THE PRESIDENT'S FISCAL YEAR 2011 BUDGET OVERVIEW WITH OMB DIRECTOR PETER R. ORSZAG

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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THE PRESIDENT'S FISCAL YEAR 2011 BUDGET OVERVIEW WITH OMB DIRECTOR PETER R. ORSZAG

WEDNESDAY, FEBRUARY 3, 2010

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to notice, at 2:02 p.m., in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (Chairman of the Committee), presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
January 27, 2010

CONTACT: (202) 225–3625

Chairman Rangel Announces a Hearing on the President's Fiscal Year 2011 Budget Overview with OMB Director Peter R. Orszag

House Ways and Means Committee Chairman Charles B. Rangel today announced the Committee will hold a hearing on President Obama's budget proposals for fiscal year 2011. **The hearing will take place on Wednesday, February 3, 2010, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:00 p.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be limited to the invited witness, the Honorable Peter R. Orszag, Director of the Office of Management and Budget. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

FOCUS OF THE HEARING:

On February 1, 2010, President Barack Obama will submit an overview of his fiscal year 2011 budget to Congress. The budget overview will detail his Administration's tax and spending proposals for the coming year, many of which fall under the jurisdiction of the Committee on Ways and Means.

BACKGROUND:

In announcing the hearing, Chairman Rangel said, **"Director Orszag faced a difficult challenge in helping the President develop and prepare a budget at a time when we need to simultaneously create jobs and strengthen the economy while paying attention to our country's long-term fiscal outlook. Director Orszag has testified before the Committee on numerous occasions and I look forward to hearing from him again."**

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://democrats.waysandmeans.house.gov*, select "*Hearings*." Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, submit all requested information. ***ATTACH*** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, **by close of business Wednesday, February 17, 2010**. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TDD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman RANGEL. The Committee will come to regular order, with the exception of some of our Members who elected to pass on the Secretary of Treasury so that they will have an opportunity to lead us off this afternoon with Mr. Orszag. So we have Mr. Boustany, Mr. Heller, Mr. Roskam, Mr. Nunes, Mr. Higgins, and Mr. Meek.

So I will yield on my opening statement to the Ranking Member, Mr. Camp, and then we will move on to listen to Mr. Orszag.

Mr. CAMP. Mr. Chairman, thank you. I will just submit my opening statement for the record so we can get right to questioning.

Chairman RANGEL. I will do the same.

Welcome. We look forward to working with you. We want to be as supportive as we can, under the circumstances. And we do hope, as with our other witnesses, that you take advantage of the invitation that we may have in a bipartisan way to walk us through as we share with you some concerns we have in an unofficial point of view, where we can have a better understanding of where the President would want to take us and what obstacles he may have in that process.

So you may proceed as you see fit. And we would hope that you can limit your testimony so that we will have time for questions and answers. Thank you again for coming.

Mr. Orszag.

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

Mr. ORSZAG. Thank you very much, Mr. Chairman. And I would welcome the opportunity to sit down with you in other settings on a bipartisan basis to talk through some of the issues.

The President's fiscal year 2011 budget focuses on three things: Job creation in the near term, strengthening the middle class, and beginning the difficult work of putting us back on a path to fiscal sustainability.

First, a little bit of economic background. We have just come through a year in which we averted a second Great Depression. At the end of 2008, the economy was declining at more than a 5 percent annualized rate. At the end of 2009, it was increasing at more than a 5 percent annualized rate. Although real GDP is now expanding, the employment market remains too weak. The unemployment rate is 10 percent, and there have been 7 million jobs lost since December 2007.

In that context, the President has put forward a jobs and wages tax credit intended to spur hiring, especially among small businesses, along with other key investments, including in infrastructure, education, clean energy, and innovation.

Second, a little bit of background on our fiscal context and the preexisting condition we faced at the beginning of 2009. In January 2009, before the Obama Administration took office, CBO issued an economic and budget outlook which clearly showed an increase in spending from 20.9 percent of GDP in fiscal year 2008 to 24.9 percent of GDP in 2009, a 4 percentage point increase in spending as a share of the economy, again before the Administration took office.

The reality has turned out roughly consistent with that projection. Spending in 2009 was 24.7 percent. A different mix—mandatory spending was lower, discretionary spending somewhat higher—in part because of the Recovery Act, than what was initially projected.

Similarly, with regard to our medium-term deficits, as of January 2009 we faced an $8 trillion 10-year deficit, which can be attributed to two basic forces: One was the 2001 and 2003 tax cuts not being paid for, along with the Medicare prescription drug benefit not being paid for; and the second was the economic downturn.

The first factor, deficit financing of the tax cuts and the drug benefit, raised the deficit by more than $5 trillion. The second factor, the economic downturn, by reducing revenue and increasing certain kids of spending, raised the deficit by more than $2 trillion.

Now, that is all fine and well and provides the facts about where we found ourselves. The question is, what are we doing about it and how are we addressing both problems? I already mentioned that the President has put forward a jobs package intended to spur hiring in the near term. What about our medium-term deficits?

The first thing we are doing and the first thing that should be done is to avoid making the problem worse. The Administration is pleased that the Senate has now joined the House in passing statutory pay-as-you-go legislation, which embodies the simple but important principle that, when you face a hole, you shouldn't make it any deeper. If we had lived by this rule in the past, our out-year deficits would be roughly 2 percent of GDP, debt as a share of the economy would be declining, and our fiscal outlook would be significantly different.

Second, economic recovery will help to reduce the deficit. We project that economic recovery will help to reduce the deficit from about 10 percent of GDP this year to roughly 5 percent of GDP by

2015. That is higher than we would like, and so we have put forward specific policies to reduce it further: In particular, $1.2 trillion in deficit reduction embodied in this Administration budget, more deficit reduction than in any President's budget submission in more than a decade, and sufficient to cut the deficit in half as a share of the economy by the end of the President's first term.

What are we talking about? A financial services fee which will raise $90 billion; allowing the 2001 and 2003 tax legislation for those making more than $250,000 a year to expire, as scheduled, next year, which will reduce the deficit by almost $700 billion; eliminating fossil fuel subsidies to help move the Nation toward a clean energy future, reducing the deficit by $40 billion; and a 3-year freeze on non-security discretionary spending, reducing the deficit by $250 billion over the next decade, even while investing in key areas like education, R&D, and clean energy.

Finally—and I see that my time is running out—even with those steps, the hole that we face is so deep that we will still not get to where we need to be, which is why we are calling for a bipartisan fiscal commission to work together and come up with additional measures that will help reduce our deficits further and put us on a stable fiscal trajectory not only over the next decade but thereafter.

And, with that, Mr. Chairman, I will turn it back to you, and I would welcome any questions.

[The prepared statement of Mr. Orszag follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503
WWW.WHITEHOUSE.GOV/OMB

Testimony of Peter R. Orszag,
Director of the Office of Management and Budget
Before the Committee on Ways and Means, U.S. House of Representatives
February 3, 2010

Chairman Rangel, Ranking Member Camp, 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.

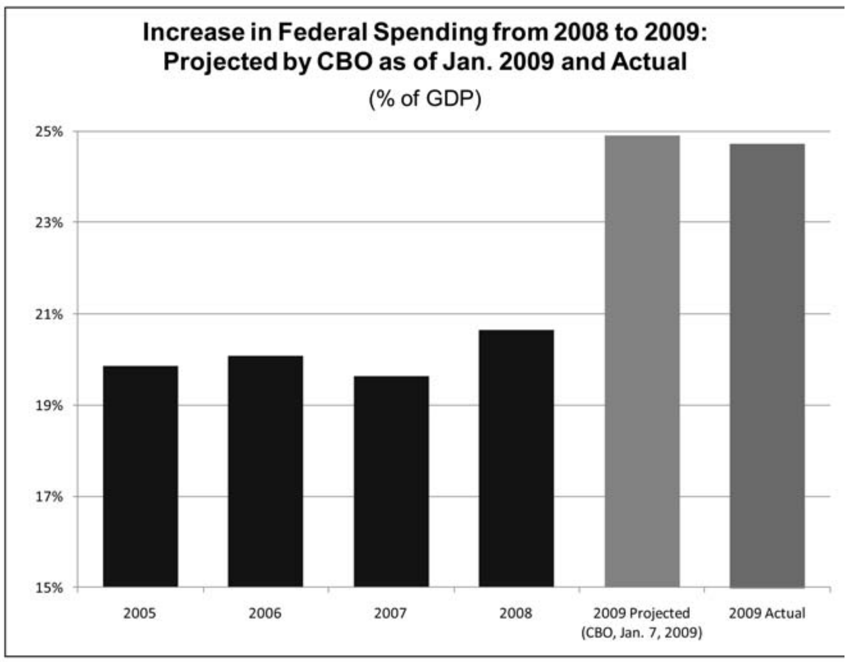
Restoring Fiscal Discipline

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.

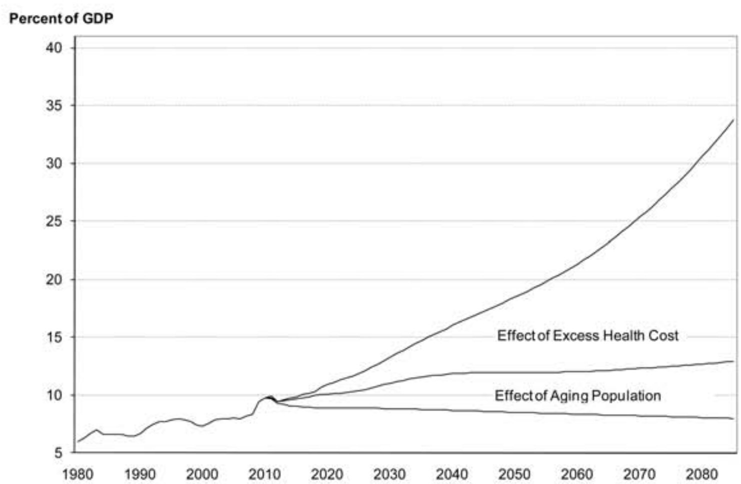
- Finally, it is worth noting that the Recovery Act—which, as discussed, has been key to restoring economic growth—plays a relatively small role in the projected deficits compared to these other costs. Over the next ten years, the deficit impact of the Recovery Act is less than one-tenth the size of 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.

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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 RANGEL. What authority will this commission have legislatively?

Mr. ORSZAG. There would be no direct authority legislatively, but, as you know, both Senator Reid and Speaker Pelosi have suggested that if the commission comes forward with a recommendation, Senator Reid has indicated that it will be brought to a vote on the floor of the Senate, and the Speaker has indicated that if it passed the Senate, she would bring it to the Rules Committee in the House.

I would note there has been a lot of discussion about the difference between a statutory commission, which, unfortunately, despite having sufficient votes if all the cosponsors would have voted for it, had it passed the Senate, it not being enacted, there has been a lot of discussion about a statutory commission versus an Executive order commission.

There is no doubt that a statutory commission, which the Administration favored, is somewhat stronger in terms of guaranteeing a vote on the commission's recommendations. But I think the key issue is whether the commission issues those recommendations in the first place. Remember that under any of these commission designs, you would need a supermajority within the commission in order to issue a recommendation. It would have to be done on a bipartisan basis. I think if that happens, the strength of the voting guarantee thereafter is of somewhat less importance.

Chairman RANGEL. Well, you certainly do put a lot of confidence in a commission rather than in the House or the Senate. But having said that, is this what you are tying a part of the deficit reduction to, this commission?

Mr. ORSZAG. No. What we have said is we get the deficit down in 2015 slightly under 4 percent of GDP through the $1.2 trillion in deficit reduction we have put forward. And we have noted that it would be desirable to move beyond that, and so we have assigned the task of additional deficit reduction to the fiscal commission. But we don't show numbers that assume the result of that fiscal commission.

Chairman RANGEL. Why do you feel that you have to go to the commission? Why can't you go to the House and Senate leadership in order to get that type of commitment?

This is especially so if the commission has no statutory authority. And you say getting a vote as though you know that you are going to get the results you want. I mean, getting a vote doesn't sound like a profile in courage to me.

Mr. ORSZAG. Well, and I guess that was my point, Mr. Chairman. I am agreeing with you that, ultimately, it requires legislative action to address this problem.

In the past, there have been situations, for example, with the Greenspan Commission, where it proved to be useful to have outside experts and a commission formed in order to help the Congress——

Chairman RANGEL. These are inside legislators, aren't they, for the most part?

Mr. ORSZAG. There would be a mix, but, yes, there would be a heavy representation of inside legislators.

Chairman RANGEL. So whatever you are talking about doesn't apply here. You have legislators that are recommending to their colleagues what they should be doing from a fiscal point of view. And, to me, even though I know that you and the Administration differ, as most people do who lead legislative bodies and go to the executive start thinking differently about what should and should not be done by commissions, but it just seems to me that we should not have to need that, unless you can give me some reason as to why, other than when you had outside experts. I thought we pay enough to staff here to have inside experts. You are an expert. The White House has experts. But I guess we are supposed to be intimidated when they come from outside rather than inside?

Mr. ORSZAG. I would hope that the goal is not intimidation but, rather, assistance. But, again, I think——

Chairman RANGEL. Well, you say assistance, but, really, the only thing it sounds like you are getting is getting a vote.

Mr. ORSZAG. No, I think what you are getting is——

Chairman RANGEL. What makes it so positive about getting a vote? I mean, some of us here, we get the vote, but we don't know which way the vote is going to go.

Mr. ORSZAG. I agree. And, again, so that is why I think the difference between a statutory commission and an Executive order commission has been somewhat overstated.

Chairman RANGEL. I know the difference. I am only asking, why have it? Why do you think we need it? That is what I am asking.

Mr. ORSZAG. I think the reason we need it is we are struggling—and perhaps through, for example, the sort of informal meetings that you were suggesting there can be more bipartisan cooperation—we have been struggling to find the bipartisan cooperation that is necessary to fix big problems, including our fiscal problem. It is our hope that the commission provides an avenue for doing that. But if there are alternative avenues for doing that, let's explore them.

Chairman RANGEL. Okay. I want you to know that we here in this Committee, we like each other. We just don't vote with each other.

Mr. ORSZAG. Okay. Good.

Chairman RANGEL. So I don't know how you are going to work that out. But I yield to Mr. Camp.

Mr. CAMP. Well, thank you, Mr. Chairman.

I want to say I agree with everything the Chairman said right now. And I have real concerns about the structure of this commission. And it is my understanding they have the authority to recommend tax increases, is that correct?

Mr. ORSZAG. The Administration has put forward the tax policies we support, but we think it is important to allow the commission to do its work.

Mr. CAMP. But they do not have the authority to recommend any decreases in discretionary spending. So——

Mr. ORSZAG. I don't know that that is the case.

Mr. CAMP [continuing]. Discretionary spending is off the table. Well, in the budget report, that is what it says.

Mr. ORSZAG. Where does it say that?

Mr. CAMP. Well, in that little box you have there.

Mr. ORSZAG. Could we look at the box?

Mr. CAMP. It is in the box. It looks kind of like a warning. I think somebody, I think Paul Ryan has described it as a cigarette label warning.

Mr. ORSZAG. It is on page 146. If you could point me to the discretionary spending——

Mr. CAMP. In fine print, I think it says——

Mr. ORSZAG. Just because I do think this is factually important, if we could examine that box, I don't think there is a reference to discretionary spending.

Mr. CAMP. It is my understanding that discretionary spending will not be part of the commission.

But what I really want to ask you about is this: I think that there has been a real concern about transparency, certainly, particularly on health care. But there has been one area that there has been some transparency I want to compliment the Administration on, and that is, in promoting a 2009 stimulus plan, the President's economists forecast a very clear picture of what they expected in terms of job creation if the stimulus passed, and that is the January 2009 Roemer-Bernstein report.

And instead of creating 3.5 million jobs as promised in this report, the stimulus is followed by the elimination of nearly 3 million more jobs. So, in that report, the Administration also predicted unemployment now would be well under 8 percent, and, of course, it is now 10 percent.

Given that, I have a couple of questions. I know my time is very limited, but in a yes or no way, has the stimulus been a success, in your view?

Mr. ORSZAG. The Recovery Act has avoided 1.5 million to 2 million people becoming unemployed who otherwise would be. Let me just clarify.

Mr. CAMP. So you would say, yes, in your view, it has been a success?

Mr. ORSZAG. It has been an important step toward avoiding a Great Depression and toward limiting the increase in unemployment. And that is not just our analysis, it is the analysis of the Congressional Budget Office and other outside experts.

Mr. CAMP. And then why do you think we need another stimulus bill only 1 year after a trillion dollars has been added to our debt?

Mr. ORSZAG. Because what normally happens—the Recovery Act has been successful in restoring economic activity, again, a shift from −5 percent to more than +5 percent. But what normally happens during a recovery is the employment market lags behind. What we are trying to do is more tightly link job growth to economic growth so that we don't have unnecessarily high unemployment for an extended period of time.

Mr. CAMP. Well, and doesn't more of last year's stimulus bill remain unspent than you are proposing to spend in the next stimulus bill?

Mr. ORSZAG. I am sorry?

Mr. CAMP. Doesn't more of last year's stimulus bill remain unspent than you are proposing in this bill? Yes or no?

Mr. ORSZAG. The Recovery Act is on schedule relative to where it was originally projected. Seventy percent we will spend out by the end of this fiscal year. And the question is, can we move beyond that to try to, again, accelerate hiring relative to GDP growth? And I think the answer to that is yes.

Mr. CAMP. All right. And will the Administration issue a report similar to the Roemer-Bernstein report detailing the projected job creation and unemployment effects of the new stimulus bill, the 2010 stimulus bill?

Mr. ORSZAG. I think once the details of the jobs creation package are finalized, one could do that kind of analysis.

Mr. CAMP. Thank you.

Thank you, Mr. Chairman.

Chairman RANGEL. At the last hearing, a lot of Members waived their right to take advantage of the 1 minute that was left so that they would be able to lead in the questioning at this time, and that is Mr. Higgins of New York, Mr. Boustany of Louisiana, Mr. Meek of Florida, Mr. Heller of Nevada, Mr. Roskam of Illinois, and Mr. Nunes. So we will follow that. Then we will get back to regular order by me recognizing Mr. Higgins of New York for 5 minutes.

Mr. HIGGINS. Thank you, Mr. Chairman.

Dr. Orszag, the Administration has proposed a $3.8 trillion budget, $2.4 trillion of which is for Medicare, Medicaid, Social Security, and interest on the debt. The Medicaid and Medicare piece of this is $788 billion, which I think is a pretty compelling argument for the need for health insurance reform. The other piece is Social Security, and the final piece is interest on the debt.

Throughout this morning and throughout this year, there has been a lot of talk in Washington about deficits and debts and where we are today. A lot of the problems that we are experiencing, as you know, were caused by a previous Administration: Two tax cuts, representing $968 billion, unpaid for; two wars, representing $984 billion, unpaid for, including $12 million of cash that was distributed to put the Sunni insurgency on the American payroll in Iraq. Nobody knows where it is, nobody has any accountability. A drug prescription program that cost $680 billion, unpaid for.

Under the previous Administration, the national debt more than doubled, from $5.6 trillion to almost $12 trillion. The vast majority of the current budget deficit is a consequence of the previous 8 years. That on top of the fact that the previous Administration embarked on an effort to a reckless deregulation of the financial industries. In particular, the Securities and Exchange Commission changed what they referred to as the net capital rule, which allowed investment banks to increase their debt-to-asset ratio from 6:1 to 33:1. A lot of these investment banks were overleveraged and created all kinds of exotic instruments to cover for their overleveraging.

This isn't my opinion. It is the opinion of the Wall Street Journal. It is the opinion of a conservative columnist, writer Bruce Bartlett, who wrote the book, "Imposter."

So I think when we embark on this debate, we have to be honest, based on factual information, as to what has contributed to this. And the reality is, both Democrats and Republicans have contributed to this problem. The question is, where do we move from here?

And I think the one thing that everybody agrees with is that we need to do nation-building right here at home in America. Because, as the rest of the world rises, as we are preoccupied with wars in two foreign places, what is being compromised is our investment in infrastructure, our investment in human capital.

The President has fulfilled his obligation to increase funding to the National Cancer Institute, which is very, very important, $6 billion. But what will it do? It will allow the National Cancer Institute to start 30 new advanced trials of "smart drugs," more than doubling the number of cancer drugs in clinical trials in the next 5 years.

Smart drugs are effective because they kill cancer cells without killing the healthy cells. They are highly effective. They are moving us from a culture where cancer was a death sentence 30 years ago. Now more than 65 percent of adults who are diagnosed with cancer live beyond 5 years of their diagnosis; 80 percent for kids. But in the previous 10 years, cancer funding languished. When you factor into account inflation, it was a loss of funding.

This is why this is important. The only failure in cancer research is when you quit or you are forced to quit because of lack of funding. Cancer research is a continuum. It needs to be sustained. You can't stop and start.

Many of the drugs that are available today to effectively treat breast cancer, Herceptin, Gleevec, Avastin for lung cancer, have been in periods of discovery for 20 years. And their availability to the market and to people who are afflicted with these cancers has been delayed because of the lack of funding.

Could you speak to the issue of cancer funding and this Administration's commitment to the infrastructure spending that is also necessary to prepare this economy for global competition in the next part of this century?

Chairman RANGEL. Mr. Higgins left you 20 seconds, so that whatever you want to say, say, and then I would hope you would send your written response.

Mr. ORSZAG. Absolutely.

Very briefly, the Administration is very committed to continuing down the path of aggressively pursuing cancer research. One of the developments this year is the NIH Director has now stepped forward with specific metrics and goals that he would like to be moving the effort toward, which I think is actually very beneficial. But we will continue the discussion.

Mr. HIGGINS. Thank you.

Chairman RANGEL. Dr. Boustany from Louisiana.

Mr. BOUSTANY. Thank you, Mr. Chairman.

Dr. Orszag, welcome.

I want to focus for a moment on American competitiveness. And, as you know, many of us on both sides of the aisle on this Committee believe that the Tax Code should promote competitiveness of American businesses doing business worldwide. This means exports, as the President has clearly expressed.

Although the Administration has made some changes to its international tax proposals from last year, it still seeks to raise significant taxes on these American companies doing business overseas, and nowhere does a corporate tax rate cut appear in the budget. We all know that we have the second-highest statutory rate, and I think we are among the highest in effective tax rates.

So not only does our high U.S. rate discourage investment, but the disparities between our rate and the rates in other developed nations contributes to the kinds of transfer pricing issues that the Administration has expressed concerns with.

So isn't it the case that lowering corporate tax rates would relieve some of these transfer pricing issues, take some of this pressure off? And wouldn't it also help promote location, make the United States more attractive for investment, and also increase jobs?

Mr. ORSZAG. Congressman, as you know, there is a fundamental tension between the mobility of capital across national boundaries in a global marketplace and the national-based tax system that we have. And that manifests itself in issues like transfer pricing, along with a host of other questions.

We are very focused on expanding exports, including through a new national export initiative that has more than $500 million in funding in this budget——

Mr. BOUSTANY. But speak to the corporate tax rate——

Mr. ORSZAG. Well, again, the reason I—and research and development and a better educated workforce here and moving toward a clean energy future. Because, obviously, tax rates matter, but there are many other things that matter even more.

Mr. BOUSTANY. I understand, but my question is on the corporate tax rate.

Mr. ORSZAG. And the tension in corporate tax rates is, as you know, there is a tension, because right now there is an incentive for a U.S. firm, relative to hiring someone here or undertaking activity here, to locate that activity abroad. That is what many of these proposals are trying to take care of.

Mr. BOUSTANY. Well, according to the U.S. Bureau of Economic Analysis, that doesn't appear to be the case. Because it seems to show that, for every job that is created overseas by U.S. companies having affiliates there, we are creating an equal number of jobs here. The numbers are pretty clear, going back all the way to 1988.

Mr. ORSZAG. But that doesn't speak to shifting profits artificially into those affiliates, which is an incentive that you create through——

Mr. BOUSTANY. But the point is, if you lower the tax rate, then we will see more of that capital employed here.

Mr. ORSZAG. Well, again, I guess there are different theories of the case. We think the way to expand exports while promoting employment here is to invest in a well-educated workforce, in research and development, being the world leader in new industries like clean energy. And then——

Mr. BOUSTANY. But that capital, the capital that these companies make overseas, a lot of that will be transferred back, because most of the R&D jobs end up back here in the United States. So lowering corporate tax rates should be good policy.

Mr. ORSZAG. It also, as you know, is regressive and costs a lot of money. So we are trying to balance——

Mr. BOUSTANY. But it promotes growth.

Mr. ORSZAG. Well, no, I am not sure it does. Again, the question is, look, we have had very rapid export growth over the last two quarters, and that is mostly because we are coming off of a low base and——

Mr. BOUSTANY. It is a low dollar.

Mr. ORSZAG. Yes. But still, the point is there are many things that drive export growth. One of the reasons why we are creating a new national export initiative and why we are investing in research and development and innovation and in a clean energy future and a well-educated workforce is, fundamentally, that is the key to our international competitiveness.

Mr. BOUSTANY. Well, I think if you lower the corporate tax rate and simplify things, clearly, that capital will be deployed back here in the United States, because, again, experience and economic data shows that most of those R&D jobs are here in the United States and we could develop more of that here.

Also, there are benefits of having these companies able to allocate capital appropriately, because a lot of the profit does come back here in the long run when it comes to R&D, but also the benefit to the communities. I can tell you, any city that has a large company would love to be able to expand. Cities that don't have these kinds of companies would love to have them, because they contribute to the tax base locally, they contribute to charitable events, and they also do educational things.

Mr. ORSZAG. Congressman, as you know, there is a tension between what is called capital import neutrality and capital export neutrality——

Mr. BOUSTANY. I understand that.

Mr. ORSZAG [continuing]. In the international Tax Code. These proposals are intended to address one of the problems, which is that, currently, the tax rate on domestic activity for that U.S. corporation can be creating an incentive for foreign activity relative to domestic activity.

Mr. BOUSTANY. That is not what the information bears out, according to the U.S. Bureau of Economic Analysis.

Chairman RANGEL. Mr. Meek of Florida.

Mr. MEEK. Thank you. Thank you, Mr. Chairman.

And, Mr. Orszag, thank you for being before the Committee.

And I am going through the President's budget right now. As you know, there has been a lot written about it.

First of all, I just want to say that I appreciate the Administration extending the Making Work Pay tax credit. Some 7.1 million Floridians are going to be able to take advantage of that or continue to take advantage of it. I am pretty sure you know, in the State of Florida, that we are at 11.8 unemployment. And we know that the good, bad, and ugly comes from the Federal Government, as it relates to helping us increase employment opportunities in Florida.

I can say that I have joined a bipartisan group of Members not only of the Florida delegation but those that care about NASA, and we are very concerned about the decision not to move forth or to try to rekindle the shuttle program or the lunar exploration plan. It has become a great concern to many of us.

We know that there has also been put forth a plan by the Administration that was announced last week to look at private-sector opportunities as it relates to rockets. And we don't know what that means for human exploration in the future, but we do know that we are going to lose 7,000 jobs, and only 1,700 jobs are going to come from the privatization of the space program.

I have to ask you this question because I think that it has so much to do with where we are as it relates to space exploration but also as it relates to jobs. And we are talking about scientists, we are talking about engineers, we are talking about a major brain drain from the State of Florida of the talent that we have now.

And I want to know if there are any plans, especially as we look at the President's budget, the Administration, to really take a forward leap in trying to replace those jobs or trying to see how we can keep that talent in the United States? Because if we are going to start sharing talent with other countries, we may very well lose everything we have gained over a period of years.

Mr. ORSZAG. Yes, Congressman, and what is—the underlying goal of the NASA proposals is to allow the United States, actually returning to earlier questions, to leapfrog ahead in advanced technology. So there is longer-range R&D investments and a series of, as my colleague John Holdren puts it, "putting the science back into rocket science," so that we can actually substantially advance the course of human spaceflight. This is a set of reforms that Sally Ride and Buzz Aldrin and Norm Augustine, who chaired the committee that reviewed NASA, have all embraced.

With regard to employment effects, don't forget that that is not the only thing that is happening in the NASA budget, which, by the way, despite the overall non-security freeze, is going up. The NASA budget is increasing $6 billion over 5 years. One of the things that that is funding is the refurbishment of the Space Center in Florida, which will have direct employment effects, along with the expanded and redirected research and development effort.

Mr. MEEK. How many jobs that you would——

Mr. ORSZAG. I don't have a direct estimate, but——

Mr. MEEK. But it is not going to take us close to 7,000.

Mr. ORSZAG. I am not sure. We can get back to you.

Mr. MEEK. Because, of the 1,700 that are going to be created, we don't know if those jobs are going to be created in Florida, where the most impact is going to take place.

But continue, please.

Mr. ORSZAG. I was just going to say I know that my colleagues at the Office of Science and Technology Policy, along with those at NASA, have looked at that in more detail, and I am sure we can get back to you with more information.

Mr. MEEK. Yeah, well, you know, that is of great concern to us all, because it is not only an economic engine for the Space Coast but also for the entire State of Florida.

I know the Administration has made a number of announcements, including the high-speed rail announcement out of the stimulus package, as it relates to the Sun Rail from Tampa to Orlando. We also know of smart grid investment, a number of investments that have been made. But this issue is so very, very important. We have a lot of subcontractors, a lot of small businesses that are attached to it. I just want to bring it to your attention, being a senior Member of the Administration.

Mr. Chairman, I would like to enter for the record a bipartisan letter that was written on November 23rd to President Obama about our concerns about the change in policy as relates to NASA.

And also I would like to enter a letter from me, “Time to Usher Human Space Flight Into the 21st Century,” that could hopefully head us in the right direction as it relates to future investments.

If I could have unanimous consent to enter that into the record, I would appreciate it, Mr. Chairman.

Chairman RANGEL. Without objection.

[The information follows:]

Chairman RANGEL. Mr. Heller of Nevada.

Mr. HELLER. Thank you, Mr. Chairman.

And, Dr. Orszag, thanks for being here today.

I have to believe there are a couple of memos that are floating around the White House these days, especially after the President’s comments yesterday about wasting your money in Las Vegas. I am of the belief now that perhaps February is National Bashing of Nevada Month. I don’t know if that is accurate or not, but I would certainly like to see that memo, if it is available.

But there also seems to be another memo, as I look at your testimony, and I read through your written testimony and also the previous testimony of Secretary Geithner and, of course, the President’s State of the Union, having read them several times. You know, there are words that are used that clearly you can use and words you can’t use. Words that you can use are things like “inherited,” and I am hearing that a lot today. “We inherited these problems.” We hear words like “failure of the previous Administration.” That gets discussed a lot.

But words I think more important that I don’t hear, again, going through your testimony, Secretary Geithner’s, even the President’s State of the Union, are words like “capitalism.” Never used in your comments. Words like “free markets,” never used. I don’t see it with the President, I don’t see it with Geithner, I don’t see it from yourself.

And if you are limiting the use of those vocabularies, I think it is a mistake. I do believe that, if we are going to get out of the economic problems we have here in this country, capitalism and free markets have to be the primary source, the primary way of getting out of these problems.

But one thing that you do talk about is fiscal discipline. And I am confused, like most of the Members on this Committee, about fiscal discipline when it comes to this budget. For example, you have $3.8 trillion in Federal spending for 2011. That is an all-time record. A $1.6 trillion deficit, again, an all-time record. You have $2 trillion in tax hikes that will kill jobs, again, another record. And $14 trillion added to the debt inherited by our children and grandchildren, again, another record. And I don’t know where fiscal discipline fits in there.

One of the things that you mentioned, and I appreciate it, both yourself and the President, Secretary Geithner, is about working together in a bipartisan manner, Republicans and Democrats. I can’t tell you how many letters I have sent to the White House trying to solve problems. He says, “I want to hear good ideas. I don’t care if they are Republican or I don’t care if they are Democrat ideas, I want to hear good ideas.” I can’t get an answer. In 3 years, I have never received a response from the White House on any letters I have sent to them.

Mr. ORSZAG. Two of those would not be us.

Mr. HELLER. What is that?

Mr. ORSZAG. Two of those years then would not be us.

Mr. HELLER. Well, okay. Okay, and that is acceptable. But I sent letters, I sent letters in response to the health care issues and never got a response; on energy, never got a response; on budget issues in the past, never received a response.

And I am wondering if that is a pattern. If I am to expect to take you at your word that Republicans and Democrats have to come together, why can’t we get a response?

Mr. ORSZAG. Congressman, I would welcome letters from you or others. I think I have a record of responding. I don’t know exactly what has happened to any letters you have sent, but if you send me a letter, you will get a response.

Mr. HELLER. If you could send a message back and let them know. Congressman Ryan mentioned a letter that he had sent a year ago and again is asking for a response on this. I think it is important——

Mr. ORSZAG. I don’t think Congressman Ryan is suffering from any lack of attention from the President at this point.

Mr. HELLER. But if we are going to work together, I think it is critical that we get answers to our questions.

Mr. ORSZAG. Okay.

Mr. HELLER. If we take a look at the unemployment in my State—and, again, I don’t think the President’s comments help—we are at 13.1 percent unemployment in southern Nevada, 13 percent overall. I want to ask the same question that the Ranking Member asked, specifically about whether or not the stimulus has failed or not failed in the State of Nevada? I can’t explain this to my constituents as they continue to lose their jobs. We had an increase of almost one-half percent of job losses last month, over the month of December.

How do I explain to them, not in the talk within the Washington Beltway, but how do we answer this question so that they understand whether or not this stimulus is working for them?

Mr. ORSZAG. Again, I think if you look at the evidence, because of the Recovery Act there are 1.5 million to 2 million people today who would be unemployed without that Recovery Act. And, again, that is not just our numbers. This is the Congressional Budget Office; this is Goldman Sachs; this is Mark Zandi, who worked for Mr. McCain; other outsiders, all suggesting numbers in that range.

Now, is that sufficient to avoid all job losses? No. We were losing 700,000 jobs a month at the beginning of 2009. Now we are down to well under 100,000, and some private-sector forecasters are suggesting positive job growth by this spring.

Mr. HELLER. But when you were promising 8 percent and it is now at 13, how do you go back and tell them it is working?

Mr. ORSZAG. The problem was the situation was much worse at that time than anyone knew.

Mr. HELLER. Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Roskam of Illinois.

Ms. BERKLEY. Mr. Chairman, may I correct the record here? Because in the State of Nevada, when we did get the stimulus money for the infrastructure projects, the Republican Governor has refused to free up the money, and we are dead last, 50th in the United States for freeing up those dollars. The money is in the State of Nevada. It is the Republican Governor that isn't giving out the money.

Mr. HELLER. So what would our unemployment be with that stimulus money? What would our unemployment be? Answer that question.

Chairman RANGEL. Mr. Roskam of Illinois.

Mr. ROSKAM. Well, back to this bipartisan moment.

Director, I am from the State of Illinois and had a question for you. The budget—and this relates to Guantanamo, Illinois. The budget includes that——

Mr. ORSZAG. You mean Thompson?

Mr. ROSKAM. Thompson, yes.

Mr. ORSZAG. Yes. I think you said Guantanamo, Illinois.

Mr. ROSKAM. Well, that is what it would be, Guantanamo, Illinois. So the budget includes it. The Majority Leader was at the White House yesterday. He walked out, and you know how to read these tea leaves. He essentially said, "Not so fast." So we are getting a mixed message from the Democratic leadership as it relates to Guantanamo, Illinois.

What is the latest?

Mr. ORSZAG. All I can say is the President remains committed to closing Guantanamo. I would note that the purchase of the Thompson facility would be justified regardless, because, as you know, the Bureau of Prisons lacks bed space——

Mr. ROSKAM. I agree with that wholeheartedly. I mean, so the original decision was made before the Christmas Day event, and then the subsequent decision to take—not release the Yemeni prisoners, obviously, back to Yemen.

But, to your knowledge, there is no change? Is the Administration still spot-on on this?

Mr. ORSZAG. I am going to again defer to the Attorney General and others. What I will say again, though, is the purchase of the Thompson facility is justified regardless of what happens.

Mr. ROSKAM. Right, but as it relates to the detainees——

Mr. ORSZAG. I will defer to——

Mr. ROSKAM. You don't know. Okay.

Could you just, sort of, walk through—you know, I have been listening. The President came into Baltimore, and we had a good exchange, House Republicans. He walked in, we gave him a standing ovation, good back and forth. And I think both sides, kind of, gained from it.

The idea is, look, there is—and now I am interpreting—but you look at supermajorities, or up until Massachusetts, supermajorities in both chambers, an underperforming stimulus. And I know you have to stick with your talking points that it is great, but there is really nobody that believes that it is great.

Mr. ORSZAG. Well, I——

Mr. ROSKAM. No, listen, you did your duty. You don't have to do it anymore. There is nobody that really believes it is great. And it is this underperforming thing, and it was a trillion dollars, and the promise was going to be 8 percent, and now Illinois is over 11, he is at 13-plus. And it is not a good narrative.

So if you rewind the tape and listen to President Obama, candidate Obama's language, I just want to quote something for you, and this was one of his statements, and it was in one of those great settings, sort of, outside, white shirt, sleeves rolled up, roaring crowds. And he said, "Under my plan, no family making less than $250,000 a year will see any form of tax increase—not your income tax, not your payroll tax, not your capital gains tax, not any of your taxes."

Now, that quickly fell by the wayside last year with a whole host of taxes that this Congress passed. Now we are being told, look, this next great thing is going to be coming over the hilltop, and, really, this time it is going to be great.

What is it that animates the hope in my district that this plan that you are articulating, this budget, gets us out of this mess, when, with all due respect, the leadership got it so wrong just 12 months ago?

Mr. ORSZAG. You know, Congressman, there may be some things that I have to say because of my job, but the success of the Recovery Act is not actually one of them. I would be delighted to give you a list of credible outsiders. I think the conventional wisdom among economists is by far that, without the Recovery Act, we would have faced a much higher probability of entering a depression.

If you just simply look at economic performance in the second, third, and fourth quarters of last year, I think it is unambiguous that the Recovery Act contributed importantly to moving from negative growth to positive.

Now, is that enough?

Mr. ROSKAM. Good. Listen, you checked the box, you did it again. Go ahead. But what is it, moving forward, what is it that really animates the hope?

Mr. ORSZAG. But that is the key underlying precept, because you were rejecting that notion and therefore saying the next thing won't work either. I am saying it did work; more is necessary. But I am just, frankly, not accepting the underlying precept behind your question.

Mr. ROSKAM. So it is double down—listen, we spent a trillion and it was great; we are going to spend trillions more and it is going to be fabulous?

Mr. ORSZAG. No. We were losing 700,000 jobs a month—700,000. The economy was falling by 5 percent on an annualized basis. The decline in net worth was more than 30 percent. If anyone at that point told you the economy would be growing by 5.7 percent in the fourth quarter of 2009, you probably would have expressed a lot more skepticism than you are expressing to me today.

Mr. ROSKAM. My time is up. I will sign your hall pass that you did your duty. But I think folks in my district are very, very reluctant about moving forward and spending more.

I yield back.

Chairman RANGEL. Mr. Nunes.

Mr. NUNES. Thank you, Mr. Chairman.

And thank you, Mr. Orszag. Welcome to the Committee again.

I am going through your numbers here, and I want to keep this very brief. I won't make a statement and I hope that you won't make a statement either so we can just get to the bottom line of some of these numbers that you are using to balance your budget—or, I shouldn't say balance, but to try to reduce the deficit over time.

First, I want to look at the LIFO provisions, the change in accounting you are doing there. You have $59 billion in revenue there that you are using. Can you answer me, how is that supposed to help small businesses in this country if you are going to eliminate that important provision? Because, obviously, if it raises $59 billion, that is going to come out of the pockets of small business.

Mr. ORSZAG. Actually, it is not necessarily disproportionately small business. I am going to say again, we are doing a whole host of things for small businesses, and we could walk through that. I will avoid doing that right now and just say the LIFO provision was put forward as, frankly, just good tax policy.

As you know, some firms use last-in, first-out; some use first-in, first-out. It is an anomaly that we think would be better addressed by eliminating——

Mr. NUNES. Isn't it kind of gimmicky to use it?

Mr. ORSZAG. No.

Mr. NUNES. That would be part of a broader tax proposal that the Chairman put out last year?

Mr. ORSZAG. You may choose not to do it. I hope that is not the case. But it is not a gimmick, no.

Mr. NUNES. Okay. Well, my next question is on insurance. On insurance, you are going to add about $14 billion in fees on the insurance, life insurance, dividends received. I mean, how does that help people that are trying to buy life insurance? It is another revenue raiser.

Mr. ORSZAG. Yes. Again, look, I am going to back up and say, because we could keep going down the list——

Mr. NUNES. I just have one more after this one.

Mr. ORSZAG. Okay. Well, there are tax expenditures and special tax breaks strewn throughout the Tax Code. We face massive out-year deficits. One of the things that we are trying to do is address those out-year deficits in part by tightening up the Tax Code when there are unwarranted tax breaks for certain slivers or special parts of either corporations——

Mr. NUNES. But, once again, that is basically $14 billion in taxes added to the $59 billion in the LIFO changes. So I want to talk about——

Mr. ORSZAG. Well, if you are asking if we cut back on unwarranted tax breaks to corporations, the answer is, yes, we do. Over time and in out-years, yes.

Mr. NUNES. I would also say I think it is a gimmick, because I don't think either one of these would happen. There is one that I think possibly could happen, and that is you are raising $38 billion on American energy production. You are very familiar with these productions, the 199 provisions.

Mr. ORSZAG. Yes.

Mr. NUNES. Now, roughly half our trade deficit is buying foreign oil. Now, how is it that we are going to create American jobs and buy less foreign oil if we tax our domestic producers?

Mr. ORSZAG. One of the absolutely essential things that we need to do is become a world leader in clean energy. That is the future, and we need to build out those——

Mr. NUNES. But this does the opposite, though.

Mr. ORSZAG. No, it is a carrot and stick. We have more than $6 billion in investments to move toward that clean energy future. We have expanded loan guarantees for energy efficiency. We are investing in nuclear energy. We have a whole variety of investments in moving to a cleaner energy future.

Mr. NUNES. You guys are promoting long-term smart grid, all sorts of wonderful things. But you can't honestly tell me that if you get rid of these production credits, that we are not going to have to import more oil from foreign countries if we tax our domestic producers.

Mr. ORSZAG. I am inferring that you agree it is important to move to a clean energy future. And I think that, in addition to subsidies, or to the carrot, this will also help move us in that direction. I think you would probably agree with that.

Mr. NUNES. You have a long-term approach for things not proven yet, in terms of the renewable energy portfolio we are trying to move to. But in the short term, you are using this to try to get toward a balanced budget, and it is going to result in more imported oil. I don't see how you don't—if you tax these domestic producers, how are we not going to import oil to replace that oil?

Mr. ORSZAG. Again, the key thing we need to do is move to a cleaner energy future, and that is what these provisions, along with others, are intended to do.

Mr. NUNES. So you don't think, by eliminating these, that it will increase imports?

Mr. ORSZAG. I think the effects on imports—we could come back with a full analysis—are difficult to assess. It is not as simple as you are suggesting. But the more important thing is, it is always easy to say, "We will start later." We need to start now to be moving toward cleaner energy. It is as simple as that, in my opinion.

Mr. NUNES. Thank you, Mr. Chairman.

Chairman RANGEL. The Chair recognizes the Majority whip, Mr. Cantor of Virginia.

Mr. CANTOR. Thank you, Mr. Chairman.

Mr. Orszag, thank you very much for being here.

Mr. ORSZAG. Good to see you.

Mr. CANTOR. A few questions, Mr. Chairman.

If you would, could you explain to us the sense behind the proposal to essentially require independent contractors to become employees and essentially having to withhold?

I am told that, within your budget proposal, there is that notion, that actual item, which is now going to create that obligation on the part of an employer dealing with an independent contractor.

Mr. ORSZAG. I believe this question was also posed to Mr. Geithner earlier today. And, again, the motivation is there is ambiguity currently. Small businesses, if I remember correctly, have to check 20 different criteria to evaluate whether someone is an independent contractor or a worker or an employee, and the intention is to clarify those rules.

Mr. CANTOR. But is it not where you come down is to make it more difficult and more costly and provide a disincentive for employers to go ahead and hire, and, therefore, the end result could very well be less people——

Mr. ORSZAG. No, I don't think it is a disincentive to hiring. There is a disincentive to hiring somebody as an independent contractor if that person should be an employee. And also simplification.

Mr. CANTOR. So those are two different things.

Mr. ORSZAG. I agree. You are doing both.

Mr. CANTOR. Right. I think, again, my sense is this is going to be resulting in less people having the opportunity to be employed or to serve as an independent contractor.

Mr. ORSZAG. Well, the latter might be correct, but I think the former is not.

Mr. CANTOR. But, again, twofold. Simplification is one thing, but then to require hiring creates all kinds of additional costs. And right now, while we are in an environment where we so desperately need small businesses to start hiring and creating jobs, why would we now be putting more burdens, more costs on the job creators?

Mr. ORSZAG. Again, I think one of the biggest problems—and I have run a small business; I know that dividing line can be very difficult to assess, and providing that clarity is important.

And I would say, by the way, on small business, by far the most important thing we can do is increase demand for their products, which means getting the economy back on its feet and making sure they have access to credit. Because that is the key impediment to small business activity right now. And there is a whole host of things we are trying to do, and hopefully we could work together on that, to boost credit to small businesses.

Mr. CANTOR. Mr. Orszag, I so appreciate your saying that, because you and I have been in discussions where we continuously now propose to you ways we could work together in a no-cost way to the taxpayers, one of them being how do we change the incentive on the ground with auditors in the field so that they are not necessarily looking at performing loans and calling those performing loans and the kinds of things we Republicans had put forward in our jobs plan when we said that we could require auditors to just disclose how many loans, performing loans, have been called.

Again, I think you agree with us that the pendulum has swung too far and rationality has left the equation. And, somehow, auditors are looking at risk all around as something bad, versus what we know in this economy, risk-based investment has created jobs and opportunity.

Along those lines, Mr. Chairman, I would like to ask the Director, how do you defend—set aside some of the things that you are talking about and the President is talking about right now in small business proposals. And we can talk about methods of tax policy and whatever.

But how do you defend, honestly, how do you defend, if you are talking about job creation, do you defend a cap-and-trade proposal? How do you really defend notions of saying we are going to let capital formation be secondary, so we are going to let the reduction in capital gains taxes, that reduction be repealed? How can you defend that, if we are talking about job creation being the primary focus?

Chairman RANGEL. You have 35 seconds to answer that.

Mr. ORSZAG. Okay.

Mr. Cantor, as you know, we have a new jobs and wages tax credit aimed at small businesses. We are proposing no capital gains taxes on investments in small businesses, the section 1202 provision being made permanent and 100 percent exclusion. We have an expansion in SBA programs, $17.5 billion in loans——

Mr. CANTOR. I am asking about the tax cuts that are about to expire and the uncertainty that that creates in decisionmaking on the part of small business. How do you defend that?

Mr. ORSZAG. What I was trying to say is we have a whole series of tax cuts aimed specifically at small businesses.

Mr. CANTOR. But the uncertainty provided by that, you are not worried about the impact?

Mr. ORSZAG. We have been clear about what we think should happen. We don't think there is uncertainty.

Mr. CANTOR. You think that is good for job creation?

Mr. ORSZAG. We have a whole series of tax provisions aimed specifically at small business. But I am going to come back again and say the key thing, the key challenge facing small businesses right now is inadequate demand for what they make and access to capital. And we need to be addressing both of those very aggressively.

Chairman RANGEL. I would like to join with the gentleman from Virginia as we look into this independent contractor problem, because one of the major problems I think the Internal Revenue has is that many people who call themselves independent contractors are basically employees, and they are avoiding their obligations, employers. But it is a good issue. It is a complex issue that has been a problem ever since I have been in Congress. I would be glad to work with you to see whether we can simplify it or at least make it clearer as to who is an employee and who is an independent contractor.

Mr. CANTOR. Mr. Chairman, if I can just respond to that. I agree simplicity is something we should strive for, but we ought not put an impediment in the way of a true independent contractor to be able to assume that status because somehow the IRS or the Federal Government is seeking more tax revenues. That is the point.

It is hard enough now for small businesses to keep the lights on, and to then add unnecessary or additional burdens because it is a policy we want to pursue right now, that is a policy that is counter to job creation.

Chairman RANGEL. Well, Mr. Camp and I are going to try the best that we can to see what recommendations the Administration has made that we can work together on. And that certainly for me would be one, whether we raise any money or not. Thank you.

The Chair would like to recognize my friend from Michigan, Mr. Levin.

Mr. LEVIN. Thank you.

You know, the discussion we had in the last few minutes about LIFO oil and gas with Mr. Cantor, independent contractors, even the energy bill, I think those issues need to be discussed. The independent contractor, the problem is you used the word truly independent contractor, and the issue is who is truly an independent contractor. That is a legitimate source of debate.

But I must say I was dismayed by some of the back and forth that went on earlier. And when the Budget Director was told that he was simply checking the box, I suggest that we try to check our partisanship. I found that insulting. So let me just ask you, I mean, the problem we have is trying to find some common ground here.

And as I go through your suggestions, Mr. Orszag, I think it shows that we have a lot of distance between us, the Majority and the Minority here, because you propose a financial crisis responsibility fee, and so far I think there has been strong opposition from the Minority to that, and we have to talk it through.

The next proposal is the tax cut for people earning more than $250,000. And there seems to be a deep divide between the parties there. The limit on itemized deduction has been somewhat controversial within our ranks across party lines. We need to talk about that.

So let me just ask you, as we have an honest debate about how we approach the budget issues, and by the way, we said earlier that if we have dug a deep hole, it is best not to keep digging. And I think that is true. But I think it is fair in evaluating the proposals how to get out of the hole that we can look at the record of those who have proposed approaches that have helped lead to the depth of the hole.

So let me just ask you to contrast—I referred to some of your proposals. There was a discussion I guess in the Budget Committee yesterday. Comment if you would on what you think are the contrasts between the two approaches and how you think we might address them?

Mr. ORSZAG. Well, Congressman, I think you have identified some of the differences.

Financial services responsibility fee is a good example where our view is that the law requires that any residual cost to the taxpayer under TARP be paid in full. We put forward a fee that would do that, and not only do that, but impose the burden on our largest financial institutions, those with more than $50 billion in assets, and thereby also help to get at one of the contributors to the financial market problems, which was leverage. I mean, that is a small example.

A big example, and I have a lot of respect for him, but Mr. Ryan has put forward an alternative path forward on the budget as a whole which represents a dramatically different approach to many of our major social insurance programs, including Medicare, Medicaid and Social Security, dramatic difference there also.

Mr. LEVIN. And what is in those proposals that you think are dramatically different?

Mr. ORSZAG. Well, in each program, there are dramatic differences. Perhaps the most dramatic is in Medicare where, instead of a defined benefit, a package in which you have a package of insurance, you are instead, for those 55 and below, given a voucher or basically a check. And you are then out on your own to go purchase insurance. The check or the voucher does not keep pace with health care cost growth over time.

Mr. LEVIN. And Social Security.

Mr. ORSZAG. Social Security, the plan would introduce individual accounts into Social Security.

Mr. RYAN. Gentlemen, I am right over here. If you want to know what is in the plan, I would be happy to answer your questions.

Mr. LEVIN. I am afraid we very much know what is in your plan. And I just thought it might be useful to have the Budget Director comment on it. Thank you.

He wasn't just checking the box either.

Chairman RANGEL. Mr. Lewis of Georgia.

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

Thank you, Mr. Director, for being here. Thank you for your service.

Mr. Director, last year when you came before our Committee to testify, we discussed the important health care reform and the need for everybody, for all of our citizens, to have health care. We discussed some moral imperative to the need to have coverage.

And now we hear people saying, this costs too much, and in light of the budget deficit, people are saying, give up, wait, be patient, now is not the time.

I want you to tell Members of this Committee, as we look at the budget, how health care reform is going to help us as we take a long hard look because the problem is not going to go away.

Mr. ORSZAG. Congressman, there are tens of millions of Americans in this country who, under the legislation both you, the House, and the Senate have passed, would enjoy health insurance who currently don't have health insurance. They are exposed to financial risk. They are exposed to health risk.

There are tens and tens of millions of Americans, indeed hundreds of millions of Americans, who will have more security in their health insurance because they won't need to worry about switching jobs, preexisting conditions, losing coverage when they switch jobs, under the proposals that both the House and Senate have embraced.

And then, finally, both the House and Senate bills reduce the deficit by more than $100 billion over the next decade and, just as importantly if not more importantly, put in place the key infrastructure that will allow you to restrain cost growth over time and improve quality over time. Unless we do that, unless we address the underlying drivers of health care cost growth, there is nothing else that is going to matter over the long term in terms of addressing our long-term fiscal gap, period.

Mr. LEWIS. I appreciate your response.

Mr. Director, I want to move to another area. I know the President has—I mean, you have opposed a spending freeze on everything except defense and some other major programs like Medicare, Social Security. Is the Defense Department a sacred cow? What about some Members of Congress that are proposing that we spend $2.5 billion on 10 more C–17 planes that are not needed? Do you have an answer for that? I think the President is against it. You are against it. Senator McCain is against it. That is wasteful. Why is the Defense Department a sacred cow?

Mr. ORSZAG. Congressman, it is not. And in fact you mentioned the C–17. Secretary Gates has been very clear that additional C–17 purchases are not necessary.

So, again, last year we put forward a variety of reductions and terminations, canceling the F–22 fighter jet, for example, and the Presidential helicopter. This year, Secretary Gates is adamant, we don't need additional C–17 cargo planes. We don't need the alternative engine for the F–35, we don't need the Navy CGX cruiser. There are a whole series of changes that he is trying to make in the procurement side of the defense budget that are not militarily necessary and that cost money, even while protecting our troops in the field. And that is what he is trying to accomplish.

We are at war. We need to make sure we adequately fund our troops. But there are efficiencies that can be found in the procurement side of the budget for the Defense Department, and that is exactly what he is trying to accomplish.

Mr. LEWIS. Do you think it is fair for any of us on this Committee or any other Committee or any other Member of Congress to look upon the Defense Department as a job creator, as a shopping bin or a shopping market for jobs? I mean, some planes are not needed. Some weapon systems are not needed.

Mr. ORSZAG. The sole purpose of the Defense Department should be to protect the Nation as well as possible.

Mr. LEWIS. Could there be savings if we just go and do the right thing?

Mr. ORSZAG. That is exactly what we are talking about here. C–17, alternative engine for the F–35, the CGX cruiser, you can keep going down the list. We have a volume of terminations and reductions that include a whole series of changes in the Defense Department that the military has said are not necessary and that just impose costs on the taxpayers for no added national security benefit.

Mr. LEWIS. Thank you, Mr. Director.

Chairman RANGEL. The Chair recognizes Mr. Herger of California.

Mr. HERGER. Thank you, Mr. Chairman.

Mr. Director, at last year's White House fiscal summit, you stated, "The single most important thing we can do to improve the long-term fiscal health of our Nation is slow the growth rate in health care costs."

That is why I am puzzled by your support for the Democrats' health care bills, despite what you said in your testimony today, that the Democrats' health bills would constrain costs over the long term. The Obama Administration's own actuaries at CMS examined the Democrat health bills that passed the House and the Senate and found that national health care spending would actually increase if these bills became law, both in raw dollars and as a percentage of GDP.

Furthermore, both bills, the Medicare actuaries wrote, "show a negligible financial impact over the next 10 years for the other proposals intended to help control future health care cost growth."

Mr. Orszag, would you explain how, given these findings, you can argue that these bills will improve our Nation's long-term fiscal health if, as you say, such health is dependent upon slowing the growth rate in health care costs?

Mr. ORSZAG. Congressman, if you look at the Congressional Budget Office analysis of the health bills, and remember CBO is the primary agency that the Congress relies on to evaluate the impact of legislation on the Federal budget; very clearly the legislation both in the House and the Senate reduces the deficit, not only over the first decade but in the decades thereafter. For example, the Senate bill reduces it by hundreds of billions of dollars in the second decade. And that is largely without taking into account a whole variety of changes that are absolutely necessary in order to move toward a higher quality health care system of the future and that, frankly, would be necessary even under the approach that Mr. Ryan has put forward.

If individuals—even if we moved toward a voucher system for Medicare, those individuals are going to need information on which treatments work better than whatever, other ones, which doctors are more effective and what have you. Without that, the system won't work. We need to be making investments in health information technology, in information about what works and what doesn't, into additional incentives for prevention and wellness, regardless of whether you want to move in Mr. Ryan's direction or keep the current structure of the Medicare program largely intact even while moving to improving incentives for providers, which these bills do.

The bills are trying to move toward a system in which we are no longer just paying for quantity, but instead, we are paying for quality over time. That is the key change, and they do it in a variety of ways. There are a whole variety, which we can go on about, projects designed to evaluate the best way of compensating doctors and hospitals for high-quality care rather than just more care, absolutely essential if we are going to address our long-term fiscal problem.

Mr. HERGER. But again, as I understand the Congressional Budget Office, as you just referred to, indicated that they are not capable of scoring this, that only——

Mr. ORSZAG. No, no.

Mr. HERGER. EMS can do that.

Mr. ORSZAG. That is not quite right, sir. What CBO has said is, and when I was speaking at the fiscal summit, I was speaking about the impact on the Federal budget. CBO has been very clear that they do analyze impacts on the Federal budget. They provided analysis not only of the budget window, the first 10 years of the budgetary impact, but they have gone beyond what they have traditionally done and provided assessments of what would happen in the decade thereafter in terms of the Federal budget. What CBO has said it could not do, and frankly I think there are questions about the availability of other entities to do so also, is evaluate the impact on national health expenditures including private expenditures.

So the question about our fiscal future is obviously a Federal budget question that CBO does do analysis on, and the conclusion is very clear, the bills reduce the deficit over the first decade, they reduce it by increasing amounts thereafter and that that is what CBO has found.

Chairman RANGEL. Thank you.

The Chair recognizes Mr. Becerra of California.

Mr. BECERRA. Thank you, Mr. Chairman.

And Dr. Orszag, good to see you again.

Mr. ORSZAG. Good to see you.

Mr. BECERRA. Thank you for coming. I would like to make reference to a couple of charts. I know you have seen these before from the Budget Committee hearing. One is on the deficits that we faced over the course of the last several years. If I could have chart one put on the screen. Once again, I think it is important that we always place in context the conversation we are having about budget, where we are, how difficult the situation is. I simply use this chart to point out how steep the climb will be for this country, for Americans, to be able to get back to work; for the Federal Government to once again be able to see green as we saw under the previous President in the 1990s, Bill Clinton, when we last saw a budget surplus; and just simply how difficult it will be.

My first question to you, Dr. Orszag, you may have already heard me ask this, because you are very good with numbers I think you can do this calculation, you have a train traveling at 50 miles an hour—have you heard it, I hope you have—carrying about an average 100, 120 cars. All of a sudden, we realize the train has been driven recklessly for too many years. It is a free-fall in terms of where this train will end up, so we apply the brakes. How long does it take from the moment we apply the brakes to stop that 120-car-train traveling at 50 miles an hour?

Mr. ORSZAG. It depends on the strength of the brakes.

Mr. BECERRA. Yes. It is good brakes.

Well, let me go to the next chart before I give you the answer. If I can get the second chart up.

This is the train we were on. For the last decade, we were on a train, whereas you can see if you try to break up the reasons we have massive deficits, part of it, of course, is due to the economic downturn; part of it now as a result of the bailout of the financial services industry, you see under the red in TARP; some of it is the stimulus bill, the economic recovery package; a great portion of it is the Bush tax cuts; and a significant portion as well is due to the wars in Iraq and Afghanistan.

And as you see them moving out into the further years, 2019, the biggest contributor to the deficits and of course our national debt will be the Bush tax cuts if we were to extend them out. The answer to the question, by the way, on that train, it takes a train traveling 50 miles an hour with 120 cars on it about a mile and a half to stop. And so this is our train and the President is trying to stop it from pitching further down. And it is going to take a while, many of us believe the President is on the right track, but it will be tough. Is there any belief anywhere in any economic circles that we can get out of this mess in a year or two?

Mr. ORSZAG. No.

Mr. BECERRA. Is there any reason to believe that any other President would have found himself or herself facing any rosier situation on the day that the keys were handed over from the previous President George Bush to the new President Barack Obama?

Mr. ORSZAG. No.

Mr. BECERRA. Now, part of this problem, of course, is a result of the financial services debacle that we saw that nearly sunk the entire country, and now the President has proposed a responsibility fee on big banks to try to recoup the money that was lent to these big banks when they came on their hands and knees saying that they needed some relief.

I don't know if the news has come out yet, but I was told that today we would hear an announcement from AIG, one of the companies that took about $140 billion in taxpayer money so it wouldn't go under, and AIG apparently is prepared to pay out about $100 million in bonuses to its executives as of today. I don't know if Wall Street just doesn't get it, but those are the things that make Americans truly sour on not just what we do in Washington, D.C., but certainly what is going on on Wall Street as well.

Is the responsibility fee the Administration's efforts to try to make sure that the taxpayers do get back money that we continue to see Wall Street spend in ways that no American taxpayer would expect the money to be spent?

Mr. ORSZAG. Yes. And again, there is built into the legislation a requirement that any—every penny that the taxpayers put into that program has to be repaid. And this responsibility fee is intended to fulfill that legislative requirement that the financial industry repay the American taxpayer in full for every penny involved.

Mr. BECERRA. I appreciate that.

Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Doggett.

Mr. DOGGETT. Thank you very much.

Dr. Orszag, the budget that you propose involves a deficit of $1.6 trillion this year after $1.4 trillion last year, something that I find deeply troubling. And I know, as was just explained, that this Administration did not dig us into this budgetary hole, but I think, as we explore ways to dig ourselves out, we have to scrutinize every spending proposal as if it were coming out of our own pocket, which in a very real sense it is.

I want to continue our discussion of yesterday about a $133 billion expenditure that you are recommending, a tax expenditure that was announced last week, that you referred to as a job tax credit. I read over the weekend that the Assistant Secretary of the Treasury, Alan Krueger, admitted that the Treasury doesn't know how many companies would claim the tax credit or how many jobs it will create, but said that even if it only got us one additional hire and we were subsidizing nine more that would have been created anyway, that that would be a success. I don't know of many spending programs, direct spending programs, that we would consider a success at 10 percent accomplishment of what it was set to achieve. As you know, almost everyone involved with the last jobs tax credit says it didn't work or it didn't work well, that it subsidized jobs that would have been created anyway, that the system was gamed.

Mr. ORSZAG. You mean the one in the 1970s?

Mr. DOGGETT. I mean the one in the Carter Administration. And I know you made some changes that you think are going to address those concerns. But even in those changed forms, most tax experts, most economists that have commented on it to date, have been critical as to whether that can be accomplished. If we have the Treasury itself saying that they don't know whether it will be more than 10 percent effective, that doesn't sound to me like a very effective way to dig out of the hole.

Now, you told me yesterday, and I will just turn to your testimony, that altogether it is not necessarily a negative because, as you said, additional cash will be injected into small businesses and alleviate the liquidity crunch, which is very much what Assistant Secretary Krueger had to say.

The problem I have with that, like some of the other programs, tax programs that the Administration has supported, is that they don't alleviate the liquidity crisis for everyone. I have some businesses down in central Texas that began conservative in their hiring approach, and then they did everything possible to cut costs so that they didn't have to lay off an employee who had been loyal to them.

This will advantage a new business that comes into town, a franchise that wants to compete with them, by hiring new employees and getting subsidized 5,000 employees up to $500,000, and they won't get any liquidity out of this proposal if they are not adding new employees.

I think that is one of the reasons that a number of commentators, including those based at the Center for American Progress, have said that this kind of jobs tax proposal distorts the marketplace because it favors some over others.

That is the kind of concern that I have about your proposal. I want to create jobs, but I want to do it in an efficient, effective way, and not in a way that encourages people to game the system and reward people like those that would be rewarded under your proposal who made hires before this bill even became effective or before it was even announced.

Mr. ORSZAG. Mr. Doggett, I look forward to working with you on this. Let me just make a few comments.

First, with regard to the Carter era tax credit, there are some analyses, for example one by John Bishop that I remember, suggesting that it actually was quite effective. The analyses that suggest otherwise generally find that, to the extent it wasn't effective, that it wasn't effective because it was way too complicated. People were confused by it. They just didn't get it. This design is very simple and straightforward and I think will address that complexity issue.

Second, it is not just for new jobs. It is also for wage increases or for moving people up in terms of the hours worked. And so for those businesses that don't want to hire someone new but they have some employees who deserve a wage increase or who they could have work more hours, they can also benefit from this. So if it were just limited to new hires perhaps the concerns would be somewhat deeper. It is not.

But again, I would look forward to working with you.

Mr. DOGGETT. I look forward to working with you on it also. I think the smaller the better if you are just determined to have this kind of credit. I just don't see most of these businesses being motivated by tax decisions. They are motivated by whether they have new customers with money coming in the door.

Chairman RANGEL. Mr. Sam Johnson of Texas.

Mr. JOHNSON. Thank you, Mr. Chairman.

I happen to agree with Mr. Doggett. He is right on target. I think you guys are way off base on that.

There is another subject I think you are off base on, too, and that is cutting the military services. Have you ever been in combat?

Mr. ORSZAG. No sir.

Mr. JOHNSON. I think if you will look at the JCS, most of them never have either. Those who haven't been fired at or fired a shot at an enemy don't understand what it takes to maintain superiority. We collapsed in Korea and lost it, we collapsed in Vietnam and lost it. We haven't won in the Middle East either. And a weak military isn't going to get there.

And the things you talk about that you say we don't need, you are full of it, I hate to tell you that.

Mr. ORSZAG. Mr. Johnson, I just want to clarify, that was not me. That is Secretary Gates, Admiral Mullen and the military.

Mr. JOHNSON. I just mentioned them.

Mr. ORSZAG. Okay.

Mr. JOHNSON. You know, the health care reform thing that Mr. Herger talks about, it seems to me that the Republican alternative does fit better into your previously stated goals for health care reform than the President's own plan.

And we have a copy of the CBO score, if you want to see it, of the Republican plan. I am sure you looked at it. You might want to reconsider that.

One thing I have heard again and again from my constituents back in Texas is they are sick and tired of the secret backroom deals when it comes to negotiating health care reform. Since we haven't been invited to any of these meetings, I don't believe any of my colleagues on this side of the dais were, were you part of the backroom deals where the White House officials and Chairman Baucus promised special treatment for the pharmaceutical industry if they agreed to cough up $80 billion?

Mr. ORSZAG. Congressman, I was not directly involved in those discussions. But let me say what the President I think said today or earlier last week, which is that he recognizes and supports increased transparency as we move throughout the rest of this process.

Mr. JOHNSON. So you weren't there either when they were talking about the so-called Cadillac tax that non-union workers would have to pay?

Mr. ORSZAG. I think you—sorry, you asked me about the pharmaceutical.

Mr. JOHNSON. Yes.

Mr. ORSZAG. Those are different things, as you know.

Mr. JOHNSON. Different subject.

Mr. ORSZAG. I was involved in some of the discussions over the excise tax, yes.

Mr. JOHNSON. You were.

Mr. ORSZAG. Yes sir.

Mr. JOHNSON. And you approve of that?

Mr. ORSZAG. That is a controversial topic. The motivation behind it is I think well known, but I know that many people have significant concerns about moving in that direction.

Mr. JOHNSON. Well, I think we have to be careful where we tax.

Were you also there concerning Senator Nelson's special Medicaid deal?

Mr. ORSZAG. No, sir.

Mr. JOHNSON. Thank you.

Given the defeat of the commission legislation in the Senate last week, what assurance do you have that Congress will ever even act on the Presidential commission recommendations?

Mr. ORSZAG. Well, Mr. Johnson, as I said earlier, I think the key issue is, and I am hoping that your side of the aisle will join together to work on the commission, the key issue is whether the commission issues a recommendation. If it does, both Senator Reid and Speaker Pelosi have provided assurances that a vote will be taken.

As I said earlier, and I know there are issues to be worked through with regard to the commission, but the key question is whether we can join together to actually get to the recommendation stage. And I think there has been a lot of attention on what happens thereafter, but that seems to me somewhat less important.

Mr. JOHNSON. Well, you ought to talk to Mr. Rangel a little bit.

Thank you, sir. I have no further questions.

Chairman RANGEL. Have you followed this Committee's reaction to the MedPAC recommendations as relates to Medicare?

Mr. ORSZAG. I am sorry.

Chairman RANGEL. Have you followed this Committee's reactions to recommendations that have been made by MedPAC as relates to Medicare?

Mr. ORSZAG. In general, yes.

Chairman RANGEL. And aren't you pleased with our performance?

Mr. ORSZAG. In general, you have, I think, especially in the health reform legislation, adopted many of the recommendations that MedPAC has put forward.

Chairman RANGEL. All right. I just wanted to make certain.

Let's see now. Mr. Blumenauer of Oregon.

Mr. BLUMENAUER. Mr. Chairman, thank you.

Actually, Mr. Orszag, I think appearing repeatedly before this panel qualifies for some sort of combat designation.

I do appreciate your clarifying that this recommendation on the weapons that my good friend from Texas was talking about actually came from the Department of Defense, and it references a weapon in particular that if we are losing in the Middle East, this weapon would have virtually no impact in dealing with the problems that we face with insurgency, with terrorism, with improvised explosive devices. So I think it is an example of the tough decisions that this Congress doesn't want to make, and that has been a problem with Administrations in the past.

These are tough questions. We can't do everything at once. And I think you are attempting to give the Department of Defense what it needs and not often have Congress force it to take things that have more political—political—impact than they do military impact.

I am, however, interested in exploring some of the other areas of tradeoff. You have heard some of our colleagues here raise some concerns about some of the tax provisions, that we are going to continue extending tax benefits, yet we have a serious deficiency with America's infrastructure. You talk about the financial experts, the independent economists, almost all of whom will say that investing in the long-term renewal and rebuilding of America is going to create more jobs than short-term tax cuts that my friends on the other side of the aisle don't actually think made much difference, the 40 percent of the last package, and instead, we are at an impasse on the reauthorization of the Surface Transportation Act, which could, for the amount of money that you are talking about moving in this direction, basically fully fund a program.

I don't want to put you on the spot now because I would like something in a written form about what the tradeoff might be to invest in an area that actually has bipartisan support across the country that the Administration has talked about, but we are not putting enough in to make a difference.

I would like to conclude with one area. I see my friend Paul Ryan is back. He wasn't here in the last panel when I was able to commend him for putting forth some specific suggestions to actually bring down the long-term number. Now, I think Paul would welcome a debate on the specifics, which we should have, but I guess I am wondering if there isn't some way in the spirit that Paul has tossed out some things, some of us, I mean, we have worked together on agricultural subsidy reform, which is in this budget, and I hope you will go to bat for it and back some of us up who care about it.

But you know, we know you can take any six of us and put us in a room, and we will describe what the path will look like, for instance, to fix Social Security. Now, some will have a little more on revenue, and some will have a little more on adjusting long-term inflationary rates. Others will suggest that there might be some difference in terms of the aid, but there are three or four variables that actually will happen in the next 10 years. And I wonder if there is any opportunity that we might be able, in the spirit that Paul has offered up a few things, that there might be a way for some people to not wait for a commission but to actually roll up their sleeves and have a little bit of this conversation, because we know that is where we are going to go in the next 10 years, and maybe we can do it in a way that is a little less toxic than it has been to date?

Mr. ORSZAG. And Mr. Blumenauer, that is exactly what we are trying to create through the commission. But if there are alternative mechanisms that would complement or supplement, I know the Chairman, for example, had mentioned informal meetings on a bipartisan basis to address some of these issues. The problem is so substantial and the need for bipartisan cooperation so significant that my view is, whatever works, let's do it.

Mr. BLUMENAUER. Well, I would just conclude by expressing my hope that we can take a few of these things, we can find maybe an informal way to debate and refine and flesh them out, but I hope in a couple of these areas that we can look at the broader context so that we don't have to wait for a commission, because it is going to take the full 10 years to turn this battleship around, as you have documented in a previous life. Thank you very much.

Chairman RANGEL. Mr. Pomeroy is recognized for 5 minutes.

Mr. POMEROY. Thank you, Mr. Chairman.

I want to follow along my colleague, Mr. Blumenauer. I believe that my colleague, Paul Ryan, has advanced a detailed plan with specifics to match the Republican counterpart to the Administration's plan which is detailed and has specifics. And so we at last face the prospect of actually being able to make choices between alternatives that are real and on the table before us, not basically fighting fact with fiction or just totally empty rhetoric as an alternative that really doesn't allow for an honest debate.

Now, having not been a Member of the Budget Committee, I am sure it was covered exhaustively there, but if you can give us, Mr. Director, maybe a little flavor for the Administration's take on the Ryan budget proposal and the alternatives that this Administration believes would be a better policy course.

Mr. ORSZAG. Yes.

Well, Mr. Pomeroy, I discussed this a little bit briefly before, but I think there are a whole series of changes that Mr. Ryan would propose; tax changes that would eliminate the estate tax. It would eliminate the corporate income tax. It would dramatically change the tax structure. Mr. Ryan may have a different perspective, but in my analysis, and we will get more rigorous analysis of it, it would significantly shift the tax burden from upper-income taxpayers toward middle-income taxpayers.

But most of the long-term deficit impact comes from a substantial change in Medicare. So the plan succeeds in reducing our long-term deficit, but at the cost of exposing beneficiaries to much more uncertainty about how much health care is going to cost them and at the cost of shifting additional costs onto beneficiaries.

So it is not hard to reduce Federal expenditures just by shifting uncertainty and cost onto beneficiaries, and I actually think Mr. Ryan would agree, there are—that, in a sense, and CBO said that that is exactly what it does, there are costs and benefits to doing that.

Mr. POMEROY. Now, in the alternative, I think there has been a fair description.

Mr. RYAN. Would you yield?

Mr. POMEROY. I yield to you briefly, but I do have another point I want to draw.

Mr. RYAN. No one disagrees that the current spending trajectory cannot go on as it is. So Dr. Orszag will agree, and he has said this many times, the path of spending we are on right now cannot go where it is. It has to come down. The question is, how do you do it?

Mr. POMEROY. Precisely correct. And I do commend you for putting forward specifics as an alternative. All right.

Mr. Orszag, or Dr. Orszag, what would be specifics you would advance as your alternative to essentially the outline you have just given us?

Mr. ORSZAG. We support a more progressive tax system rather than a more regressive one. We support, for example, finding efficiencies in Medicare on the provider side, reducing unwarranted subsidies to providers and altering their incentives, so that they provide higher quality care rather than just more care, instead of loading the burden onto beneficiaries disproportionately.

In Social Security, we don't support introducing individual accounts into Social Security. We support individual accounts on top of Social Security, which is why, in this budget, we have a whole series of reforms intended to promote automatic IRAs and automatic 401(k)s in addition to shoring up the defined benefit system, which I know is very close to your heart. And you can go down the list. There is a significantly different path chosen in which more risk is loaded onto individuals under Mr. Ryan's plan, and the Tax Code is much, much more regressive.

Mr. POMEROY. I think that that is, for my purposes, the opening bell of what will be a very interesting debate. And again, it is going to be an interesting debate because we actually have specific alternatives to talk about.

I commend Mr. Ryan.

I have a couple of seconds left. I just came from a press conference on the goal of restoring pay-as-you-go as a budget discipline into the Code. Do you have a comment on that?

Mr. ORSZAG. I applaud the Senate in embracing statutory pay-as-you-go legislation. It embodies, as I said earlier, the very simple principle that when you have a big hole, don't dig it any deeper. We are finally at a point, I know the House has been pursuing this for years and years and years, we are finally on the verge of actually embedding it back into legislation in a way that I think will be very constructive.

Mr. POMEROY. Thank you.

I yield back, Mr. Chairman.

Chairman RANGEL. Thank you.

The witness has to leave in 20 minutes. We have about 16 Members. We are also expecting a vote on the floor. How much time have you got?

Mr. ORSZAG. I am told I need to be back at the White House at 4:00.

Chairman RANGEL. Okay. So we will proceed under the 1 minute rule with the understanding that you will get responses from the Director, and then we see what happens.

So Mr. Pascrell is recognized for 1 minute.

Mr. PASCRELL. Thank you, Mr. Chairman.

We need to develop new models in this country, Mr. Orszag, and I am very happy to see that the President has embraced this challenge and has decided to find revenue. We cannot do the same; we can't use the same models as we have been using.

The budget contains a measure that we passed in the House, the Student Aid and Fiscal Responsibility Act, which converts all new Federal student lending to the Direct Loan program. And according to the CBO, this will save taxpayers $87 billion over 10 years by switching to the cheaper Direct Loan program. And boy, you know what the struggle was there. You know who was on which side on that debate and why they were there.

The budget eliminates funding for inefficient fossil fuel subsidies, eliminates 12 tax breaks for oil, gas, coal companies—we will see who is on which side to defend those subsidies—and will raise nearly $39 billion over the next 10 years. These are the kind of commonsense measures we have been talking about for years.

What other innovative approaches to raising revenue are found in this budget? What kind of groundbreaking action can Congress take to close the deficit gap while still being able to grow our economy? And as part B to that question, Mr. Orszag, what are we doing in terms of the health care delivery? I am interested to hear what kinds of things the Administration is doing in this budget without whatever we call reform, and what things do you have in the pipeline to do with existing resources and authorities to begin to bend that cost curve, because most of us haven't seen it so far?

Chairman RANGEL. Mr. Brady is recognized for 1 minute.

Mr. BRADY. Thank you, Mr. Chairman.

For the record, I will—for brevity, I will ask the Director for a written response on how many American jobs will be created by the tax increases on small businesses, local real estate partnerships, U.S. companies competing overseas, U.S. energy companies, capital gains, research and development, charitable giving and the death tax, and I will just ask for any economic numbers you have.

Second, a hypothetical. The train is hurtling down the track. Democrats have been at the helm of the train for 3 years. Deficit speed is now 10 times faster than when Republicans were at the head of that train. Instead of slowing down, they propose to accelerate the deficit speed for another year and keep the pedal to the metal for another decade. Now, how long will it take before the Democrats realize they are actually driving the train?

Mr. ORSZAG. I am not sure I like this minute rule thing.

Mr. BRADY. Okay. I just wanted to check on that.

I yield back, Mr. Chairman.

Chairman RANGEL. Mr. Ryan.

Mr. RYAN. I don't know how to follow that.

As a Member of Congress, here is how I get my health care. I get a fixed payment from my employer, Federal Government, the American taxpayer. I get a book from the Office of Personnel Management saying, here is the certified plans to choose from. I pick one.

That is exactly precisely what we are proposing for people under the age of 55 in Medicare but with more support for low-income and sicker people, and not as much for higher-income people.

Does this program have to change to be saved? Of course, it does. But since I have a minute, I won't belabor all of this.

A reputable economist told the Wall Street Journal that the "unusual situation the government finds itself in with other countries willing to finance the U.S. debt at low rates won't last." When it flips, the question is, how do you get ahead of that to avoid the downward spiral of rising interest rates, a plunging dollar and a sinking economy? I couldn't——

Mr. ORSZAG. Can I chime in, a charming and intelligent economist——

Mr. RYAN. He was a reputable economist, and yes, an intelligent economist. I couldn't have said it better myself.

I have to think that if you wrote this budget with your own druthers, it wouldn't be the budget we have here today. You know this budget is unsustainable. Some of us put an actual plan out there, and the Administration is putting out a commission. This commission, you know, whatever you want to call it, this is not a real budget. It is not a sustainable budget.

And I just wish, because the spending and deficit and debt trajectory matters so much to the bond markets, to the future of our country, I just wish the Administration would stop the spending spree and get this stuff under control, because it is not about politics. It is about prosperity, and it is being threatened.

With that, I yield.

Chairman RANGEL. Mr. Neal is recognized.

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

Thanks, Mr. Orszag. Two points. One, I am delighted that the automatic IRA has been included in the President's budget, my proposal. And I hope and believe that that is something that we ought to be able to get done here on both sides. There ought to be enthusiasm for creating it, so I am happy that it is in.

But I do want to raise some skepticism about going to a Medicare commission. We proved here that you can address some of these issues. We did it three times with President Bush, Sr., and President Clinton twice.

And the idea that we would farm out the responsibility for what is such an important part of our constitutional obligation raises doubts in my mind about what the outcome might be.

And I say that obviously because of the interest I have in teaching hospitals, the interest I have in what are now extraordinary employers across the Northeast. And it is also first-class health care. And the health care that takes place there doesn't occur in many other places across the globe. So I just wanted to raise that point with you.

If you want to try to defend the position in a minute or so, at the Chairman's behest, that would be fine with me. But I am pleased about re-insurance, and I am pleased about automatic IRA, and I am skeptical of a Medicare commission.

Chairman RANGEL. Mr. Tiberi is recognized for 1 minute.

Mr. TIBERI. Thank you, Mr. Chairman.

Thank you for being here. I would like to talk to you more about this another time, but I think the budget is full of contradictions. One of them I would like you to answer a question on. The front page of my paper today, I think you would agree with this, Recession Takes a Toll on Donations in the U.S., charitable contributions specifically.

I am the Cochair of the philanthropic caucus, and I have heard from many over the last year, particularly after the last budget proposal, which was not adopted by Mr. Rangel and the Majority because of opposition within their conference, and the Administration or several Members of the Administration last year backed off the proposal, and I was hopeful it wouldn't reappear, but yet it is back. Can you comment on it?

Mr. ORSZAG. Again, I am not clear whether I should be responding now or not.

Mr. TIBERI. Okay. If you could respond in writing. I know Mr. Levin had a similar concern regarding the itemized deduction proposal.

Chairman RANGEL. Ms. Brown-Waite is recognized for 1 minute.

Ms. BROWN-WAITE. Thank you very much, Mr. Chairman.

In the proposed budget there is a Medicare cut of $720 million I believe, but there are no details. Could you provide the Committee with information as to exactly how this will be achieved? It calls for $722 million in cuts. So where are the cuts going to be? That would certainly be——

Mr. ORSZAG. Sure. It may be in program integrity, but we will get back to you in writing.

Chairman RANGEL. Mr. Thompson is recognized for 1 minute.

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. Orszag, I have a couple of things. I am concerned that the one area where we can really make an impact on creating jobs is the Corps of Engineers. With a $61 billion backlog, you are proposing we cut them another 10 percent.

Second, I would like to know what we are going to do on the sustained growth rate, which is going to prohibit patients from seeing their doctor, patients under Medicare.

And it was mentioned earlier about LIFO. I think it would be a tragedy to get rid of LIFO. This would put our foreign competitors at an advantage to our U.S. businesses. This hits small businesses here at home. That is going to cost us in jobs. It is going to cost us in revenues. It is going to cost us in everything, including important market share when we are competing against these foreign markets. And to do LIFO is just a rocket shot at American small businesses, when at the same time the foreign competitors will see a huge, huge boost.

Chairman RANGEL. Mr. Davis of Kentucky is recognized for 1 minute.

Mr. DAVIS OF KENTUCKY. Thank you, Mr. Chairman.

One point I would like to make with the hollow comments about wanting more partisanship and every time that we point out an objection, that we are accused of partisanship.

I represent a district that is Democratic. We are more than willing to work issues like Mr. Thompson talked about, but I think it is time that the Administration end the war on the Ohio Valley States and specifically on West Virginia and the Commonwealth of Kentucky.

There is a contradiction in your budget. You say you want to create jobs. You say you have a carrot-and-stick energy process or initiative. I am an engineer. It doesn't work, first of all, from a technological standpoint. From a practical perspective, what do I tell the Caterpillar D–8 operator in Hazard, Kentucky, who is being legislated out of a job; 404 permits are behind the Corps.

And at the heart of our energy industry right now, I can tell you this, the things that have acceptance in every sector of business, you are legislating away the expensing for research and development, for depletion. Capital gains are being taken away as a benefit for royalties, and finally, it is a repeal with the domestic manufacturing deduction on something that generates over 50 percent of the energy to power this country.

What you are doing is lighting a fuse to economic disaster, and you are putting the very people you want to help out of work.

I would like your answer in writing to that conversation, please.

Chairman RANGEL. Mr. Davis from Illinois is recognized for 1 minute.

Mr. DAVIS OF ILLINOIS. Thank you, Mr. Chairman.

The debate goes on and on about the Recovery Act, its success or failures. What would the job creation outlook be and unemployment be, in your estimate, if we didn't have it?

Mr. ORSZAG. The very short answer is there would be 2 million more unemployed people today, roughly 2 million, without the Recovery Act.

Mr. DAVIS OF ILLINOIS. Thank you.

Chairman RANGEL. Mr. Reichert is recognized for 1 minute.

Mr. REICHERT. Thank you, Mr. Chairman.

Mr. Orszag, you know, there have been some questions about jobs created versus jobs saved. Well, I am interested in jobs that we have lost through inaction.

So when the Treasury Secretary was here just a couple of hours ago, Chairman Rangel agreed with me that the United States is losing jobs by the failure of enacting pending trade agreements with Korea, Colombia and Panama.

Do you agree with Chairman Rangel and myself that we are losing jobs by not enacting these trade agreements? And you can answer that a yes or no.

Mr. ORSZAG. I would say that we need to engage with the rest of the world. We are looking to——

Mr. REICHERT. Are we losing jobs, sir, by not enacting these?

Mr. ORSZAG. Exports are a key part of economic growth and——

Mr. REICHERT. Is that a yes, sir?

Mr. ORSZAG. Get those trade agreements done but in a way that——

Mr. REICHERT. Yes or no?

Mr. ORSZAG. I don't want to play that game.

Mr. REICHERT. No, I am not playing a game. It is a question.

Mr. ORSZAG. With improvements to those trade agreements, they would be desirable both from——

Mr. REICHERT. So that is a yes. Thank you.

Chairman RANGEL. Mr. Etheridge is recognized for 1 minute.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Dr. Orszag, budgets are a blueprint of our priorities. And let me just say, I don't want you to comment on this, but you have already heard it today, folks at home are really upset about what they read in the morning paper about AIG. We put a lot of money in it, and I don't think they get the message yet, and I hope we will continue to take—to press on that, and you have heard that here.

But let me ask you in writing to share with us, I served as a State superintendent of schools for my State before I came here. I happen to believe that education is the one thing that levels the playing field for all folks and really builds a strong foundation for the future. And unfortunately, it doesn't show up in our balance sheet right away. And I hope you will share with us as a Committee a list of those things in this budget that affect elementary education, higher education, and those who are out of work who are coming back through the community college system for long-term opportunities and education.

Thank you, Mr. Chairman, I yield back.

Chairman RANGEL. Copy the Chairman on that request.

Dr. Boustany is recognized for 1 minute.

Mr. Heller.

He is not here.

Mr. Kind is recognized for 1 minute.

Mr. KIND. Thank you, Mr. Chairman.

Dr. Orszag, thank you for your patience in being here today. But the Republican idea of privatizing Social Security and privatizing Medicare, which is a part of their so-called plan, really isn't a plan at all. It is just an ideology. It is an ideology that has been rejected in the past.

So if you want to have a real debate on it, let's get those terms out so that the American people really know what is at stake. But it all comes back to rising health care costs if we are ever to get this budget under control. And I appreciate the leadership you and the Administration have shown.

But the key in my eyes is, we have to reform the way health care is delivered in this country and especially how we pay for health care, getting off of this fee-for-service, which is volume-based payments, to one that rewards the quality or the value of care that is given. And I look forward to working with you as we move forward on health care reform, because the election in Massachusetts does not solve the health care crisis that we have in this Nation.

And if we are going to have balanced budgets again, a payment reform is going to have to be a part of the solution. Thank you.

Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Director, thank you for your patience. I am going to take you up on your kind offer to meet with us in a bipartisan way. And you can get more votes privately than you ever can get publicly, so maybe we can work out something.

Mr. ORSZAG. Sounds great. Thank you.

Chairman RANGEL. Thank you again.

[Whereupon, at 3:55 p.m., the Committee was adjourned.]

[Submission for the Record follows:]

February 17, 2010

The Honorable Charles Rangel
The Honorable Dave Camp
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Re: Written Testimony for the record on President Obama's Budget Request: Enact asset-building investments included in President Obama's FY2011 budget request

Dear Chairman Rangel and Ranking Member Camp:

CFED writes to express our support for the enactment of key asset- and wealth-building investments in President Obama's FY2011 budget request, including reform of the Saver's Credit and automatic enrollment into IRAs. As the Committee considers its goals for the year, we encourage you to include these and other policies that enable millions of low- and moderate-income Americans to connect to the financial mainstream, save and build wealth.

The federal government currently provides a host of incentives to encourage asset building including the property tax and mortgage interest deductions, exclusion of capital gains at death, deferral of income taxes for retirement accounts and preferential capital gains tax rates. Unfortunately, few of these benefits reach low-income Americans. As detailed in our 2007 Report, *Return on Investment? Getting More from Federal Asset-Building Policies*, in FY2005, the federal government provided more than $367 billion in tax subsidies to incent asset building. However, because the vast majority of these incentives are delivered through the tax code, they are unavailable to the millions of low- and moderate-income Americans who have limited or no federal income tax liability, even as they pay sales, excise and other taxes.

Our asset building subsidies are upside down: More than 45% of the asset benefits went to households with incomes of more than $1 million. These households receive an average benefit of $169,150. In contrast, the bottom 60% of households received less than 3% of the benefits. Households earning less than $20,000 a year received a subsidy of about $3. Upper-income households benefit vastly more from these incentives than they pay into the system. The top

1% of earners received 45.3% of the benefits of these policies, double their contribution (22.6% in 2003) to the federal tax rolls. To move towards a level playing field, we support President Obama's recommendation to limit the tax rate at which itemized deductions reduce tax liability to 28% for upper-income households. CFED is updating its report and would be pleased to share our findings with the Committee.

Findings from CFED's *2009-2010 Assets and Opportunity Scorecard* also reveal marked disparities in asset ownership among Americans, many of whom face significant barriers to economic security.

- Nearly a quarter of Americans (22.5%) are asset poor, meaning they have insufficient assets to keep them out of poverty for three months in the event of income loss
- 27.3% of households with children are asset poor
- Minority households are more than twice as likely to be asset poor than white households (37.2% compared with 16.4%)
- More than 14% of Americans live in extreme asset poverty, meaning they have zero or negative net worth; 23.8% of minority households live in extreme asset poverty

Policy makers' efforts to alleviate poverty have traditionally focused on issues of income and consumption. In recent years, Congress has embraced an expanded vision of poverty alleviation. Through Congressional efforts in the *Pension Protection Act of 2006* and *The Food, Conservation and Energy Act of 2008*, laws to encourage savings, investment and asset accumulation in conjunction with, not instead of, traditional anti-poverty programs were enacted.

These initiatives recognize that those with assets are more economically secure, create more options in life, and can pass on status and opportunities to future generations. Asset-building programs enhance the success of poverty alleviation initiatives by enabling low-income earners to save, build wealth, enter and engage in the financial mainstream. Families with savings also strengthen our economy by providing investment funds for economic growth.

CFED urges the Ways and Means Committee to enact the following legislation to enable all families to be able to connect to the financial mainstream, build a financial cushion and achieve financial self-reliance.

Saver's Credit Reform

CFED is pleased to see Saver's Credit reform included in the President's budget request. The Saver's Credit was originally designed to provide a saving incentive for low- and moderate-income households. However, its final structure has led to its complete underutilization. More than 50 million households have income that should qualify them for the Saver's Credit, yet only 5.9 million individual income tax returns claimed the credit. This underutilization is due to the complexity of the credit and its inability to reach the vast majority of low-income households.

CFED supports *The Savings for American Families' Future Act* (H.R. 1961) which tracks the President's proposal for Saver's Credit reform and expansion. This proposal would expand retirement savings incentives by providing a flat 50% match on qualified contributions up to $500/$1,000 for a single/joint filer; increasing the income eligibility requirement to $65,000 for joint filers and $32,500 for single filers, and automatically depositing matching contributions into the designated retirement account through IRS Form 8888.

Automatic Enrollment in IRAs

Only fifty-two percent of households now own a retirement savings plan and low-income workers are much less likely to save for retirement than their higher-income counterparts. The majority of low-income workers—more than 92%—are not participating in a 401(k) type plan because many of them are not offered a retirement plan by their employer. Only 37% of those earning under $30,000 annually have access to a retirement account at work.

President Obama has proposed to extend payroll-based retirement saving opportunities to a majority of the 78 million employees currently without access to a retirement plan. Under his proposal, employers who do not sponsor a retirement plan would facilitate direct-deposit payroll deductions to an IRA and receive temporary tax credits to offset administrative costs. The proposed change affects all employers in business for more than two years and with more than ten employees.

In addition to retirement, IRAs, which can benefit from the Saver's Credit, can be accessed without penalty for higher education and homeownership expenses, important investments that help individuals and families attain long-term financial security.

Asset Limit Reform

CFED also supports the administration's attention to asset limit reform. Many public benefit programs – including Temporary Assistance to Needy Families (TANF) and Supplemental Security Income (SSI) – limit eligibility to those with few or no assets. If a family has assets over the limit, it must "spend down" longer-term savings in order to receive assistance. Asset limits were originally intended to ensure that public resources did not go to "asset-rich" individuals. However, the limits have not been raised in decades and also penalize people from saving in retirement accounts. In programs like TANF, limits are a relic of an entitlement policy that no longer exists and should be eliminated. Asset limits in SSI should be raised from the current levels of $2,000 to at least $5,000 for savings in retirement accounts.

Assets for Independence Reauthorization

President Obama included level funding for the Assets for Independence (AFI) program in his budget request. Nationwide, more than 86,000 participants have saved through a matched savings account or Individual Development Account (IDA). More than 2/3 of these savers derive from the AFI program.

Though the program receives consistent and level funding each year, the authorization expired in 2003. The Ways and Means Committee must reauthorize and improve the *Assets for Independence Act* (P.L. 105-285), the federal government's primary program support for matched savings accounts. Needed changes to AFI will increase the efficiency and accessibility of IDAs, enabling continued impact among low-income families working to invest in major assets and move up-and-out of poverty.

A number of studies report significant increases in financial security for IDA participants. The AFI evaluation study found significant differences between AFI participants in comparison to demographically similar non-AFI participants: individuals and families who participated in an AFI program were 35% more likely to become homeowners, 84% more likely to become business owners and nearly twice as likely to pursue post-secondary education or training. Another study revealed that more than half of program graduates who previously received public assistance no longer received assistance after completing the program.

In addition to those initiatives included in the President's budget request, CFED also supports the following proposals that will promote intermediate asset purchases and life-long savings.

Expand Matched Savings Accounts

CFED also supports expanding IDAs through the bipartisan and bicameral *Savings for Working Families Act* (SWFA) (H.R.2277/ S.985) championed by Representatives Pomeroy, Pitts, Schwartz and Brady. SWFA proposes matching the savings of at least 2.7 million low-income families for education (for adult or child), homeownership, or education through a tax credit to financial institutions that match up to $2,000 in savings dollar-for-dollar. The bill also provides $120 million to nonprofits to provide financial education such as business assistance and housing counseling.

Children's Savings Accounts

Congress should enact a universal, progressive children's savings account program providing an initial deposit for all newborns and matching deposits for low- and moderate-income children for education, homeownership or retirement.

More than one third of the four million American children born each year — and more than half of minority children — are born into asset poor families. Such disadvantage is harmful to a child's future, affecting their ability to pursue a college education, achieve homeownership, pursue entrepreneurship and prepare for retirement. Children's savings accounts are powerful financial products that could expand economic and educational opportunities for children by encouraging long-term planning, building family wealth, and promoting financial literacy.

Roth YSAs

Congress should also permit adults to use a portion of their Roth IRA allocation to open accounts and save in a child's name. Currently, there are no age restrictions limiting who may own a Roth, however, only those with earned income may make contributions into the account. Adults' contributions can be deducted from their annually allowed maximum contribution to a Roth account. Contributions made by low-income families should also be eligible to receive a Saver's Credit match. YSA savings should be excluded from eligibility determinations for means-tested public benefits programs in order to avoid creating a savings disincentive. Permitting such flexibility will allow adults to start and fund accounts for children early in their lives.

Aligning uses in retirement accounts

Congress should clarify and simplify rules regarding intermediate uses of retirement accounts. Individual Retirement Accounts – and to a lesser extent 401(k)s, 457s, and 403(b)s – have uses extending beyond retirement: IRA funds can be used to support college education and up to $10,000 in an IRA account can be used for first-time home-ownership; such uses are only available as loans from 401(k)s. Employer accounts allow loans which provide encouragment for individuals to save more than they think they can knowing they can borrow from themselves later. However, loans from IRAs are prohibited. The law should align loan policy, homeownership and education uses. People should be allowed to borrow from their IRA the way they can from an employer-provided account. Also, individuals should be able to withdraw funds for homeownership and college education from an employer-based account. The $10,000 lifetime limit for homeownership withdrawals should be doubled. In addition, employees who borrow from an employer-sponsored retirement account should be permitted to repay the loan even after separation from the employer.

Conclusion

CFED encourages the Ways and Means Committee to support investment in asset-building policies and promote those that have positive *impact* and proven *effectiveness* in tax legislation this session. CFED supports a broad asset agenda and investments in critical initiatives that will assist low-income working families contribute to and benefit from the economy, save, build wealth and move to a more secure financial position. For more information about these and other critical wealth-building policies, contact me at cwayman@cfed.org or 202.207.0125.

Sincerely,

Carol E. Wayman

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Federal Policy Director

CC: Treasury Secretary Timothy F. Geithner
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