727 billion over a period of 4 years. It cuts it in half.

The biggest entitlement that we must contend with is not Medicare, it is not Medicaid, it is interest on the national debt. It is truly obligatory. It cannot be manipulated. It has to be paid. And by bringing the debt down by that much in that period of time, they have contributed to a diminution, at least, of the debt service burden that is going to burden our future for years to come.

So, is that a complete proposal? No. But the proposal is that it will go until we have alternate recommendations from the bipartisan commission. So, in the meantime, we are doing what we can, given the recovery, to reduce the deficit and to avoid any greater accumulation of debt services.

Now we have to move on with our questions. Mr. Etheridge?

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Dr. Orszag, thank you for being here.

Just for the record, I was not here when Congress took the first big vote in the early 1990s to start down the road to balance the budget. I did vote in 1997, in my first year here, to take the final step, because it really was a two-stage step, as you remember. There were a lot of Members on our side who did not vote, but I was one who did, because I think it is important to move toward a balanced budget, to get our house in order, that that is what we are about today.

But let me ask you a question on something else where my friend from Texas and I are probably going to differ on: credits for hiring. Because I was in manufacturing years ago, and we used it in the 1970s when it came out.

I introduced a number of weeks ago H.R. 4437, the Hiring Act of 2010, that really does a lot of what the President has talked about in his State of the Union and is now before us.

Last quarter, we saw economic growth of about 5.7 percent, I think is pretty close to where the number was, and it looks like the economy may be turning around. But for businesses and the economy in my State of North Carolina, we just got numbers of 11.2 percent statewide unemployment numbers, and counties in my congressional district are roughly 15 percent. They aren't recovering yet.

So my question to you is, as we look at these incentives for hiring that are in the budget, roughly $33 billion in job tax credits that are proposed to be created, that are designed to help job creation, how many jobs does the administration assume that this will create? I recognize that, in the bill I introduced, it capped at 50,000. I am not sure what the proposal is by the White House. But how many are we looking at in the first window of opportunity?

Mr. ORSZAG. I think Christy Romer answered yesterday that we have not undertaken a formal analysis of the jobs associated with that particular proposal. As the jobs bill all together, all in, takes better shape, perhaps some estimates would be forthcoming.

I would just again note, though, if you look at CBO's analysis of the biggest bang for the buck, this type of approach seems to rank pretty well.

Mr. ETHERIDGE. I know in the budget we did, my bill does it in two stages, so it is more generous. But I think they were looking at 3 million the first year and then 2-something the second.

As an economist, do you believe that this is an effective use of a way to put Americans back to work?

Mr. ORSZAG. Yes.

Mr. ETHERIDGE. And let me just add one more piece so you can answer it together. How do we balance this kind of thing with what we are really talking about—and I think all of us want to get to the same purpose, the administration, Members of Congress, both sides of the aisle—to get back toward getting our budget back in balance over the long haul?

Mr. ORSZAG. Sure. Let me answer the first question first. Economic activity has gone from big negative to more than 5 percent growth, and so GDP growth has turned around.

The issue now is that what typically happens as GDP recovers, first you have rapid productivity growth. That is what we have seen over the past couple of quarters. Then firms start relying more on temporary help and expanded hours among existing workers. And then only, finally, do you get increases in employment itself.

We are somewhere into the second and hopefully quickly moving into the third stage of that process. But what we are trying to do is collapse them so that we can have GDP growth and job growth more closely linked. And something like a jobs credit can help jump-start employment among firms that are seeing their prospects begin to turn around but might be a little reluctant to hire. And with the jobs credit, they go ahead and to it.

Mr. ETHERIDGE. Right. Thank you.

Let me move to one other thing very quickly. And I will save one I have to ask on education for when the Secretary comes. This one deals with—I represent Fort Bragg and Fort Pope. I have a lot of military men in the service. How are we dealing with the out-years of the costs for VA and others, for a lot of these men and women who are coming back with a multitude of problems that are going to be long-term? We are going to be paying for it for years to come. Is that factored in the budget we are now dealing with? Because heretofore it was not.

Mr. ORSZAG. Absolutely. There are a variety of steps taken under Secretary Shinseki's leadership and, frankly, even before you shift over to the VA, under Secretary Gates's leadership.

As you know, the VA budget has now experienced an historic increase, 20 percent over the last 2 years. We succeeded in moving to advance appropriations, which will help secure funding for the VA. Secretary Shinseki is absolutely focused on providing high-quality care to our Nation's veterans, and the budget supports him in doing that.

Mr. ETHERIDGE. Thank you.

And thank you, Mr. Chairman. I appreciate that.

Chairman SPRATT. Mr. Latta?

Mr. LATTA. Thank you very much for being here with us today.

I would just like to follow up on what my friend and colleague from North Carolina was talking about. I know some of my colleagues here have already heard me talk about this, but I think I still represent the largest manufacturing district in Ohio—I haven't seen the new NAM numbers, though—and I also represent the largest agriculture district.

As we look through the past year, with the stimulus at $787 billion and the question now about the extra $75 billion that is going to be added on to that, and the people back home heard that they were only going to have an 8 percent unemployment rate, and, of course, the latest numbers U.S. were at 10 percent—Ohio's are at 10.9 percent. I represent 16 counties, four of which are over 14 percent and one over 15 percent.

So, a lot of the folks out there—and I met with my constituents yesterday in two different counties for over 8 hours, meeting with a person every 5 to 7 minutes for 8 hours. And they are looking at what we are doing here in Washington, and they don't see the effects.

And I would just, kind of, like to look at your testimony on page 2, and I just want to make sure I understand what you are talking about here. You say that more than a million small businesses will receive a tax cut from the latter proposal, which will extend a $5,000 tax credit to small business for every new job—every new job.

Again, I think that you have kind of pointed it out, a lot of places have cut back. But in our areas, not only have we had massive unemployment cuts right now, or employment cuts I should say, but we have also had the same situation that, you know, we have a lot of plants working people at 32 hours. So I have talked to these people constantly across my district, and the first thing they want to try to do is get their people back up from 32 hours to working full-time.

Then the plants that are still out there holding on by their fingernails are saying, you know, what we are going to do? We will hold at where we are right now and see how long we can go with the same employees.

What will this $5,000 tax credit do for those businesses?

Mr. ORSZAG. Sir, in particular, business that are not expanding their hiring but will expand their hours for existing——

Mr. LATTA. Right.

Mr. ORSZAG [continuing]. That is one of the key reasons why it is not just a jobs but jobs and wages tax credit. Basically, what will happen is, as long as you expand your Social Security payroll, which you would if you increased the number of hours worked for an existing employee, you would also be eligible for a tax credit.

So we can walk with you through the details, but the logic is precisely to get at the types of firms that you are discussing. And not only that, but, frankly, even for firms where the workers are already working 40 hours a week, to induce an increase in wages paid and provide some tax incentives for small businesses to do that too.

Mr. LATTA. So as long as they have an increase in their Social Security tax per the employee that is already employed——

Mr. ORSZAG. Their aggregate Social Security payroll, correct. That would happen if workers at the same wages work more or at the same hours earned more.

Mr. LATTA. Okay.

Let me ask this question. Because of the number of employees that have been added recently on the Federal side, does this budget look at reducing the Federal payroll at all? Because, again, when we have looked across our districts, you know, we have had, I am sure everyone has had their employers say, "What has the Federal Government done to reduce, as we have made massive cuts to try to save ourselves right now?"

Mr. ORSZAG. There has been an increase in the Federal workforce over the past several years, mostly in the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, and so on and so forth. As you know, also there is an historically low wage increase for Federal workers built into this budget, along with a freeze for the top-level presidential appointees.

And in terms of the Federal workforce, there is a chart that is in the analytical perspectives on page 99, and then there is a table somewhere there, a table on page 107, that just provides the total. You can see the total executive branch civilian employment actually does decline from 2010 to 2011 under this budget.

Mr. LATTA. How much of an increase have we seen for total Federal employment going up in the last, let's say, 2 years going forward, the last year that you just cited?

Mr. ORSZAG. There were significant increases between 2007 and 2008. I don't have them right in front of me, but I can get those to you.

Mr. LATTA. I appreciate it.

Thank you, Mr. Chairman. I yield back.

Chairman SPRATT. Ms. McCollum?

Ms. MCCOLLUM. Thank you, Mr. Chairman.

I believe everything should be on the table—tax cuts, spending, what is going to happen in the out-years with entitlements—because we really do need to get things under control. But I am alarmed when I hear the discussion being that the tax cuts can't be looked at, can't be reviewed, but we need to address what happened with spending, especially the spending in the Recovery Act.

Now, I don't think it was a bad idea, when our school districts all across our States were cutting education dollars, that the Federal Government stepped in and helped our most vulnerable children with Title I—Title I, children who are eager to read but need that extra push, need that extra help. Because we really don't want to leave our children behind. I truly believe that we don't want to do that.

Or with IDEA, special education, students who, through no fault of their own, through no fault of their own, struggle to learn, to become more self-sufficient and to be product members of society as they grow up.

And I don't think it is wasteful to help our cities at a time of financial crisis when States are cutting back, to make sure there is police on the streets and first responders with fire trucks are able to respond to fire calls.

Just last Friday, I was in a suburban part of my district. I was in White Bear Lake. And let me tell you, folks, the bear is looking a little skinny. I went to food shelves, where people who used to volunteer are now recipients. I went to Meals on Wheels programs, where we see more seniors now because of the doughnut hole that is still out there, that we need to fix, which we are trying to fix in the health care bill, are still struggling at times between food and medicine. And I heard from early preschool educators, as well as other school officials, that they are very concerned about the food insecurity that students face on the weekends and will face again this summer.

Then, most importantly, I met with Jay—and I probably have permission to use his full name, but I am only going to use "Jay"—a man who helped build the 35 bridge after it collapsed, worked day and night in bitter cold and hot summers, who has now been laid off. He has been looking for a job. And without the extension in unemployment insurance, without the help with COBRA, his children, his two daughters, would not have health insurance provided by their father, they would not have a roof over their head. And right now he is very fearful of unemployment extensions running out until he finds a job and possibly see his house go into foreclosure.

So, to me, this is not foolish spending. This is not saying, "You are on your own, society." This is us coming together collectively to help one another in a great time of need.

Now, I know that when we were facing this crisis and putting together responses, that maybe we have learned that we can do a better job in providing the responses that still need to be out there until the economy fully recovered.

So I would like to ask you, Doctor, as the administration proposes to move forward with some of the provisions from the Recovery Act, what elements are you proposing to extend, which ones are you looking at reframing? Why should we do this? And what is their cost and what is the cost to our society and your economy if we don't reinvest dollars in the Recovery Act?

Mr. ORSZAG. Let me answer that in two ways.

One is we are proposing and embracing a jobs package as a supplement to the Recovery Act. The Recovery Act has succeeded in helping restore economic growth, and, as I have mentioned earlier, 1.5 to 2 million people would be unemployed today who aren't because of the Recovery Act. But more needs to be done, and that is why we are stepping forward with the jobs package.

Now, with regard to the Recovery Act itself, there are a variety of cases in which each agency has identified specifically—and this gets very granular—but specific projects that are not working as well or that are behind schedule or that shouldn't be funded, and shifted to more promising alternatives. And we could get you a list of those projects. But there is an ongoing effort to try to make sure we are getting the most from each dollar that is spent.

Ms. MCCOLLUM. Thank you, Mr. Chairman. Thank you for this hearing.

Chairman SPRATT. Thank you.

Mr. Harper?

Mr. HARPER. Thank you, Mr. Chairman.

Dr. Orszag, good to see you again.

I think what we have noticed here since the very beginning is there is no end to this spending that is going on. You look at this and you come in, it looks like every agency, every committee, even the MRAs for Members of Congress go up. And it would seem to me, if we were serious about getting a grip on the budget, that one of the first places we would do is on spending.

We have State governments that are having to cut back and scale back. We have businesses and households that are doing that. But, to be quite honest, we are not doing that in Washington, D.C. We continue at a level of spending that we have had. You know, and at some point we have to begin to live within our means.

But the little stuff does matter. While we could argue for or against the merits of the stimulus bill, it is hard to justify to taxpayers at home, "Oh, by the way, we spent a couple of million dollars on those feel-good highway signs to let you know that your tax dollars were spent on this particular project," things that were absolutely not necessary.

If you look at our budget in Congress over the last couple of decades, I think you would have to go back to when John Kasich from Ohio was the Budget Committee chairman and you had the Balanced Budget Act of 1997 and you saw where the numbers looked better, that we can do this if we choose to do that.

One concern I have, and if you could help me, how would you define the middle class?

Mr. ORSZAG. We have defined the middle class as incomes below $250,000 for married couples.

But if I could just come back to your earlier comment for a second, if you look at—and I won't comment on the congressional requests, because that is a separation-of-powers statement that I am not going to touch.

But if you look at executive branch agencies, and this is contained in Table S-11, what you can see is that what we are proposing is a reduction for the Department of Agriculture, a reduction for the Department of Commerce, a reduction for the Department of Health and Human Services, a reduction for the Department of Housing and Urban Development, a reduction for the Department of Interior, a reduction for the Department of Justice, a reduction for the Department of Labor, a reduction for the Environmental Protection Agency, and so on and on so forth.

So I am hoping you will work with us. That is what is required in order to freeze non-security spending, those kind of steps.

Mr. HARPER. But for as many as you have listed thus far, we haven't made those cuts. You are saying in the future budget, obviously what we are talking about.

Mr. ORSZAG. In the budget that you will be considering this year, in the appropriations cycle that you will soon be turning to, that is what we are proposing.

Mr. HARPER. Well, if we look at—and, honestly, we are tired of hearing "the mess that we have inherited" or blaming it on former President Bush, which I could understand the first 3 or 4 months, but now a year later we are still using that.

But if you look at the deficit spending of the 8 years under the Bush administration, if we are looking just purely at the table that you have on the historical tables on page 22, if we are looking at those numbers, in 2 years of this administration, we are going to approach the deficit spending level of almost the 8 years prior.

Mr. ORSZAG. But, again, I used the analogy before, it is like someone ran up a huge credit card bill, left town, the credit card bill shows up in the mailbox, and the new guy in the house is blamed for running up that credit card bill.

If you look at why we face projected deficits, it comes from two main sources: the economic downturn which was apparent at the end of 2008, and, frankly, the steps we have taken have helped to mitigate it; and massive tax cuts and a Medicare prescription drug benefit which were deficit-financed. Those two factors alone add up to roughly $8 trillion in projected deficits over the next decade.

Mr. HARPER. Back to the middle class, tell me how you define the middle class.

Mr. ORSZAG. Again, for example, when we talk about extending the middle-class tax cuts, we define that as being $250,000 or below.

Mr. HARPER. And the minimum amount would be what level?

Mr. ORSZAG. I don't know that we have defined a lower amount.

Mr. HARPER. So middle class would be anybody below $250,000.

Mr. ORSZAG. Correct.

Mr. HARPER. And the President said he would not raise taxes on anyone under $250,000, is that fair?

Mr. ORSZAG. That is correct.

Mr. HARPER. But we are indeed doing that, though, are we not? By allowing, say, the Bush tax cuts to expire, are you not having an increase on people under that amount?

Mr. ORSZAG. Absolutely not. The expiration applies only to those tax provisions affecting those with incomes above $250,000, very clearly.

Mr. HARPER. Let me ask just a couple of questions. For instance, the college education and expense tax credit of up to, what, $4,000 per family?

Mr. ORSZAG. The American Opportunity Tax Credit.

Mr. HARPER. Is that going to remain or go away?

Mr. ORSZAG. Yes, we continue that.

Mr. HARPER. That will continue. Okay.

I believe my time is up, Mr. Chairman.

Chairman SPRATT. Mr. Andrews?

Mr. ANDREWS. Thank you, Mr. Chairman.

And thank you, Dr. Orszag, for being here.

I want to honestly express my heartfelt appreciation for Mr. Ryan and I think Ms. Lummis and others today who I think have spoken very sincerely about trying to work together to solve these problems. I appreciate that. And I do think there is a basis to work together to do that.

There is a disagreement at first, though, that I think we need to emphasize. I do think the number one thing, Dr. Orszag, that our constituents are talking to us about are jobs, or the lack of them, and the lack of job security. It is my understanding this budget proposal does include proposals that would cut taxes for middle-class families.

Mr. ORSZAG. Yes, sir.

Mr. ANDREWS. It would cut taxes for businesses, particularly those who create new jobs. And it would continue investment in building roads and bridges and clean water systems and things of that nature, is that right?

Mr. ORSZAG. Along with key investment in education and innovation, yes.

Mr. ANDREWS. And about how much is that of the $3.4 trillion, $3.8 trillion budget that we are talking about here? How much is that?

Mr. ORSZAG. I could get back an exact figure to you. But, as you know, actually, the bulk of that figure comes from Medicare, Medicaid, Social Security, and programs like that.

Mr. ANDREWS. Okay. The other thing I think we have argued sincerely here is people say, why can't we spend less? Put aside the revenue stuff for a minute. Why can't the government here operate on less money? And I think that is a very legitimate question that we have to try to answer and do something about. And I do think it is very important we understand exactly what that means.

I looked at the 2010 budget projections for the year that we are in right now, and, roughly speaking, 20 percent of everything we spend is Social Security. Now, there may be people here who would disagree with this, but I think most people in the Congress would say, don't touch that.

Another 20 percent is the defense budget. And I think, although there are many who would say that should be reduced, I am frankly not one of them, and I think a majority of those would disagree with reducing that. So now we have taken 40 cents away.

Six cents of the budget is interest. We have to do that. And, by the way, that is going to grow, as interest rates rise, which I think they inevitably will because of economic conditions. That is going to grow, and that is not negotiable. That is the only true entitlement in the budget, as the chairman likes to say. You have to pay your creditors. Now we have taken 46 cents away.

Another roughly 6 cents is pensions for people who have retired from the military, or a VA pension, or who have worked for the Federal Government and retired. And I don't think anyone would say you should take a pension away from someone who is receiving it. This is not future pension policy. So now we have taken 52 cents away.

Of the 48 cents that are left, 70 percent of that is Medicare or Medicaid. So there is a little bit, you know, there is 15 cents left. Let's talk about what that is. That is FBI agents, VA hospitals, highway construction, cancer research at the NIH. There is some waste in there. And, look, I am all for whatever effort we can to work together to find it. But you are deluding yourself if you think there is enough waste in that 15 cents to attack the kind of problem we have.

Which brings us to Medicare and Medicaid. And I would ask you, Dr. Orszag, just to talk about the Medicare and Medicaid savings the administration has already supported in the House and Senate health care bills that have passed. Tell us a little bit about how much that saves and where the savings come from.

Mr. ORSZAG. Well, as you have already noted, it saves roughly a half-trillion dollars over the next decade. And I would note, it comes from efficiencies gained by taking away excess payments to providers, a much different approach than reducing——

Mr. ANDREWS. So, for example, if a hospital has a really bad track record in readmitting people to the same hospital a few days after they have been discharged, there is a disincentive to do that, right?

Mr. ORSZAG. Correct. Well, there isn't currently. Under the proposal, there would be.

Mr. ANDREWS. If there is a motorized scooter company that has a record of selling a lot of motorized scooters to people who really don't need them, that is taken away, right?

Mr. ORSZAG. It is mitigated, yes.

Mr. ANDREWS. The Medicare Advantage plan that pays private insurance companies \$114 for every \$100 that we pay for regular Medicare, that is phased out in various ways in the House and Senate bill, is that right?

Mr. ORSZAG. So that you get down to 100 cents on the dollar.

Mr. ANDREWS. Now, these are easy proposals to demagogue. And, frankly, Mr. Ryan, yours are easy to demagogue, too. And I don't think we should do that. But I have heard an awful lot of demagoguery the last couple months about those proposals, how they are hurting seniors and how they are obliterating Medicare and this. We have been guilty of that in the past. I think you——

Mr. RYAN. Can I say something nice for you?

Mr. ANDREWS. I would be shocked, but go ahead.

Mr. RYAN. You know, the durable medical equipment stuff, spot on. The hospital readmission, spot on. Medicare Advantage, I think if you go to a bid-based pricing system, you could probably get \$60 billion without ruining the program. I just think it goes too far.

But the point I would make is——

Mr. ANDREWS. Have you said something nice yet?

Mr. RYAN [continuing]. Put the money into Medicare to make it more solvent. Don't use it to make a new entitlement. That is our big objection.

Mr. ANDREWS. Well, I understand that, and I think there is room for discussion.

I would simply make this point: that it is the official role of the minority party to demagogue the Medicare issue versus the majority party. We have done it. I think it is a huge disservice to the people of the country. And I think Mr. Ryan has made a constructive proposal with which I completely disagree, but it is a constructive proposal. And I think we should go forward and try to talk seriously about what this administration has already tried to do.

Chairman SPRATT. Mr. Diaz-Balart?

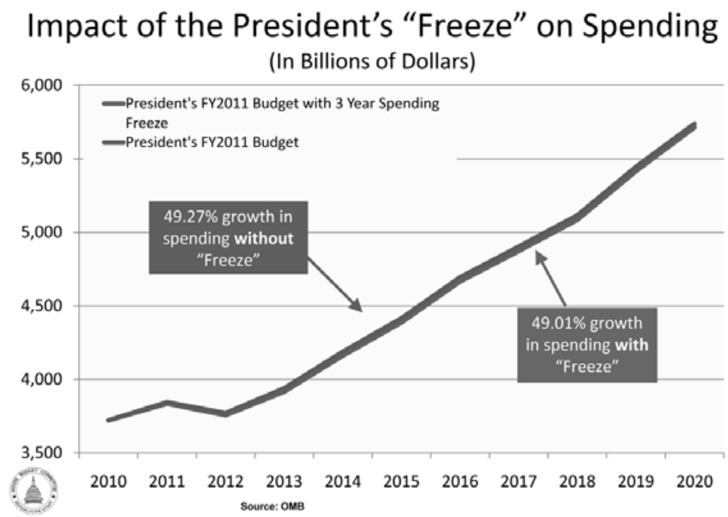
Mr. DIAZ-BALART. Thank you very much, Mr. Chairman.

You know, there are some things we do agree on, I think, you know, the fact that the debt and deficit is unsustainable and we have to address it. And we keep hearing about hard choices. The President talked about hard choices, you have talked about choices, we have all talked about hard choices.

The American people, families, small businesses, even large businesses, are having to make those hard choices every day, real hard choices, not theoretical hard choices. They are really making serious hard choices. They don't blame, they can't, nor do they, that is just not what most Americans do, they don't blame others for the tough decisions they are having to make. They don't pound their chests when they make the tough decisions, they make them. And they make those hard choices on a daily basis. They don't, frankly, make partial hard choices—I am talking about people in leadership, whether it is the head of a family or a small business or a large business—they don't make partial hard choices that don't solve the problem and then say, but I am going to wait for an independent commission to make the hard choice that will solve the problem for me. That is not what families and small businesses have to do.

By the way, I am not criticizing just this administration, I am talking about Congress. And I am talking about what the American people don't do, the American people don't do what Congress does, they don't. They make the tough choices. They don't blame others. They don't make half—I was going to say a different word—they don't make half hard choices and expect some other commission to make them for them. They show leadership every single day and they make the hard choices.

Can we put up chart 9, if that is possible? We hear the President himself talk about the hard choices that this budget makes on this 3-year partial freeze. There it is. Those are the hard, difficult choices that are being proposed in this budget. See, I happen to agree with Mr. Andrews, there are some hard choices that have to be made. That doesn't do it.



Dr. Orszag, you are a straight shooter. We may disagree but you are a straight shooter. Do you really believe that the 3-year freeze, when you have said that that doesn't solve the problem, that you are waiting for this commission, you are going to create this commission to then come up with proposals to solve it, do you really believe, with a straight face, that I can look at the American people who are making real tough choices and their families with their businesses and say that we are doing the same thing because we are doing a temporary freeze, and we are doing some other things, and then we are going to have a commission to come back and tell us how to make the real choices to solve the problem? With a straight face, do you really think that we are making the same sacrifices in government that the American people are in their businesses and in their lives and in their families, are we making the same tough choices that they are?

Mr. ORSZAG. Two comments; first, one of the reasons we are so focused on promoting job creation now is to help those struggling families today because unemployment remains too high.

Second, with regard to these deficits, the budget includes more than $1 trillion in deficit reduction over the next decade, more than any administration has put forward in its budget in more than a decade. And I would say, if every family had to get its proposals through the Congress, the hard choices it would make would be much more difficult to enact also. We are trying to get this done in a way that is feasible. The only way we are going to get to where we need to be ultimately, given the legacy we inherited, is if we work together. And that is exactly what we are trying to do through this commission.

Mr. DIAZ-BALART. But Dr. Orszag, you have said before that this budget will not get us to where we need to go and that we need that commission.

Mr. ORSZAG. Because we recognize that we need to work with you to get all the way there because, frankly, we can't do this by ourselves. Even if we put forward a bunch of proposals to get the deficit down to 2 percent or 1 percent, or zero, unless we have the Congress of the United States working with us, then it is a meaningless document.

Mr. DIAZ-BALART. Well, I understand that. You obviously have to get the Congress to do it. But with all due respect, you have blamed the past and the past administration as if that was a dictatorship. Now you control the House, the Senate, and the administration, and you are saying—am I hearing you correctly that the President is now saying that he cannot get it done, even though he controls the White House and the same party controls it and he needs a commission to get it done, a decision that every single American family makes every single day? They make those hard choices. Are you saying the President that controls the House and Senate is either unwilling or unable to get it done? I just want to make sure that I understand what you are saying.

Mr. ORSZAG. Congressman, as you know, one of the things that has developed over the past period of time is that in the United States Senate, at this point, basically every single thing requires 60 votes. And as you know, in a matter of weeks, or days—I don't have the exact update—Democrats will not have 60 votes in the United States Senate. So the comment that Democrats control the Senate is simply not accurate relative to the way voting actually works. But I appreciate the theatrics——

Mr. DIAZ-BALART. But then you cannot criticize the previous administration who had less votes for everything. It goes both ways, sir. It works both ways.

Chairman SPRATT. Ms. DeLauro.

Ms. DELAURO. Thank you, Mr. Chairman. And thank you, Dr. Orszag. Just one question, and then I will move to a question about jobs and infrastructure.

I would just say, and my colleagues have said it, Mr. Ryan's plan is constructive, I would concur. But as I see it, very simply and very quickly, it partially privatizes Social Security, it dismantles Medicare, it block grants Medicaid, it cuts taxes for the richest 1 percent of the people in this country, and it increases taxes for the middle class. As far as I can tell, we have gone down that road before. It has been rejected by the public; I believe it will be rejected again.

Let me move to infrastructure, an issue you know I am particularly fond of, Dr. Orszag. It would appear that the budget eliminates the idea of a national infrastructure bank as it was proposed last year with the capitalization of $5 billion a year over 5 years. Instead, we have a National Infrastructure and Innovation Fund within the Department of Transportation.

I am just going to read down several questions so that you can then at one time answer them. How much private capital do you anticipate the fund will leverage and how many jobs do you think can be created with the fund? Is the $4 billion request for 2011 a one-time request or does the administration propose this as an ongoing funding level? If the fund is located in the Department of Transportation with a board composed of senior DOT officials and other Federal agency representatives reporting to the Transportation Secretary, how do we expect or how can we expect it to be an objective, independent entity?

Further, questions with regard, it looks as if we are just codifying the Tiger grant team. How is the fund not simply codifying the Tiger grant team? And it also appears as if the budget continues the TIFIA assistance program for surface transportation. My question is, why didn't the administration propose folding the TIFIA program into the fund? And does it make sense for DOT to have two Federal credit programs, the fund and TIFIA that make loans and provide other forms of credit to assist with surface transportation?

Finally, it would appear that this new fund is singly about transportation. The bank, as you know, would have gone beyond transportation infrastructure to the environment and energy, telecommunications. Is it a sense that we are going to start out with transportation, expand it to other sectors, or do you believe that we should just do a transportation infrastructure? If you house it within DOT, it does become problematic if other sectors are to be added in the future.

So let me ask you all at once. I am sorry for all of that, but I never get three questions.

Mr. ORSZAG. That is okay. I think there were more than three, but that is fine.

I know this is an issue that we have discussed at length in the past and it is something that you feel passionately about. The basic goal here is to get a concept operational, building on the success that we have had with the Tiger grant program that has been successful, get a concept operational, and then after proof of concept, it could be expanded both into other areas and perhaps spun off if necessary.

You had asked a series of detailed questions. I think the most auspicious approach might be for me to get back to you in writing on all of them.

Ms. DELAURO. Why don't I lay those questions out for you, Dr. Orszag?

Thank you, and I yield back.

Chairman SPRATT. Mr. Austria.

Mr. AUSTRIA. Thank you, Mr. Chairman.

Dr. Orszag, I know it has been a long afternoon. Thank you for being in front of this committee again and your testimony today.

I think we all agree that we are going through a weak job market, that our focus here should be the economy and creating jobs. And I think the American people expect Congress to be making some real policy changes here, to be moving forward with real policy reform.

It has been talked about earlier, and I think all of us, when we go back to our districts, we face our constituents, there are Americans out there, the American people, that are struggling right now, families that are struggling to make it from paycheck to paycheck, small businesses struggling to make it from payroll to payroll. And you made a comment earlier that it was in your previous job or your previous career that you just put out ideas. And I think now is the time that we have to be moving forward with some real policy reforms.

We have had this discussion, but I want to go back to this, and that is, it seems as though this budget, all the real work again is being left to this fiscal commission. And you just recognized earlier that, unless this Congress, and I think in a bipartisan manner, stands behind this commission, how successful can this commission be? You have an administration that is proposing this fiscal commission, but you recognize the fact that it is going to take Congress to support this commission in order for its recommendations to be successful. And I guess in my opinion, isn't it the job of the elected officials, all of us here and the administration, to make the policy decisions that need to be made?

Mr. ORSZAG. Let me try to clarify also because I think there have been various attributions of unsustainability and what have you. The hole that we face is so deep that despite more than $1 trillion in deficit reduction contained in this budget we are still in the position where further steps are necessary, and we think the only plausible way to take those further steps is if we do it together. So, yes, we have a fiscal commission to get us the rest of the way there, but it is simply, I think, inaccurate to say there aren't lots of hard choices. You don't get $1.2 trillion, more deficit reduction than any previous administration has proposed in more than a decade, without making lots of hard choices. Now, is it enough? No, we have admitted that. We need to work together to get the rest of the way there, and I hope we can.

Mr. AUSTRIA. I appreciate your response, but I think it was mentioned earlier that there has been one proposal before this committee, Congressman Ryan has a proposal. I would have liked to have seen a firm proposal today before this committee that we could have a true debate on, not wait for a commission to report back.

Let me also talk about the debt because I have three teenage sons at home. And I didn't come to Congress just to continue to run up more debt by the public. In this budget, it more than doubles over the next 5 years, it triples by fiscal year 2019 from the current levels. The budget would push the debt to $9.3 trillion this year, or 63 percent of the GDP, and I believe that is the largest in at least recent history, maybe in history, and that concerns me when we are talking about the future down the road. At what point do we get control of the amount of debt—which I believe is hurting our economy right now—within this budget proposal?

Mr. ORSZAG. Well, again, right now we find ourselves in an exceptional circumstance because private borrowing has collapsed, the interest rate on 10-year bonds remains below 4 percent, we have taken exceptional action to rescue the economy—and, frankly, that was necessary. If we had not done that, as I have already said, 1.5 to 2 million more people would be unemployed today, the economy would not be growing at 5.7 percent at the end of 2009, as it was, and we would still face—I mean, we sort of glide right past it. If you rewind the tape for a year and look at the prospects and the discussion then about the possibility of another depression, about financial market meltdown, as tough as the situation we face today is, it is much better than many predictions suggested.

Mr. AUSTRIA. But we are continuing to spend. Let me just ask you; in this bill, how many new entitlement programs are created in this budget? And what is the total amount of spending increase is involved in those new entitlements?

Mr. ORSZAG. Again, net deficit reduction of $1.2 trillion, discretionary savings in the non-security budget of $250 billion. And I can get you a precise answer to your question afterwards.

Mr. AUSTRIA. And then the President has talked about the need for fiscal restraint. How is the administration going to enforce the spending freeze that we have talked about for non-defense discretionary programs, how do you enforce that with this type of budget proposal?

Mr. ORSZAG. The way you can enforce it is through the regular congressional process, the 302(a) and 302)(b) process, but as Mr. Ryan and others already asked, if you and your colleagues are interested in statutory discretionary caps that better enforce that, that is a discussion we can have.

Chairman SPRATT. Mr. Edwards of Texas.

Mr. EDWARDS. Dr. Orszag.

Chairman SPRATT. Would you yield? Dr. Orszag, we have been going on for 2½ hours. Do you want to take a seventh inning stretch?

Mr. ORSZAG. Up to the committee. I am just loving this.

Mr. RYAN. How many cans of diet Coke have you had?

Chairman SPRATT. Since we are having such a good time, we don't want to interrupt it. Let's go forward.

Mr. Edwards.

Mr. EDWARDS. That is the first answer, Dr. Orszag, that brings into question your credibility.

Let me begin by saluting you and the administration for taking four major steps toward trying to get this car out of the ditch; a 3-year freeze on non-defense discretionary spending. That is significant. I am still disappointed some of my Republican colleagues said, well, that is really not significant. Maybe those who think a reduction of $250 billion in the deficit isn't significant, that might reflect how we got into this ditch in the first place.

Secondly, I commend the administration for supporting a pay-as-you-go statute. I think if we had that in place and had Speaker Hastert and Republicans in this Budget Committee in this room not allowed that rule of the House to go out into left field in 2001 or 2002 we wouldn't be in this ditch facing the kind of economy and deficits that we are facing.

Number three, I salute you for proposing a genuine effort to try to reduce the deficit by $1.2 trillion over a period of time. I would challenge anyone to suggest that is not a significant amount.

Fourth, I commend the administration for supporting the bipartisan commission to try to deal with entitlement spending. I know there has been some partisan criticism of that and yet, as I recall, I have sat on this committee for a long time, as I recall, Dr. Orszag, during the 12 years that Republicans each and every year passed a partisan budget through this committee, I don't remember any long-term entitlement spending reductions passed during those 12 years through the House. In fact, just the opposite occurred. On a partisan basis, they passed the largest increase in Medicare spending since Medicare was created in 1965.

I do want to go on record as saying I am one Democrat who believes our short and medium-term deficit reduction goals ought to be even more aggressive than the administration has proposed; I intend to speak out on that.

But having said that, I also must say that it is disappointing that some of the captains of the economic Titanic, those who wrote budgets that put us into the worst recession since the Great Depression and gave us the largest deficits in American history after they inherited the largest surpluses in American history, now do nothing but take pot shots at each of these four very substantive proposals the administration has made.

I welcome bipartisan support and dialogue, but those who were in charge when we went for the largest surpluses in American history and the largest deficits in American history ought to, if they are genuine about that, be a little bit more open minded rather than immediately criticizing each of these four very substantive proposals.

I do want to commend Mr. Ryan. I think his proposal is substantive, it is dramatic, if not revolutionary, as compared to programs as we know them in the Federal Government. I think this is an opportunity for the American people to see a dramatic difference in the vision for the future of our country, one the administration has proposed, again, as we try to start reducing the deficits, the other one proposed by Mr. Ryan, not just any back-bencher Republican, the leading Republican, a well-respected Republican on the Budget Committee, genuine about reducing the deficit and the national debt, but one that, nevertheless, is a proposal that would eliminate Medicare as we know it for people under 55, partially privatize Social Security—and I have seen the cost of that in years past, it is up to $2 trillion in lost revenues to the Social Security Trust Fund.

Also, as we talk about new spending, I think Republicans are right to ask about the level of new spending when we have the deficits we face. But I think it is also fair to look at the level of new tax cuts proposed by Mr. Ryan in the Republican alternative vision for our country.

Let me just ask you this question: Do you have any kind of cost on what it would add to the deficit, some of the proposals in that Ryan road map, the Republican road map, the cost of eliminating the estate tax over 10 years, reducing individual—the highest tax rate from 25 to 35 percent, eliminating the capital gains tax, interest income and dividend income, and extending the 2001 and 2003 tax cuts, do you have any ball park numbers on how much those individual actions would increase the national debt over a 10-year period?

Mr. ORSZAG. We will get you exact figures, but we are talking about trillions of dollars shifted and offset through the other changes, including to, in particular, Medicare and Medicaid, to offset those huge shifts in the tax cut.

Mr. RYAN. If I could just pleasantly interject.

Mr. EDWARDS. Sure.

Mr. RYAN. The status quo is unsustainable. Medicare as we know it will not exist in the future. It has a, at minimum, $38 trillion unfunded liability. So we are all kidding ourselves if we think Medicare for under 55-year-olds is going to look tomorrow exactly like it looks today because no matter who is in charge around here, it is not going to look the same because it is totally unsustainable. Peter Orszag is the first guy who will tell you that.

Mr. EDWARDS. And that is why they have proposed a bipartisan commission so we can sit down together.

Mr. RYAN. It sounds like you are not going to take my ideas very seriously.

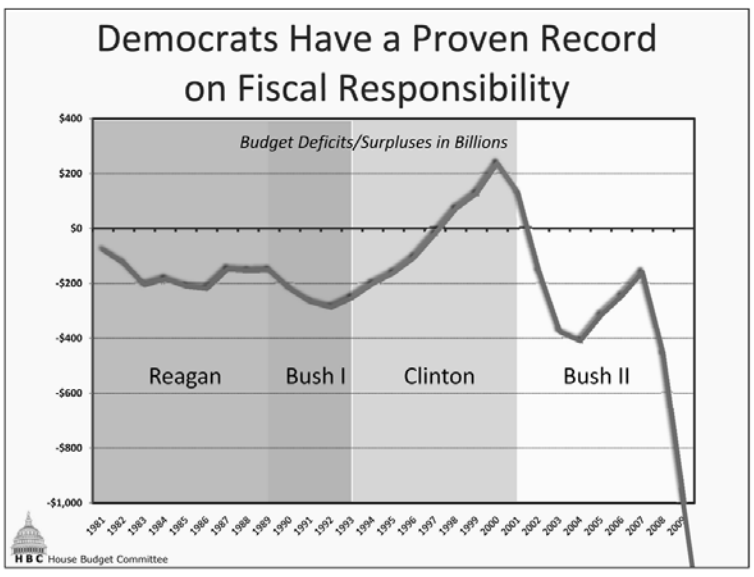
Mr. EDWARDS. Mr. Ryan, you have never been able to get the vast majority of Republicans in your own caucus to support your very bold and honest proposals to reduce the deficit. So maybe we can do this on a bipartisan basis. I salute you for offering some tough choices and an alternative position. It is an honest proposal, and we ought to have a debate and debate that relative to the President's budget.

Thank you.

Chairman SPRATT. Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman. I thank you, Dr. Orszag.

Can we have the first chart? Dr. Orszag, I appreciate the fact that you have indicated that tough choices have to be made. This chart focuses on the tough choices that were made when the blue line was created. In 1993, we passed a budget making the tough choices. That was severely criticized; in fact, criticized so effectively that Democrats lost their majority in that next election.



In 1995, when the new majority took over, they passed budgets that were viewed by President Clinton as irresponsible and he vetoed all of them. In fact, the government was closed down because he refused to sign the Republican budgets. If you want to know what would have happened if he had signed them, we do know because they passed them again in 2001 where you began the last red line, and you can see exactly what happened.

In 2001, at the end of the Clinton administration we had a projected surplus of $5.5 trillion. That was converted, as you know, to additional debt of approximately $3.5 trillion or more. Had we not messed up the budget in 2001, we would have paid off the national debt 2 years ago, a debt held by the public. Now we find ourselves in a huge deficit.

One of our first priorities, obviously, is in creating jobs. Now we are in the ditch with the deficit. My first question is, if we cut spending—affecting the deficit, you can either cut spending or increase taxes. If we cut spending, what effect would that have on jobs?

Mr. ORSZAG. Right now?

Mr. SCOTT. Right now.

Mr. ORSZAG. Right now, in 2010, when we face a big gap between how much the economy could produce and how much it is producing, either raising taxes or reducing spending today would be harmful to jobs because the key impediment to job growth right now is boosting demand for how much firms could produce. That situation changes over time, but for 2010 that is the answer.

Mr. SCOTT. And so if we were to do anything credible about the deficit this year, it would have an adverse effect on employment.

Mr. ORSZAG. It would be counterproductive, yes. That is not to deny that we need to get the deficit down over time, but this year it would be counterproductive.

Mr. SCOTT. In terms of dealing credibly with jobs, one of the challenges we have is, as we create jobs on the Federal level, States are laying people off. The Recovery Act provided $140 billion for States, and yet they still cut their budgets an additional $300 billion for a total of almost $450 billion. That just went to offset what the States were doing.

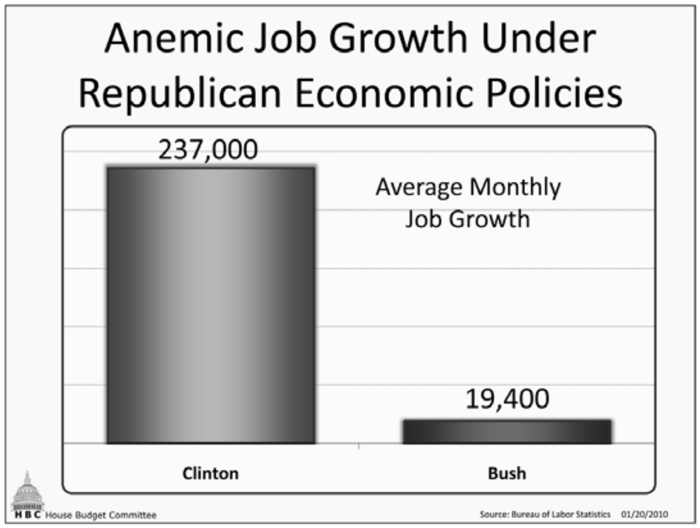
Is it accurate that we have essentially offset the damages the States were doing to the economy?

Mr. ORSZAG. We have, through direct State fiscal relief and through Federal actions, offset—I will get the exact calculations, but offset the drag that State and local governments typically exert on a recession because they are doing counterproductive steps during a recession.

Mr. SCOTT. So one of the challenges we have is just to keep up to zero to get up to the point where we are offsetting what the States are laying off. When we create a job and the State lays off a job, we haven't made any progress. So the first almost $450 billion——

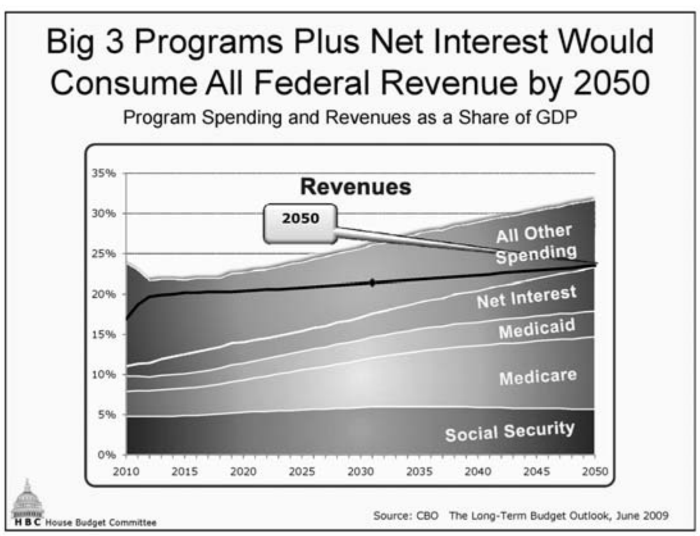
Mr. ORSZAG. Without commenting on the exact figures because there is, I think, some ambiguity, one of the reasons why State fiscal relief was provided through the Recovery Act in a variety of ways was to offset the actions that States would have to take to lay off workers, to lay off nurses and teachers and cops, and so on and so forth, which would exacerbate the downturn.

Mr. SCOTT. Can we get the next chart, please?



When we had good fiscal responsibility during the Clinton administration we created an average of 237,000 jobs a month. During the Bush administration, although we were overspending the budget by $8 trillion over 10 years, we did worse.

The long-term fiscal challenges we have in the next chart, this chart shows the change in percentage of GDP of Social Security, Medicare, Medicaid, net interest, and all other spending. If you look closely, the only thing that is really growing is Medicare. So if you wanted to solve the problems, it seems like getting rid of Medicare would be one way to do it, if that is the tough choice that you would make.



I understand you said you would have to cut Medicare 75 percent. Can you explain what impact that would have on a person who is trying to get health care with a Medicare voucher that is only 25 percent of the cost of health care, and what it would do to employees if you eliminated the tax preference for health care, if you eliminated that and had people essentially going out into the market as individuals rather than the market, what the tough choices would amount to in health care choices that the Republican alternative would envision?

Mr. ORSZAG. And I think with regard to the 75 percent you are referring to the reduction that would occur in Medicare and Medicaid spending under Mr. Ryan's, the Republican alternative.

Again, I am going to give him credit, too, for stepping forward with a proposal, but there is a significant question whether that is even a feasible approach because you would be providing individuals with a voucher that would not pay for the cost of health care over time, an increasingly small share of the cost of health care over time, they would not have the type of benefit that would be provided through Medicare, where there is less uncertainty about the cost that they face. So they face not only more definite money out of their pocket, but a lot more uncertainty about how much they would have to pay, And they would be struggling with many of the same problems that individuals in the current individual market struggle with, which are unfortunate.

So in that situation I wonder whether future Congresses would actually stick to a voucher level that was inadequate for the Nation's elderly to purchase their own health insurance. And if a future Congress didn't, not only would you have dramatically changed the Medicare program, you wouldn't even get the budget savings that Mr. Ryan is aiming for, the point of which is, I think what we need to do with regard to Medicare and Medicaid is get at those underlying drivers, provide much better information about what works and what doesn't, change incentives for providers so that they have incentives to provide quality, not quantity, improve incentives for prevention and wellness, and so on and so forth. You can go down the list. That is a different structure and a different approach, but I would say, frankly, without all of those components present anyway, I am not sure Mr. Ryan's approach would even work.

Mr. SCOTT. Thank you.

Chairman SPRATT. Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Mirabile dictu, one of the freshman on this committee gets to ask a question on our side of the aisle.

I am going to try to ask three questions, Mr. Orszag. One is local, but very important to this region.

In the budget OMB states that environmental and construction projects are not related to the Corps' main mission areas in deciding to divest the Corps of those kinds of projects. Obviously that has implications for the Chesapeake Bay, and many of us are concerned that transferring that authority to EPA, you don't have the Corps capacity—you should forgive the expression—at EPA to be able to do the same things that the Corps of Engineers does. You may comment.

Mr. ORSZAG. Again, what we are trying to do with our Army Corps of Engineer proposal is to focus on the three traditional areas that the Army Corps of Engineers has focused on; commercial navigation, aquatic ecosystem restoration, and there has been an additional area added by the Congress traditionally. We think that is better addressed through, as you correctly note, other funding streams. We have more than $3 billion for the various revolving funds involving clean water. We think that is a better approach to that particular problem than funding those projects through the Army Corps of Engineers.

Mr. CONNOLLY. Well, hopefully this is the beginning of a dialogue on that.

Mr. ORSZAG. Absolutely.

Mr. CONNOLLY. At least in my district, the Recovery Act actually is working. It has funded a lot of transportation projects, it has helped with our school systems, though they are not out of the woods. It is funding some very important technology, R&D-related projects, et cetera.

If the stimulus is working—and I think it is—why do we need another jobs bill or another jobs initiative contained in this budget? And aren't we concerned that given the sort of surprising strength and the economic growth of the last quarter, should it be sustained anywhere near that level we are going to see jobs created anyhow, and the lag time between this money being invested and actual jobs created is going to be long, as we just saw with the Recovery Act?

Mr. ORSZAG. Look, the Recovery Act has succeeded not only in promoting employment, but basically primarily in restoring economic activity, in moving from a collapsing economy to a growing one, but where we still lag behind is in the employment market. And so the jobs package is focused specifically on steps we can take just to, again, more tightly link GDP growth to employment growth, so something like the jobs and wages tax credit.

So the Recovery Act is working. It has averted a second Great Depression, along with other measures that were taken. But the employment market remains too weak, and the question is whether we can shorten the lags involved in when the economy starts recovering and when the jobs market does.

I agree with you that private sector forecasters are projecting that by this spring there would be positive job growth, but even when that happens, it is likely to be smaller than would be necessary even to work the unemployment rate down. And don't forget we have that 7 million job gap in terms of jobs lost since December of 2007 that need to be worked off. So I don't think that the biggest risk we face is that job growth is going to be too rapid without further action. I think further action is beneficial.

Mr. CONNOLLY. Thank you. And I know that will be the beginning of a dialogue as well.

My third and final question has to do with the ranking member's proposal, and I certainly join in the chorus of praise that he at least has put something on the table. But I part ways with some of my colleagues in praising that proposal because, quite frankly, I see it as a radical departure from decades of hard work in the United States to protect senior citizens, both with respect to their pensions through the Social Security program, and their health care through Medicare. We made a conscious decision in this country to provide that kind of protection under the guise of deficit reduction. To now threaten all of that certainly presents us with a stark choice. For me it is an easy one, and I believe for my constituents, when they understand it, it will also be easy. You may want to comment.

Mr. ORSZAG. I am not going to dissuade you from the depiction that it is a very dramatic change. There is no question about it. And as I have already said, it not only means higher costs for beneficiaries, it also means more uncertainty around those costs for Medicare beneficiaries. And we haven't even gotten to the tax changes where there would be tax reductions at the very top and tax increases in the middle and towards the bottom so that the total doesn't change, but the burden is shifted away from higher earners and towards middle earners.

Mr. CONNOLLY. I thank the gentleman. My time is up.

Chairman SPRATT. Mr. Schrader.

Mr. SCHRADER. Thank you, Mr. Chairman.

There has been a lot of talk about Mr. Ryan's proposal and the President's proposal. I guess I would like to know if Mr. Ryan's proposal is a proposal that the Republican leadership is seriously entertaining. I don't know if there is a way through this committee and the Chair or through the media that we can find out if this is a proposal, that the party of no is moving off the party of no and actually going to go with a legitimate proposal. I think it is either one or the other because, as another Representative pointed out, there are not a whole lot of other proposals out there; we have got these two, and we need to be against everything, or we can embrace the proposal of the ranking member of the Budget Committee. So I would like to see if we can get that information, Mr. Chairman.

Just a few quick questions if I might. It would seem to me that the 3-year freeze in discretionary spending has a value beyond the $250 billion—which is a lot of money in my neck of the woods—and that is showing the investors and the American people that we are beginning to get serious about controlling our debt. Wouldn't you agree with that?

Mr. ORSZAG. Yes, especially as part of a broader set of measures to reduce deficits by more than $1 trillion, which is what this budget does.

Mr. SCHRADER. And isn't it true that about a week, week and a half ago we had an opportunity—well, the Senate had an opportunity go with the statutory commission that had been praised and talked about by both sides of the aisle here today, but six or seven Republican cosponsors of their very own bill switched to "no" on that and ended up defeating our opportunity to go with statutory PAYGO, isn't that correct—excuse me—statutory debt commission?

Mr. ORSZAG. That is correct.

Mr. SCHRADER. So I think it is a pretty good comment that the President is, despite that setback, still willing to step out and offer the olive branch and say, Hey, I will do it on my own in a bipartisan way; let's get serious about the debt and we will put everything on the table, not say it is going to be all one sort of proposal or another. I would think that that should indicate to the American people that this President at least is still serious about bipartisanship and wanting to work together with folks.

Mr. ORSZAG. I think that is exactly right.

Mr. SCHRADER. A couple of quick comments, if I may, that, believe it or not, a couple of things hadn't been brought up in 3 hours. One is that I am a little concerned about just the focus on non-defense discretionary spending. In my area, education, health care, public safety, and the economy are the top issues. I have heard it said in quarters that our greatest threat to this Nation is the economy, not necessarily a land war in Afghanistan. And while I think we should support the veterans 100 percent, exclude them from any sort of reductions, and indeed should make sure they are well cared for, that inefficiencies in the defense procurement system, homeland security has a long way to go, I think, in terms of becoming a functioning body based on what we have seen here in recent years, and again, I do have some concerns about the buildup in Afghanistan. So I would hope that the administration might consider some initiatives in those areas.

Mr. ORSZAG. Yes, absolutely. And let me again emphasize, the defense budget has been scrutinized, and there are efficiencies possible that Secretary Gates has already identified. So there are some important—especially in the procurement budget, frankly, canceling additional purchases of the C-17, canceling alternative engine for the F-35 fighter jet, canceling the CGX Navy ship, a whole variety of other terminations and reductions.

Secretary GATES was remarkably effective working with the President and the Congress in terminating unnecessary weapon systems last year. We want to build on that, continue that success, and continue to reform especially the procurement part of the defense budget.

Mr. SCHRADER. Last comment, if I may, Mr. Chairman.

I applaud your efforts in trying to stimulate small business. I am one that happens to believe private enterprise is probably the best stimulator of the economy, and anything we can do to get small business going is probably good. I have some degree of skepticism over the tax credit proposal. I am going to be polling my Chamber and members of the business community and see what they think.

But what about the administration stepping in a little bit stronger even than they have already with our banking and regulatory community? There seems to be this tension going on between over-regulation, making the bankers concerned, but at the same time we don't want to end up back in the mess we are in.

Are there any new initiatives, any thoughts that the administration is going to use to pursue areas of increasing the lending from the private sector, which I think is probably the long-term best bet here?

Mr. ORSZAG. Well, with regard to the regulatory system, two comments; the first is that clearly the administration is very strongly in favor of financial regulatory reform legislation. The second is I believe it is correct that Secretary Geithner will be appearing before your committee in the near future. And with regard to more specifics on regulatory policy, I am going to defer to him given the sensitivity surrounding the appropriate boundaries in regulatory policy.

Mr. SCHRADER. Thank you very much.

Chairman SPRATT. Mr. Langevin.

Mr. LANGEVIN. Dr. Orszag, thank you very much for your patience in being here today and for the hard work you have put into putting the budget together. We are going to take obviously quite a bit of time in scrutinizing it and working with the administration to try to get this right.

We are obviously deeply concerned about where the economy is at this point. We have obviously come a long way from where we were. One year ago we were losing over 700,000 jobs, as we have talked about, per month and the economy shrank by about 5.4 percent, and we have seen a slow turnaround. Of course last month we saw job losses at one-tenth the rate from 1 year ago and economic growth at 5.7 percent is my understanding. Obviously this is remarkable progress, but right now, quite frankly, my constituents can't find jobs. In Rhode Island, we have the third highest unemployment rate in the country at 12.9 percent.

So can you, once again, for my own knowledge and for my constituents back home, more specifically outline the proposals geared toward job creation? And how are these programs projected to decrease unemployment and over what period of time? And if you could, after that part of it, talk about specifically the funds that would be going, in the job creation portion of it, to the States, more specifically, to local cities and towns?

One of the criticisms that we had with the stimulus money is that it went to States and it didn't filter down the way we had hoped to, particularly to local communities. So if you can talk specifically to money that might be going to, for example, the CDBG, which is something that our local mayors and town administrators have been clamoring for because those are the shovel-ready projects. If you could tackle the first part.

Mr. ORSZAG. Sure. With regard to the first part, we have put forward a $100 billion jobs package. Some of the details are still to be worked out, working with the House and Senate. We have identified, for example, a $33 billion jobs and wages tax credit which would provide up to a $5,000 tax credit for hiring more people or expanding wages at a firm. And that will help to promote job growth because some small businesses are right on the edge of either hiring someone or providing a wage increase, and in return for this tax credit they would go ahead and do that. So that is one of the key things.

Now, with regard to State and local fiscal relief, as you know, the Recovery Act included, at the State level, important relief delivered throughout the Medicaid program. This budget proposes continuing that so-called FMAP for an additional 6 months beyond the current level.

And then you asked about CDBG. I will get the exact figure, but I believe we are funding it at $4.4 billion in 2011. And we also have, if I remember correctly, a $100 or $150 million catalytic grant program to try to create more innovation within that part of the budget.

Mr. LANGEVIN. That is helpful. So the money that would go towards tax credits and other incentives for small businesses, that is included within that $100 billion?

Mr. ORSZAG. Correct, within that $100 billion, yes.

Mr. LANGEVIN. So if I could, turning to the other part of our challenge, not only creating jobs—which is vitally important in both the short and long run—but also, as we talked about, as equally important, deficit reduction, can you talk about your projection as to how much these job creation, small business investments translate into overall deficit reduction as a percentage of GDP once the jobs are created—obviously people are paying taxes—and is this economic growth enough to reduce our deficits to sustainable levels?

Mr. ORSZAG. One way of answering that question is that when you generate an additional dollar of economic activity you typically reduce the deficit by somewhere between 35 and 33 cents on the dollar. So if a dollar of additional job creation activity from the Federal Government creates a dollar of additional economic activity, something like a quarter to a third of it would be offset through additional revenue, in particular as the economy picked up.

The key thing though is, let me just again emphasize, unless this economic recovery continues and unless we spur it on, we will never get our outyear deficits down. I mentioned we are at 10 percent now, we need to get to a much lower number. The big reduction comes as we move from 10 percent of the economy to 5 percent of the economy by 2015 because of the economic recovery, because of economic activity picking up. That abnormally low revenue as a share of GDP, which is currently the case, will increase as economic activity picks up. And certain cyclically sensitive spending categories like unemployment insurance, food stamps, and what have you, naturally decline as the economy picks up.

By the way, the fact that that is happening, revenue is down, unemployment insurance, food stamps up, that is beneficial to help mitigate the economic downturn now, but as the recovery takes hold, those automatic stabilizers naturally fade and the deficit declines, and that is crucially important to getting this deficit down over time.

Mr. LANGEVIN. My time has expired. I just want to say that I applaud the President and look forward to working with you to focus on creating jobs, jobs, jobs like a laser beam. We have to have that focus. There are too many people that are out of work. We get it here in the Congress, I know the President gets it, and this is going to be a strong partnership to make sure that we get this right.

Chairman SPRATT. Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman. Mr. Orszag, thank you for your presentation and answers.

Last week I was on Fox Business News with Stuart Barney responding to the State of the Union, and he asked me whether or not I thought that restoring the pre-Bush tax cut rate on the upper income earners would be an impediment to growth and would stop job creation. I responded that, as someone who started a business and have two brothers and a sister, all of whom run businesses, and a father who developed a rather large company when the income tax highest rate was 70 percent, that I hadn't seen that in my experience, whether it was when President Clinton raised the highest rate or when President Bush lowered it. So I didn't see any reason to believe that. He disagreed with me.

I looked at his background, and I noticed—at least I couldn't find any evidence that he had ever run a business or been involved in the private sector. But I did notice that he, like you, went to the London School of Economics. So my question is whether you learned anything at the London School of Economics that would give you superior insight into how business people behave in situations like that?

Mr. ORSZAG. Well, unlike him, but I guess like you, I started and ran a small business, which we subsequently sold. And I would join you in saying the key thing for a small business is not the marginal tax rate, especially if all you are doing is returning it to the levels that existed during the 1990s, but rather it is demand for your product, access to capital, and good workers, all of which this budget is trying to focus on, get the economy back on its feet to promote demand, a variety of steps to promote access to capital, including through the Small Business Administration, and the new proposal that the President was speaking about today to spur small business lending. And then finally, in terms of workers in the workforce, investing in education because those are the workers of the future.

Mr. YARMUTH. Thank you for clearing that up for me.

I have to turn now to a more parochial subject; it definitely affects my State, Kentucky, but I think it also affects other States, including possibly the ranking member's, on this the question of LIFO. The budget proposes the elimination of the LIFO accounting method. In my State that would dramatically affect the bourbon industry, which is an incredibly important economic factor in my State. I know it affects the wine business and many other businesses in which aging is a factor, aging of inventory.

The President—and I applaud these goals—has suggested that we want to expand our exports, we want to increase our manufacturing base, and we obviously want to add jobs. By eliminating LIFO and doing it not just prospectively but retroactively, and requiring that the businesses that have been using it legally for many years would have to make up these incredibly large reserves, which would essentially be an enormous tax cut and which would put some of these companies out of business, have you thought about the impact in regard to those three goals the administration set of something like the distilling industry and others where it would seem to be something that would run counter to the other economic goals that we all have?

Mr. ORSZAG. Well, again, and as you know, the purpose of that proposal is that some firms use last-in/first-out accounting for tax purposes, sometimes they use different accounting in different settings, and there is a tax policy justification for moving away from that. Now, there may well be consequences for particular industries. Again, I am going to, given that it is a tax proposal and that you are going to have Secretary Geithner here, defer to him on answering the specific questions involved in particular industries. But again, the underlying tax policy justification for the change I think has been well laid out in a variety of articles. We will have to work with you on the impact on particular industries.

Mr. YARMUTH. I appreciate that. One last question—and it may have been answered here before, but I don't recall it. Some of our colleague over the weekend were talking about the fact and making the claim that, in terms of non-security discretionary income, that we raised it 84 percent in 1 year. Would you respond to that and speculate on maybe how they got that number and whether there is—well, just comment on that claim, please.

Mr. ORSZAG. Sure. It is not an accurate depiction of the base off of which we are freezing non-security discretionary spending. What happened is that category of spending went just north of $400 billion in 2008 to just south of $700 billion in 2009 because of the Recovery Act and because of the measures that were necessary to try to mitigate the economic downturn.

In 2010, it then declined to roughly $450 billion, a little bit south of that. We are freezing off of that lower level. So it went up, it came down, we are freezing off of the lower level. To claim that we are freezing off of that higher level is simply wrong.

Mr. YARMUTH. I appreciate that explanation.

Thank you, Mr. Chairman.

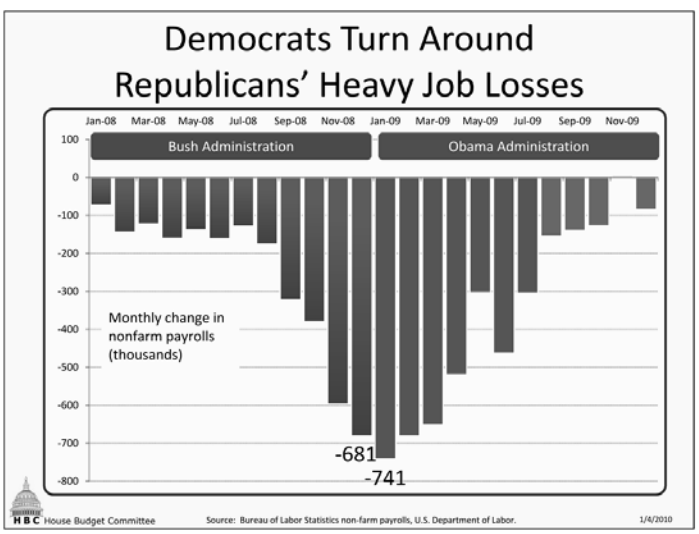
Chairman SPRATT. Thank you very much.

We now turn to Mr. Becerra as the cleanup hitter. Mr. Orszag has to leave as soon as Mr. Becerra has completed his question.

Mr. Becerra.

Mr. BECERRA. Mr. Chairman, thank you. And Dr. Orszag, thank you very much for your patience, for having answered every Member's question who attended this hearing.

I appreciate the President's remarks in his State of the Union Address last week. I appreciate that he understands the plight of so many American families and the difficulty they are having. If I could have chart 4 put up on the screens. I would like to talk a little bit more about why this is such an important discussion.



As we talk about a budget and deficits, and we talk in terms of trillions and billions, most Americans are thinking only in terms of number one, and that is the job that each of those individuals has. Unfortunately, for far too long we saw Americans losing thousands of jobs to the point where it got to be millions of jobs. And while finally we are starting to see a reversal of that job loss, it has taken some time. Each one of those bars that we see on that screen represents the number of jobs lost in the thousands, so you have to add up, if I am correct, Dr. Orszag, you have to add up every one of those bars and stack each bar on top of itself in order to figure out how many jobs have been lost in the last several years, most of them under the previous administration. And it has been some time in that course of those months to see some progress made.

Now, I note that there is one lone positive bar on that graph, and that was back in November, a couple of months ago, where we actually saw job growth. It was only 4,000 jobs that we netted in that month, but at least it was 4,000. If I recall correctly, you said that we had lost, as a country, more than 700,000 jobs the day that President Barack Obama was handed the keys by former President Bush in January 2009—741,000 jobs I believe the actual number was, which amounts to about 24,000 jobs Americans were losing a day in January 2009 as President Bush exited the White House. That has changed, obviously not enough because we still have to add each of those bars for each of those months that are depicted on that screen on top of these other, but as you mentioned before, we are hoping to see some positive net job growth in the next couple of months.

When you put that in the context of this discussion about deficits, I think most of us recognize that our priorities should be to make sure the private sector is creating the jobs that people need because once they are working then they can pay taxes. They can pay taxes, and we can take care of our obligations to make sure our men and women in uniform are well protected and well trained, that we have a well functioning government, et cetera, et cetera, et cetera.

So to me the most important discussion is not so much about the trillions and billions we talk about in deficits, but about the men and women who are right now working very hard to hold on to their jobs and their homes.

You talked quite a bit about the proposal the President has to freeze discretionary spending. I think it is a tough decision to make. It is probably something we have to do. I am very disappointed though to have heard the President say that it was only non-security discretionary spending as others have indicated as well. We used to hear about the several hundred dollar toilet seat. We know that during the height of the Iraq war Halliburton ended up charging the American taxpayer tens of millions of dollars for meals to our soldiers which were never served. We know from some recent information gleaned from the Department of Defense that in Afghanistan we can account for at least about $1 billion of contractor-related spending that we have no idea how it was spent, but it was about $1 billion in most categories that were examined.

That totaled about 16 percent of all the contractor dollars that have been expended by the taxpayers.

And so many of us believe that while we have to make the tough decisions to freeze spending in all accounts, if you are going to freeze spending for our schools, if you are going to freeze spending for seniors programs, if you are going to freeze spending for housing programs, for environmental cleanup programs, then we should take the same brush to scrub the Department of Defense. I don't think any military leader, general or admiral, would say that he or she is opposed to having the Department of Defense run in as an efficient manner as possible so that we can expend every single dollar that we give to the Department of Defense for our men and women in uniform.

So I would hope that the President and you all would reconsider this notion that there are some agencies that are protected while others that do very important work are not. And I know that you have mentioned also some reductions and cuts that are being made within DOD, but that doesn't mean that we can't continue to examine it, and I suspect Congress will continue to do so.

I just wanted to get into one final subject, and that is the proposal put by our colleague and friend, Mr. Ryan, the Republican proposal, which you mentioned before.

Again, I would agree with those who have said it is appreciated when someone puts forward a proposal. I would agree with my colleague, Mr. Connolly, that I totally disagree with it. And I hope you would again talk about how it would impact our seniors when it comes to health care and Social Security, since it would seem to move us towards privatizing those programs when we saw what happened to seniors' 401(k) accounts over the last 2 years when we saw a major dip in the economy.

So, having said that, I appreciate that you were here. I suspect you have answered my question by having answered any number of members' questions in the past. But I hope you will take a closer look at that defense budget, because while we all agree we have to provide our men and women in uniform with the best that we can offer, we have to make sure that we do actually give them the best that we can offer.

Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Orszag, thank you for your excellent answers, and thank you for your endurance and equanimity. We very much appreciate it, and we look forward to working with you as we move forward in the budget season.

At this point, I would ask unanimous consent that all members who have not had an opportunity to ask questions be given 7 days to submit questions for the record.

Ms. KAPTUR. Mr. Chairman, I would like to ask unanimous consent to place questions in the record regarding OMB's restricted bonding, borrowing, enhanced use leasing authorities in loan programs, and also on the FBI and financial fraud and the staffing that would be attendant to this budget in that regard.

Chairman SPRATT. Without objection.

[Questions submitted by members and Dr. Orszag's responses follow:]

RESPONSES TO QUESTIONS SUBMITTED FOR THE RECORD

REP. MARCY KAPTUR

Congress has acted to help the American economy recover from the disastrous policies of the last decade by passing the Recovery bill and other actions. I would like to focus for a moment on getting the Office of Management and Budget to act in a similar manner.

Dr. Orszag, the Office of Management and Budget has an enormous opportunity to enable the job creation potential of the federal government through the revival of dormant or OMB restricted bonding, borrowing, enhanced-use-leasing authorities, and loan programs that are already on the federal books. Examples include the Department of Defense's (DOD) Title III loan program (Strategic Metals Program including Beryllium, Magnesium, and Titanium Powder projects) and the existing bonding authority of the St. Lawrence Seaway Corporation. DOD's Title III loan program has been prohibited from use by OMB since the early 1980s and the St. Lawrence Seaway Corporation has not been allowed to issue bonds for decades. By allowing agencies and programs to use the existing authorities to spur economic development we lower the budgetary burdens and can help reduce the necessity of discretionary spending, which you have frozen.

Dr. Orszag, what is OMB going to do to get out of the way to allow programs that this Congress has created to allow the American economy to recovery?

Will you agree to meet with Members to discuss this more fully and can you provide the Committee with a full list of existing programs and authorities that OMB has restricted the use of?

The Administration has taken aggressive action to get the economy going again and to create jobs. The Administration worked closely with Congress to enact the Recovery Act less than one month after taking office, and OMB has focused on accelerating Recovery Act projects, while implementing the Act with an unprecedented degree of transparency. Further, the President has proposed significant additional measures to stoke job creation, including a new tax cut to promote small business job creation and new investments in infrastructure and clean energy. The Administration also supports temporary extension of a number of important measures in the Recovery Act to aid families hurt by the current recession.

I agree with you that the Administration should also work hard to promote economic recovery using existing authorities, and we are open to discussing any suggestions you and others have to do so. In terms of the specific issues raised in your question above, we believe that the current policies are appropriate:

- The Defense Production Act (DPA) Title III program is designed to maintain domestic defense industrial capacity for critical military items. While authority is provided in the DPA for direct loans and loan guarantees, the Department of Defense (DOD) is satisfied that the current program of purchase agreements meets the defense industrial capacity requirement. OMB will continue to work with DOD to maintain critical defense industrial base programs within the United States.
- OMB has not prohibited the Saint Lawrence Seaway Development Corporation (SLSDC) from using its bonding authority. That authority is capped in statute and the Corporation has not requested or used any of the remaining $3.2 million in borrowing authority since the early 1980s when the SLSDC's obligation to repay its debt was forgiven through legislation.

Dr. Orzag, America is at a crossroads and your budget recognizes a flaw in investigating and uncovering financial fraud. After pumping hundreds of billions into our financial system to stabilize the markets, we must commit the resources to ensuring that our system is protected from fraud that is destabilizing the very fabric of American society.

Quoting your own budget documents, "The FBI anticipates growing demands for investigations into fraud and public corruption relating to the government recovery efforts. Current levels of FBI agents and analysts are inadequate to address existing demands."

For the record, we would greatly appreciate a crosscut budget which identifies the different budget authorities of the FBI, United States Attorney's and Security & Exchange Commissions financial crimes, including mortgage crimes, and investigative units. We need to better understand how these three different agencies fit together and that the numbers you have asked for are appropriate given the immense need that your agency has previously identified.

The President's Budget provides significant and appropriate increases for these agencies to investigate financial fraud, while also focusing on coordinating enforcement efforts across components of the Federal government.

The FY 2011 President's Budget provides the FBI $453.7 million and 2,606 positions (2,071 agents) to investigate white collar crime, including mortgage, corporate, securities, financial crisis programs and government fraud. The request includes an increase of $75.3 million and 367 new positions (143 new agents). Similarly, the Budget requests $322.4 million and 2,371 positions (1,564 attorneys) for the U.S. Attorneys to prosecute white collar crime, including mortgage and financial fraud. Incorporated within the total is a $17.2 million enhancement providing for an additional 109 positions (88 attorneys). In general, new positions will be allocated based on the prevalence of financial fraud in various districts and regions.

The Department of Justice's resources for mortgage and financial criminal prosecution and litigation are not limited to the U.S. Attorneys. The FY 2011 President's Budget also includes 67 positions (45 attorneys) and $16.8 million for the Criminal Division to prosecute fraud; 639 positions (377 attorneys) and $117.3 million for the Tax Division to prosecute tax fraud; 34 positions (22 attorneys) and $4.6 million for the Civil Rights Division to address lending and foreclosure discrimination; and 118 positions (87 attorneys) and $28.3 million in the Civil Division for both affirmative and defensive civil litigation related to fraud and the Federal response to the financial crisis.

The FY 2011 Budget provides significant resources for the Securities and Exchange Commission (SEC) Enforcement program. The request for SEC base resources ($1.234 billion) includes $23 million to fund new staff in the Enforcement program. These new staff will work on investigations, litigation, and improving market intelligence and analysis. The request also would allow the agency to invest in new enforcement technology such as a system for managing tips and complaints, a case management tracking system, and risk analysis tools.

During the Savings & Loan crisis, estimates show that the FBI committed almost a thousand agents to this crisis. Given that the financial frauds being reported today, please give provide the committee with your confidence level that the resources for SEC, FBI, and US Attorney's are sufficient to uncover and prosecute the criminals in and around the financial crisis.

The Administration is very confident of its ability to combat financial fraud and white collar crime more broadly. Over the last several years, our capacity to combat financial fraud has grown substantially. The President's FY 2011 Budget request augments these increases by adding $93 million for additional FBI agents and U.S. Attorneys, and uses innovative "force multiplier" strategies to complement increases in personnel. For example, the FBI has developed property flipping software and other analytical tools to help detect and share fraud information. The President's request would also permit the SEC to add a total of over 200 staff years to its enforcement and examinations program to uncover and prosecute financial fraud. This funding level would also allow SEC to proceed with developing a new system for managing the tips and complaints the agency receives, as well as new surveillance and risk analysis tools to detect emerging problems and frauds in the securities markets.

The President recently signed an Executive Order establishing the Financial Fraud Enforcement Task Force, led by the Department of Justice and including the Department of Treasury, HUD, SEC and others, to strengthen Federal interagency coordination. The task force's leadership, along with representatives from a broad range of Federal agencies, regulatory authorities, and inspectors general, works with State and local partners to investigate and prosecute significant financial crimes, ensure effective punishment for those who perpetrate financial crimes, address discrimination in the lending and financial markets, and recover proceeds for victims.

REP. BETTY MCCOLLUM

Doctor, as the administration proposes to move forward with some of the provisions from the Recovery Act, what elements are you proposing to extend? Which ones are you looking at reframing? Why should we do this? And what is their costs, and what is the cost to our society and our economy if we don't reinvest dollars in the Recovery Act?

The President's FY 2011 Budget proposes to extend key measures from the Recovery Act to provide relief for middle-class working families' unemployed workers, and financially-strapped State governments. Specifically, the Budget proposes to extend several important Recovery Act tax provisions, including the new Making Work Pay tax credit, COBRA health insurance premium assistance, energy and housing tax credits, bonus depreciation for business investment, and increased expensing for small business. The Budget also proposes to extend the Recovery Act's enhanced Medicaid Federal Medical Assistance Percentage (FMAP) for an additional six months, extend emergency unemployment compensation and extended benefits, enhance the TANF emergency fund, and provide a second round of $250 Economic Recovery Payments to Social Security recipients and others who may not benefit from Making Work Pay. In total, these measures will provide $166 billion of support to individuals, families, businesses and State governments.

In addition to these extensions of Recovery Act measures, the Budget includes a $100 billion allowance for other jobs initiatives. This allowance supports job creation measures along the lines that the President laid out in December, including help to promote small business hiring, along with new investments in infrastructure and clean energy. The Administration is working with the Congress on the specific measures to be included in a jobs bill.

REP. ROB ANDREWS

It's my understanding this budget proposal does include proposals that would cut taxes for middle class families, would cut taxes for businesses, particularly those that create new jobs, and would continue investment in building roads and bridges and clean water systems, and things of that nature. Is that right? And about how much is that of the $3.4 trillion—$3.8 trillion budget that we're talking about here, how much is that?

The President's FY 2011 Budget includes $143 billion in tax cuts for families and individuals and $97 billion in tax cuts for businesses over 2010-2020, including enhanced incentives for saving for retirement, education, and business investment. These tax cuts are in addition to the more than $100 billion in tax cuts over 2010-2020 proposed as part of temporary recovery measures, including the President's proposed "Jobs and Wages Tax Cut" for small businesses. Furthermore, the baseline used for the FY 2011 Budget assumes extensions of the 2001 and 2003 tax cuts for those taxpayers with incomes of up to $250,000 (married) and $200,000 (single).

The Budget also provides substantial support for new investment in infrastructure. The Budget creates a $4 billion National Infrastructure Innovation and Finance Fund (I-Fund); invests in a smart, energy-efficient, and reliable electric grid; supports clean water infrastructure investments; modernizes the air traffic control system; and sustains support for high-speed rail. These proposals build on investments already enacted in the Recovery Act, which delivered the largest investment in the nation's infrastructure since President Eisenhower called for the creation of the national highway system.

REP. ROSA DELAURO

It would appear that the budget eliminates the idea of a national infrastructure (inaudible) as it was proposed last year with the capitalization of $5 billion a year over five years. Instead, we have a national infrastructure and innovation fund within the Department of Transportation.

How much private capital do you anticipate the fund will leverage? And how many jobs do you think can be created with the fund? Is the $4 billion request for 2011 a one-time request, or does the administration propose this is an ongoing annual funding level?

If the fund is located in the Department of Transportation, with a board composed of senior DOT officials and other federal agency representatives reporting to the transportation secretary, how do we expect or how can we expect it to be an objective, independent entity? Further, questions with regard to the—it looks as if we are just codifying the TIGER grant team. How is the fund not simply codifying the TIGER grant team?

And it also appears as if the budget continues the TIFIA assistance program for surface transportation. The question is, why didn't the administration propose folding TIFIA programs into the fund? And does it make sense for the DOT to have two federal credit programs, the fund and TIFIA that make loans and provide other forms of credit which (inaudible) surface transportation?

Finally, it would appear that this new fund is singularly about transportation. The bank, as you know, would have gone beyond transportation infrastructure, to the environment and energy, telecommunication. Is it the sense that we're going to start out with transportation, expand it to other sectors, or do you believe (inaudible) just do a transportation infrastructure? If you house it within the DOT it does become problematic if other sectors are to be added in the future.

The FY 2011 Budget includes a proposal that would create an independent operational unit within the Department of Transportation (DOT) called the "National Infrastructure Innovation and Finance Fund" (I-Fund). This proposal builds on the experience gained in discussing the FY 2010 proposal for a National Infrastructure Bank (NIB) with multiple stakeholders.

The Fund will be a program of the Federal government that invests in at least some projects that are not self-financing and therefore require grant assistance; as proposed, it will operate without revolving funds or raising its own debt. It would be funded by discretionary appropriations that support projects through grants, credit, or a combination of both in a manner consistent with the Federal Credit Reform Act. The Administration continues to advocate a total commitment of $25 billion in Federal budget authority for the Fund. While we are confident that this level of funding, combined with anticipated levels of coinvestment, could support a multi-year portfolio of hundreds of high-value projects, we cannot predict with precision the number of jobs that will be created either directly or indirectly as this will depend largely on the nature of the projects ultimately supported by the I-Fund. However, we do believe that this level of funding will enable the I-Fund to deliver a significant impact on national economic growth and employment opportunity for Americans for years to come.

Housing the National Infrastructure Innovation and Finance Fund as an independent operational unit within DOT is intended to strike a balance between independence and responsible oversight and coordination. A key goal of the Fund will be to seek out and invest in infrastructure projects without the "politics as usual" of past funding allocation and project selection practices. DOT will work to establish a governance structure that fosters independent project evaluation and investment decisions but with appropriate oversight mechanisms and safeguards. The Fund will build an unbiased analytical capability to evaluate infrastructure strategies and make investments that promise competitive returns on investment from a broad public benefits standpoint.

The core mission of the Fund is to employ a consistent, independent, and rigorous analytical process to invest in projects nationwide that would be difficult, if not impossible, to fund under existing authorities. The proposal does not simply codify the TIGER grant team. Unlike most competitive grant programs, including DOT's TIGER grants, the Fund will employ a business model that takes a forward-leaning, entrepreneurial approach to investing and will seek out strong infrastructure proposals rather than enlist a typical grant solicitation cycle. The Fund will play a key leadership role by investing upfront planning and feasibility funding to identify regionally and nationally significant, high-value, projects, evaluate the merit of those projects, and then fund projects with the greatest promise for improving a region's or the nation's transportation outcomes. The Fund will target high-performance investment opportunities nationwide in communities large and small, rural and urban.

Through the I-Fund, DOT will establish a funding source capable of overcoming jurisdictional boundaries, modal silos, and other obstacles to well-coordinated infrastructure strategies and investments. Part of this effort will be enabling coordination across the various sources of infrastructure finance and investment, both Federal and non-Federal. The I-Fund will coordinate its own resources with private investors as well as other Federal and non-Federal grant and credit programs, including TIFIA, to deliver complete financing packages for high value projects nationwide. Consolidation of these sources of Federal credit assistance may be considered in the future, after an I-Fund is established and it is clear how and to what extent these forms of assistance overlap.

The Fund will target transportation and transportation-affiliated projects with a focus on perfecting a defensible cross-modal investment model. Although DOT will be limited to transportation and transportation-related investments, the Fund will seek coordination with other related infrastructure investment sectors including housing, commercial development, environmental protection and others. The Fund seeks to overcome unproductive stove-piping across transportation modes and achieve better coordination with investments in other infrastructure sectors that are related to transportation. Once this model is proven, the Fund may then serve as a powerful business case for Federal investment in other sectors.

REP. CHET EDWARDS

Do you have any kind of cost on what it would add to the deficit, some of the proposals in that Ryan road map—the Republican road map—the cost of eliminating the estate tax over 10 years, reducing the individual—the highest tax rate from 35 percent to 25 percent, eliminating capital gains tax, interest income, and dividend income, and extending the 2001 and 2003 tax cuts? Do you have any ballpark numbers on how much those individual actions would increase the national debt over a 10-year period?

The Administration does not have an estimate of the cost of the Ryan budget plan. And, while CBO has done a long-term assessment of the budgetary impact of the Ryan plan, CBO did not estimate the fiscal impact of Rep. Ryan's tax proposals and, instead, simply assumed a revenue level at the direction of Rep. Ryan's staff.

With that said, it is evident that the tax cuts in the Ryan plan would cost trillions of dollars, and that, overall, the plan would substantially shift the tax burden from upper- to middle- and lower-income Americans. Relative to income, the tax cuts under the Ryan plan would tend to redound more to the benefit of those towards the top of the income spectrum, and the financing mechanism—a consumption tax—would tend to impose a significantly higher burden on those toward the bottom and middle of the income spectrum.

Furthermore, Rep. Ryan's staff directed CBO to assume a revenue level that, over the next two decades, would be the equivalent of continuing the 2001 and 2003 tax cuts as well as AMT relief. In other words, Rep. Ryan's staff asked CBO to assume that his plan raises no more revenue than if current policy were continued, while still imposing a substantial tax increase on low- and middle-income Americans.

REP. ROBERT SCOTT

In terms of dealing credibly with jobs, one of the challenges we have is, as we create jobs on the federal level, states are laying people off. The Recovery Act provided $140 billion for states, and yet they still cut their budgets an additional $300 billion, for a total of almost $450 billion. That just went to offset what the states were doing. Is it accurate that—is that accurate? We've essentially offset the damage the states were doing to the economy?

The Recovery Act will provide over $280 billion in funds to State and local governments. These funds supplement State spending in such areas as education, transportation, and job training. They also go toward relieving State budget shortfalls. This relief is being primarily delivered through the State Fiscal Stabilization Fund, most of which goes to State and local education programs, and a temporary change in Medicaid Federal matching funds.

Evidence suggests that the Recovery Act's State and local fiscal relief has helped these governments avoid taking steps that would have otherwise harmed economic growth and cost jobs. According to an analysis by the President's Council of Economic Advisers (CEA), States that received more Medicaid payment relief through the beginning of July had experienced better labor market outcomes, controlling for other factors ("The Economic Impact of the American Reinvestment and Recovery Act of 2009," September 10, 2009). Furthermore, the CEA found a positive relationship between total Recovery Act payments to States through the beginning of July and change in employment in such areas as public safety, education, health care, and other sectors where State governments provide a large amount of financial support.

In light of the continued projected shortfalls in State and local budgets and the need to continue bolstering job creation and the economy, the Budget proposes to temporarily extend several Recovery Act programs, including providing a six-month extension of the Recovery Act's Federal Medical Assistance Percentage (FMAP) relief. Such efforts will help State and local governments to avoid potential program cuts or tax increases to balance their FY 2011 budgets.

REP. MICHAEL SIMPSON

What have we put in this budget to settle the lawsuits that are inevitably going to come—and that we are going to lose—when we withdraw our application for Yucca Mountain? How much money is in there for that? And how did we come to that amount? And what do we assume the final amount's going to be?

The Administration has demonstrated its commitment to finding a nuclear waste disposal solution by appointing the Blue Ribbon Commission on America's Nuclear Future, which will identify alternatives for the disposition of spent nuclear fuel that minimize the long-term liability to the taxpayer. The decision to terminate the Yucca Mountain license application does not mean that we are abandoning our responsibility to dispose of nuclear waste.

No funds are provided in the FY 2011 Budget for liabilities arising from Yucca Mountain litigation. As is the case for most court judgments and Justice Department settlements, the Judgment Fund would be the payment source for any liabilities arising from Yucca Mountain litigation. The FY 2011 Budget does not project the budgetary impact of cases in litigation, on the assumption that the Federal government will prevail. The future costs of settled cases also are not shown until a claim for reimbursement has been reviewed and accepted.

Do you know—in terms of a question, do you know how much money we're spending budget-wide in addressing global warming and greenhouse gas emissions and those types of things? Almost every agency in there has money for global warming studies. And I know in a lot of the other agencies they have the same thing. How much are we spending, and how coordinated is all of this spending?

The FY 2011 Budget supports the Administration's comprehensive energy and climate change strategy. The Administration envisions the United States leading the world in research, development, demonstration, and deployment of clean-energy technology to reduce dependence on energy imports and to mitigate the impact of climate change. The Budget acknowledges the importance of scientific research to improve our knowledge of Earth's past and present climate variability and change., It also provides resources targeted to combat global climate change and help the most vulnerable countries prepare for and respond to its impacts. This approach will allow the US to demonstrate continued leadership in forging a global solution to the climate challenge.

The US Global Change Research Program (USGCRP) and the Climate Change Technology Program (CCTP) are multi-agency programs that provide guidance on the portfolio of federally funded climate change science and technology related activities and include working groups and other efforts to promote coordination.

The FY 2011 Budget requests $2.6 billion, an increase of over $400 million from the FY 2010 enacted level, for research and applications to support the goals set forth in the USGCRP strategic plan. The USGCRP was mandated by Congress in the Global Change Research Act of 1990 (P.L. 101-606) to improve understanding of uncertainties in climate science, expand global observing systems, develop science-based resources to support policy making and resource management, and communicate findings broadly among scientific and stakeholder communities. The USGCRP budget request is detailed in table 21-2 of the Analytical Perspectives volume that accompanies the FY 2011 Budget request.

No later than 120 days after the Budget release, OMB will submit the Federal Climate Change Expenditures Report to Congress which will include an accounting of climate funding by line item. In addition to the climate science budget, this report will summarize funding requests for climate change technologies, international assistance, and tax provisions that may reduce greenhouse gas emissions. OMB coordinates the accounting of climate funding by including definitions of the major categories (i.e. climate change technology, climate change science, and international assistance) in Circular A-11, an annual document that provides guidance on the preparation, submission, and execution of the Budget. Efforts are underway to define climate change adaptation activities and to summarize funding in this area. The White House Council on Environmental Quality (CEQ), the Office of Science and Technology Policy (OSTP), and the National Oceanic and Atmospheric Administration (NOAA) have initiated a one year interagency review process to develop Federal recommendations for adapting to climate change impacts both domestically and internationally.

Through the internal review of agency budget submissions, OMB also coordinates funding requests by working to prevent duplication and focusing on highest priority activities. We look forward to answering any additional questions you may have about climate change funding after the expenditures report is complete.

REP. STEVE AUSTRIA

Let me just ask you, in this bill how many new entitlement programs are created in this budget, and what is the total amount of spending increase that's involved in those new entitlements?

The President's FY 2011 Budget contains a substantial extension of health insurance coverage and security. It does so by proposing the largest middle-class tax cut for health care in history; thereby reducing premium costs for tens of millions of families and small business owners who are priced out of coverage today. This reform will help over 31 million Americans afford health care who do not get it today—and will make coverage more affordable for many more.

And health insurance reform will also improve the nation's fiscal health. Unlike the tax cuts and entitlement expansions of the past decade, the President's health insurance reform plan will be fully paid for—and, in fact, will reduce the deficit by more than $100 billion in the first decade and by more than $1 trillion in the decade after that. In other words, the President's reform plan will begin to address the key driver of the Nation's long-term fiscal imbalance—rising health care costs.

REP. ROBERT ADERHOLT

In the Administration's ten year budget outlook, its best prediction for the deficit as a percentage of GDP is 3.6 percent. You have stated that the deficit needs to be at least 3 percent of GDP to be manageable. Why does the President not submit a budget which meets that criteria as a starting point for discussions within Congress?

The President's FY 2011 Budget proposes more than $1 trillion of deficit reduction, even excluding savings from phasing down war costs. This is more deficit reduction as a share of the economy than has been proposed in a Budget in more than a decade. These deficit-reducing proposals include a three-year freeze in non-security discretionary spending, and a new fee on the largest financial institutions to ensure that every dime spent on TARP is recouped by taxpayers who bailed them out.

We believe these ambitious proposals will make vital progress toward fiscal discipline and provide a good starting point for Congress to begin its deliberations on the budget this year. If all the President's proposals were enacted, we estimate that the deficit would remain above our ultimate goal for reduction. That is why the President is creating a new, bipartisan National Commission on Fiscal Responsibility and Reform—to bring both sides together to tackle our long-ignored fiscal challenges and build bipartisan consensus.

As the President announced on February 18, 2010, the Commission will be appointed by the leaders from both political parties in both congressional houses as well as by the President. It will be tasked with making recommendations that put the budget in primary balance by 2015, which means that we are paying for all Federal government operations and programs while limiting deficits to about 3 percent of GDP. This is projected to stabilize the debt to GDP ratio at an acceptable level at that time.

The commission is also charged with making recommendations that meaningfully improve the long-term fiscal outlook. In the past, our nation's leaders used extraordinary processes—much like this fiscal commission—to construct solutions that, for instance, helped save Social Security for generations to come and turn deficits into surpluses. We believe that the National Commission on Fiscal Responsibility and Reform can be just as successful.

When deciding to cancel NASA's Constellation Program, did you consider the billions of dollars spent thus far in the sense that it represents a lot of progress which now will have to be repeated by companies far less experienced than the current Constellation contractors?

The President is committed to eliminating programs that do not work.Last year, the Augustine Committee found that the Constellation Program was significantly over-budget and behind schedule. The Administration's proposal to end the Constellation Program would reinvigorate NASA by harnessing the ingenuity of private companies to build the next human space flight vehicles and, also, enhancing investment in NASA's scientific research.

Through the funding proposed in the President's FY 2011 Budget, NASA will initiate a timely transition from Constellation to a more sustainable and efficient program to provide access to low Earth orbit destinations while greatly enhancing opportunities for expanded human exploration to such destinations as Mars, the Moon, and near-Earth asteroids. This integrated program will capitalize on the progress and investments we have already made by including the extension and enhanced utilization of the International Space Station, likely to 2020 or beyond; providing accelerated and more advanced Earth science and climate change missions; initiating a steady stream of robotic precursor missions; enabling a new and innovative technology development program to support both the realization of long-pursued human exploration beyond LEO and contributing to improved conditions for life here on our home planet, Earth; and integrate a realistic plan for conducting coordinated human and robotic exploration of our solar system.

While the cost of the Constellation Program to date does not justify continuing it, its lessons will be valuable as we embark upon the President's new course for NASA.

Since its inception, the Constellation Program has performed several successful tests and the Ares I X text went very well in the fall of 2009, despite having less funding than it was promised in multi year budgets. The new Ares rockets will be 10 times safer than the shuttle. Should the so called commercial companies follow the same safety criteria as the current Constellation contractors? If not, why?

The tests of the Constellation Program to date have provided valuable information on launch vehicle and crew capsule design. NASA will be careful to retain these data and discoveries for future use as it moves forward with the President's new approach for the U.S. space program.

Spaceflight is inherently risky, but both NASA and the commercial industry are committed to safety. Under the President's new approach, any future crew transport will be designed to be much safer than the Shuttle—starting with a crew escape system that will greatly increase the survivability of launch accidents . Further, NASA will provide rigorous oversight by setting and enforcing standards and processes to ensure that commercially built and operated crew vehiclesare safe.

REP. ROBERT LATTA

How much of an increase would we have seen for total federal employment going up in the last, let's say, two years, for the last year that you decided?

Chapter 10 of the FY 2011 President's Budget Analytical Perspectives volume provides information on "Improving the Federal Workforce." Table 10-1 shows a growth of 15 percent in full-time equivalent (FTE) employment for the Executive Branch civilian workforce (excluding Postal Service) between 2007 and 2011. Most of the increase (79 percent) is at five agencies—the Department of Defense, the Department of Veterans Affairs, the Department of Homeland Security, the Department of Justice, and the Department of State—that are centrally involved in fighting the wars in Iraq and Afghanistan, providing care for our returning veterans, protecting our country from the threat of terrorism, and advancing our Nation's interests abroad.

Chairman SPRATT. Thank you again. We look forward to working with you.

[Whereupon, at 5:10 p.m., the committee was adjourned.]

○