

**ANALYSIS OF THE PRESIDENT'S
FISCAL YEAR 2011 BUDGET WITH
OMB DIRECTOR PETER ORSZAG**

HEARING

BEFORE THE

**COMMITTEE ON FINANCE
UNITED STATES SENATE**

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

FEBRUARY 4, 2010



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**ANALYSIS OF THE PRESIDENT'S
FISCAL YEAR 2011 BUDGET WITH
OMB DIRECTOR PETER ORSZAG**

THURSDAY, FEBRUARY 4, 2010

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:02 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Present: Senators Rockefeller, Bingaman, Wyden, Schumer, Nelson, Menendez, Carper, Grassley, Snowe, and Cornyn.

Also present: Democratic Staff: Bill Dauster, Deputy Staff Director and General Counsel; Thomas Reeder, Senior Benefits Counsel; Tom Klouda, Professional Staff Member, Social Security; Blaise Cote, Research Assistant; and Christopher Goble, Detailee.

**OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR
FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE**

The CHAIRMAN. The committee will come to order.

In his March 1961 budget message, President John F. Kennedy said: "The Federal budget should, apart from any threat to national security, be in balance over the years of the business cycle, running a deficit in years of recession when revenues decline and the economy needs the stimulus of additional expenditures, and running a surplus in years of prosperity."

President Kennedy's goal remains one that we should embrace today. Our Nation is addressing new and complex threats to our national security, and today our Nation is addressing a deep and painful period of recession. And as President Kennedy recognized, in a recession, tax revenues naturally decline as businesses make less. And in a recession, automatic economic stabilizers like unemployment insurance and Medicaid naturally fulfill their purpose, resulting in additional expenditures.

Plainly, today, our top priority needs to be creating more jobs. Since this Great Recession began, more than 7 million Americans have lost their jobs. We need to help American businesses to hire more workers.

The President's budget allocates \$100 billion for job creation. Thus far, the administration has announced a \$33-billion Small Business Jobs and Wages Tax Cut. It is not clear what initiatives will be supported by the remaining \$67 billion of the \$100 billion

proposed for job creation measures, and I plan to ask our witness about that.

The budget also includes \$166 billion for other temporary economic recovery measures. The budget would increase investment by extending the bonus depreciation tax credit for businesses. It would also increase investment by small businesses by extending the credit in section 179 of the code. The additional investment arising from these two tax cuts should help create jobs. I support these jobs proposals. I look forward to working with my colleagues on both sides of the aisle to enact them into law.

The temporary recovery package would also extend the number of weeks of additional unemployment benefits for 3 months, and for 10 more months it would continue tax credits that cover 65 percent of the cost of COBRA benefits for workers who lose their jobs. Again, I look forward to working with my colleagues on both sides of the aisle to enact these proposals into law.

So, as President Kennedy counseled, we are addressing the needs of the economy and American workers in times of recession. But we must also lift our sights, as President Kennedy counseled, to the longer-term balance over the years of the business cycle.

The President has done so in his budget proposal. Over the next 10 years the President proposes \$2 trillion in deficit reduction. Over the next 10 years the administration suggests that the government ought to shoot to keep annual deficits below 3 percent of the economy. The administration argues that such deficits keep debt held by the public at a constant share of the economy.

But the deficits projected in the President's budget for the next 10 years do not yet hit the target. The budget proposes deficits of 3.9 percent of GDP in fiscal year 2014 and 4.2 percent of GDP in fiscal year 2020.

The budget suggests that the additional deficit reduction to reach the 3-percent goal will come from a bipartisan commission to be created by an executive order. I support the creation of this commission, and I support its mission to come up with proposals to further address our long-term deficits. And we must also lift our sights even further to balance over the long run. The budget's projections warn that, without any policy changes, deficits and debt will explode in the long run.

The primary reason for these long-run deficit projections is that health care costs are growing too rapidly. Health care costs per person are growing faster than the economy is growing per person, and Medicare and Medicaid costs are growing faster than the Gross Domestic Product. That means that, over the long run, Medicare and Medicaid costs will consume an increasingly greater share of the economy, and this rapid growth in spending drives up deficits and debt held by the public. The answer is to enact comprehensive health care reform with strong cost containment, and that is exactly what the Congress has been doing.

According to the non-partisan Congressional Budget Office, the Senate-passed health bill would reduce the deficit by \$132 billion during the next 10 years, and it would reduce the deficit by \$650 billion to \$1.3 trillion in the subsequent 10 years.

But the deficit reduction in our health care reform bill does not stop there. The bill contains new and innovative ideas for improv-

ing health care quality, while reducing the incentives for inefficient and wasteful spending.

For example, our bill would bundle together payments to providers to encourage them to work together to find savings. Our bill would establish accountable care organizations that would give health care providers tangible incentives to cut costs, and our bill would create incentives to discourage costly hospital re-admissions.

In his March 1961 budget message, President Kennedy also said: “It is my determined purpose to be a prudent steward of the public funds—to obtain a dollar’s worth of results for every dollar we spend.” Once again, President Kennedy’s goal remains one that we should embrace today.

And so, let us work together to address the needs of the economy and American workers in these times of recession. Let us be prudent stewards and ensure that we obtain a dollar’s worth of results for every dollar that we spend in health care and elsewhere in the budget. And let us roll up our sleeves and begin the hard work of restoring fiscal responsibility over the longer run.

[The prepared statement of Chairman Baucus appears in the appendix.]

The CHAIRMAN. I will reserve time for Senator Grassley to speak later, when he arrives, but pending that, Dr. Orszag, I would like to introduce you.

Thank you very much for coming.

As Director of the Office of Management and Budget, as you know, our custom is to include your full statement in the record and have you speak for any appropriate time that you wish. Seeing that there are not a lot of Senators here, you have a little more time.

**STATEMENT OF HON. PETER ORSZAG, Ph.D., DIRECTOR,
OFFICE OF MANAGEMENT AND BUDGET, WASHINGTON, DC**

Dr. ORSZAG. All right. Thank you very much Mr. Chairman, members of the committee.

The President’s Fiscal Year 2011 budget is focused on three things: (1) jump-starting job creation today, (2) strengthening the middle class, and (3) beginning the difficult chore of putting the Nation back on a path to fiscal responsibility and sustainability.

A little bit of background before turning to the budget proposals. We have just come through a year in which we averted a second Great Depression. At the end of 2008, real GDP was declining by more than 5 percent. At the end of 2009, it was increasing by more than 5 percent, in no small part because of the significant policy action that was taken to stabilize financial markets and to promote aggregate demand.

Although the real economy is now expanding, the employment market remains much too weak: the unemployment rate is 10 percent and there has been a loss of 7 million jobs since December 2007. It is in that context that the administration looks forward to working with you to further spur the employment market, for example, through a jobs and wages tax credit and through investments in education, clean energy, and innovation, which are contained in this budget.

The second piece of background: the pre-existing condition with regard to our fiscal trajectory as of early last year. At that time in early January 2009, the Congressional Budget Office issued an economic and budget outlook. It showed very clearly two salient things: (1) a substantial increase in spending as a share of the economy, and (2) very substantial out-year deficits over the subsequent decade.

On the first point. That document showed an increase in spending as a share of the economy from 20.9 percent of GDP in fiscal year 2008 to 24.9 percent in 2009. And again, that was in early 2009 before, for example, the administration took office.

The reality turned out to be roughly in line with that projection. Spending in 2009 was 24.7 percent of the economy relative to those initial projections. Mandatory spending was somewhat lower, discretionary spending somewhat higher because of the Recovery Act and other measures, but, nonetheless, the total was in line with what was projected. In other words, it is wrong to attribute that increase in spending to actions that were taken by the administration.

Second, with regard to the medium-term deficits, in early 2009, trillions of dollars in out-year deficits were already apparent, and they reflected two basic forces. The first was the passage of the 2001 and 2003 tax cuts and the Medicare prescription drug benefit without offsetting them. Those deficit-financed tax cuts and the deficit-financed drug benefit added more than \$5.5 trillion to our projected deficit over the next decade.

Second, the impact of the economic downturn. During an economic downturn, revenues naturally decline and certain categories of spending, like unemployment insurance benefits and food stamps, naturally increase. The impact of those so-called automatic stabilizers—which by the way I would note are beneficial because they help to mitigate the economic downturn itself—but the fiscal impact of those automatic stabilizers amounts to more than \$2 trillion over the coming decade. In other words, those large deficits that we see are the reflection of not abiding by pay-as-you-go in the past and the severity of the economic downturn that we are trying to combat.

That is an explanation of the situation in which we find ourselves, but it does not provide the solution. So, what are we supposed to do about it?

The first thing that we need to do is make sure we do not make the problem worse. The administration is pleased that the Senate has now joined the House in embracing statutory pay-as-you-go legislation which embodies that very simple principle: when you are facing a hole, do not make it worse. If we are going to have a new entitlement program or a new tax cut, we need to pay for it. If we had abided by this principle in the past, our out-year deficits would be 2 percent of the economy, and debt as a share of the economy would be declining.

Second, economic recovery will help to reduce the deficit from about 10 percent of GDP today to about 5 percent of GDP by 2015, and that is because revenues will recover as the economy does, and those automatic stabilizer spending programs—food stamps, unem-

ployment insurance benefits, and so on and so forth—will naturally decline as economic recovery takes hold.

That 5 percent of GDP deficit, however, is too high, so the administration has put forward \$1.2 trillion in deficit reduction, even excluding the wind-down in the wars in Iraq and Afghanistan. Including that wind-down, as the chairman noted, deficit reduction is in excess of \$2 trillion over the next decade. By either measure, it is more deficit reduction than has been contained in any administration's budget proposal in more than a decade, also, sufficient deficit reduction to reduce the deficit by more than half as a share of the economy by the end of the President's first term, bringing it down from 9.2 percent of the economy, which is what the deficit was projected to be on the day that he walked into office, to 4.2 percent of the economy by 2013.

How is this done? A variety of ways. A new financial services fee raising \$90 billion over the coming decade, which will help to make sure that taxpayers are repaid in full for every cent that has been expended to support the financial services industry.

Second, allowing the 2001 and 2003 tax cuts to expire as scheduled for those with incomes of \$250,000 or more. That reduces the deficit by almost \$700 billion over the coming decade.

Third, moving the Nation towards a clean energy future by, for example, eliminating fossil fuel subsidies delivered through the tax code, reducing the deficit by roughly \$40 billion.

And then, finally, a 3-year freeze on non-security discretionary spending, which reduces the deficit by \$250 billion over the coming decade. I would note that that freeze is not across the board. Some agencies are going up, some go down. We are investing significantly in education, innovation, and clean energy, while constraining spending in other areas.

Even with that \$1.2 trillion in deficit reduction, the deficit remains higher than we would like it to be, which is, as the chairman noted, why we are calling for the creation of a bipartisan fiscal commission to put forward recommendations by the end of this year to get us the rest of the way to a stable debt trajectory, which would involve overall deficits of roughly 3 percent of the economy by 2015.

Finally, even if we succeed in doing that, we still face a very substantial long-term fiscal challenge, since everything I was speaking about only pertains to the next decade. As you go out over time, the key driver of our long-term deficit is the rate at which health care costs grow, and that is why we are eager to continue to work with the Congress to finally enact comprehensive health reform legislation that not only expands coverage and improves quality, but also helps to reduce the deficit not only over this decade, but equally importantly, if not more importantly, puts in place the infrastructure that will allow us to reduce the deficit by increasing amounts thereafter.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Dr. Orszag.

[The prepared statement of Dr. Orszag appears in the appendix.]

The CHAIRMAN. I see Senator Grassley has arrived. Senator, if you want to—

Senator GRASSLEY. Yes, I am not prepared to do that. I do not know whether I will, but I will be asking some questions.

The CHAIRMAN. All right.

Dr. Orszag, as I understand it, the administration is suggesting about \$100 billion for allowance for overall jobs initiatives and about \$33 billion that is used for the Small Business Jobs and Wages Tax Cut. I am just curious, what is the other \$67 billion?

Dr. ORSZAG. The President, during a speech late last year at Brookings, laid out some other areas that he thought would be useful to be part of a jobs package: additional investments in clean energy, additional investments in infrastructure, for example. But as of right now, we have a placeholder for the other \$67 billion, because we want to work with you—and I know you all just had an announcement about some of your ideas—to complete the details of that package and make sure that it is consistent with spurring as much job creation as possible.

The CHAIRMAN. So the thought is that you want to work with the Congress in determining what that \$67 billion is going to be used for?

Dr. ORSZAG. Yes. Yes, we had laid out some categories, and we want to work with you to fill them in.

The CHAIRMAN. What is a category or two?

Dr. ORSZAG. Again, infrastructure and clean energy being examples.

The CHAIRMAN. All right.

A couple of times the President has mentioned how we have to export more. In the State of the Union address, he made a pretty strong statement about exports. I have forgotten the period of time within which exports, he thought, would double, or at least increase by a certain amount. And then, when he spoke to a lot of us yesterday, that is a lot of Democratic Senators, he put some emphasis on exports.

But I do not see a lot of funding for USTR. I do not see a lot of provisions in the budget that help determine a clear path how we are going to accomplish that objective.

Could you give us some sense?

Dr. ORSZAG. Sure. Let me mention a few things. First, the budget includes a new over \$500-million national export initiative, which is intended to help promote exports in a variety of ways in the Department of Commerce.

Second, perhaps most importantly of all, our exports are going to reflect productive and competitive industries, and we have more than \$60 billion in research and development funding, which is up more than 6 percent from last year, in order to spur innovation. We have \$6 billion in investments in clean energy so that we can become the world leader in that field. We have a \$3-billion increase in elementary and secondary education, while also reforming those programs so that we can help our future work force be as productive as possible, all of which will help to spur exports.

And I would also note, exports are growing rapidly now off of a low base, in part because the base is low and in part because foreign economies are starting to expand also. Beyond those measures, additional steps would be warranted. Ambassador Kirk is, as you know, leading the effort in helping to expand markets abroad;

in addition to the other steps that we are already taking, his efforts will be crucial.

The CHAIRMAN. What about China pegging its currency? That would be factor, too, if that could be addressed.

Dr. ORSZAG. Senator, I believe you had Secretary Geithner before this committee. I am going to abide by the traditional rule of deferring to the Secretary on all matters involving exchange rates.

The CHAIRMAN. All right.

Is there a job number attached to these administrative initiatives, the initiatives to increase exports? Any sense of a realistic assessment of how much of this will be passed, enacted in law, of the \$500 million—

Dr. ORSZAG. Sure. There are rules of thumb, and I will be able to respond. I do not have it off the top of my head, but I will be able to get back to you with the specific estimate associated with that doubling of exports, in particular.

The CHAIRMAN. Right. But in addition to doubling exports, what is the correlation of jobs? How many new jobs?

Dr. ORSZAG. No, that is my point. We will be able to provide an analysis of what the doubling of exports does in terms of domestic employment to you.

The CHAIRMAN. Or, how many jobs do you think will be associated with some of these measures that you have outlined?

Dr. ORSZAG. Yes, we will be able to provide that.

The CHAIRMAN. All right. Because I think it is very important. Driving to work this morning, I heard 1 of 60 businesses export, and I do not know if that is a low number or not, but it struck me as a bit of a low number.

Dr. ORSZAG. Well, I think what is going on there is, do not forget, the vast majority of the number of businesses, as opposed to their share of total economic activity, are very small businesses, and they are domestically oriented.

The CHAIRMAN. That is true. Although, I found that efforts in my State to encourage small businesses to export have worked with some success. I will not say it is outstanding or overwhelming, but, once I take business people overseas and show them opportunities and work with, say, the commercial sections of our embassies abroad, it makes a big, big difference when the word spreads.

Dr. ORSZAG. It sure does.

The CHAIRMAN. Well, my time has expired, so I will turn to whomever wants it.

Senator GRASSLEY. Yes, I would like to have a couple of minutes.

The CHAIRMAN. Senator Menendez? You are next.

Senator GRASSLEY. Then, could I go after him?

The CHAIRMAN. I think so. Yes.

Senator MENENDEZ. Thank you, Mr. Chairman.

Dr. Orszag, welcome. I know you are a student of economic history. I think you have a sense of where we have been, where we are now, and looking to the future. You have a sense of the proper level of debt management in the short-term relative to the need for government to step up and create jobs for the long term. And it would seem to me that history, in some respects, is probably our best teacher, and, like any good teacher, we should pay attention to the clear lessons that it has.

We learned in the 1990s how deficit reduction tools, such as pay-go, led to record budget surpluses. In the last months, Democrats alone voted to bring back statutory pay-go in order to begin a process of restoring fiscal discipline.

But critics of the government's role have forgotten what the Great Depression taught us less than a century ago. They say that government actions are threatening growth, that government should not invest in job creation or economic recovery, that we should step aside and let the free market work in this present environment.

But the obvious question is, is that not to some degree what got us to where we are today? And how do we get out of where we are today, but for the engagement, at this critical time, of government? Herbert Hoover, in 1929, said you had to leave government out of the recovery equation. He said that, "economic depression cannot be cured by a legislative action or executive pronouncement. Economic wounds must be healed by the action of the cells of the economic body, the producers and consumers themselves." Well, we know what that brought us.

So, my question is, would you agree that such thinking is short-sighted and ignores the fact of the excesses of the free-fall economic policies that we have had, particularly over the last 8 years, and the very underpinnings of what at a different time brought us the Great Depression, and now it has brought us the Great Recession, on the verge of a depression?

I think it is important, as we move this budget forward, to have a sense of a little bit of a recent history that people forgot. Is that context right, wrong?

Dr. ORSZAG. Yes, I think it is right. In fact, I believe that history will judge the actions that were taken over the past year to avert falling into a second Great Depression with great favor: measures to stabilize financial markets. We provide, in the budget, a chart that shows a dramatic decline in credit market spreads from the hugely elevated levels that they had reached.

A dramatic shift from, again, the economy declining by more than 5 percent at the end of 2008, to growing by more than 5 percent at the end of 2009. Job losses, even though they are still too high, are dramatically lower. Do not forget, at the beginning of 2009, in January 2009 and thereabouts, job losses were 700,000 a month. So, even though they remain higher than we would like now, it is a lot better than 700,000 a month, in no small part because of the significant action that the Congress, working with the administration, took.

Every outside analysis that I have seen, for example, of the Recovery Act suggests that it played a key role in spurring economic activity in the second quarter, in the third quarter, in the fourth quarter, and that there would be, by our estimates and by outside estimates, roughly 1.5 million to 2 million more people unemployed today without the Recovery Act. So, that is the first point.

The second point is, the other lesson of history, as you well know, is to avoid the mistake that was made in 1937, which was, right when the economy was starting to pick up a bit again, slamming on the fiscal brakes too tightly. So, we face a very big challenge,

which is, we have significant out-year deficits, and, if we do not get them down over time, ultimately, they will create a problem.

But we also have an emerging recovery here that cannot be stifled just as it is taking steam. And finding that balance is what we try to accomplish in this budget, a smooth landing, bringing the deficits down from about 10 percent of the economy gradually over time to a level that is significantly lower. And, if we act too quickly, we face a significant risk of unnecessary job loss.

Senator MENENDEZ. So clearly we need, in the short term—particularly as we look at the jobs package that hopefully we will unveil in the next day or so—some opportunity for the government to move in the short term as we restrain in the longer term. Otherwise, we are not going to see the job growth that we would like to see.

Dr. ORSZAG. That is correct. And, if I could just comment very briefly.

Senator MENENDEZ. Before my time runs out, then you can answer all you want.

Let me ask you: we had two tax cuts before, unpaid for. Is that correct?

Dr. ORSZAG. Yes.

Senator MENENDEZ. We have two wars that are unpaid for up to now. Is that correct?

Dr. ORSZAG. Yes.

Senator MENENDEZ. We had an entitlement program under Medicare Part D unpaid for. Is that correct?

Dr. ORSZAG. Yes.

Senator MENENDEZ. So, as this budget calls for obviously some of that, you cannot have all of that spending totally unpaid for and look at your long-term debt consequences. Is that fair?

Dr. ORSZAG. Yes.

Can I just very briefly comment?

The CHAIRMAN. All right.

Dr. ORSZAG. One of the challenges that we face is, the Recovery Act has been very helpful in restoring economic activity, but, as normally happens during a recovery, job growth lags behind. So one way of sharpening the focus on a jobs bill is to try to accelerate, get rid of the lags, or shorten the lags between—what normally happens is GDP starts growing. The first stage is very rapid productivity growth, and that is, indeed—with the new report out this morning, too—exactly what we have been seeing in the past few quarters: very rapid productivity growth.

The next stage is an increase in temporary hiring and hours worked among existing employees. And only, finally, then do you get an expansion in actual employment. One of the goals of, for example, the new jobs and wages tax credit, is to try to collapse that cycle, or those lags, so that you can more tightly link GDP growth to job growth and shorten the lags involved.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. Yes. I want to take advantage of making my statement at this point before I ask questions.

The CHAIRMAN. Go ahead. Fine.

**OPENING STATEMENT OF HON. CHUCK GRASSLEY,
A U.S. SENATOR FROM IOWA**

Senator GRASSLEY. Thank you. Because I think it fits in very well with what we just had for discussion right now. So, I thank the chairman for having this hearing.

The President and others in his administration insist that massive deficits projected under the budget are not really their fault, and I think the recent exchange we have had adds credence to my statement there.

I think they want the American public to believe that they inherited these deficits from President Bush and just Republicans in the Congress. They insist that the 2001 and 2003 tax cuts, and the 2003 Medicare prescription drug bill, are primarily responsible for the deficits we are now faced with, but this re-interpretation of history overlooks actual events of the past.

When President Bush took office in 2001, Federal revenues were at their highest levels since World War II. There was broad agreement on the need for tax relief. The 2001 tax cuts passed with bipartisan support. Most of the Democrats who opposed these tax cuts, however, voted for their own alternative, which reduced revenue by nearly about the same amount. In 2003, tax cuts passed, by bipartisan support, to help our economy recover from recession, following the dot-com bust and the terrorist attacks of 9/11. Again, most of the Democrats who opposed these tax cuts offered an alternative which cost just as much. The only difference was, they had more spending and fewer tax cuts.

Finally, the Medicare drug benefit was brought up. It also passed with bipartisan support, and, ironically, most of the people of the other party who were opposed to what actually went to the President said that we did not spend enough money. They wanted a drug bill that cost even more. But, ultimately, both Republicans and Democrats agreed it was time to modernize Medicare programs and cover prescription drugs.

So, I think—I am not going to go through everything of past history—but there has to be a certain time within a new President taking over that there is some responsibility for what is going on in the way of deficit spending, particularly when you are having a massive increase in a deficit way beyond a 40-year average of about 35 percent to 40 percent, maybe 42 percent of Gross National Product, and an annual deficit of, I think, 2.3 percent, 2.4 percent of Gross National Product, now at 9 percent. And over the long haul, it is my understanding that this budget makes it actually about 2 or 3 percent, or I should say 6 percent, 2 or 3 times that historical average.

So, let us go to what we can talk about now. First of all, let me thank you for spending time in my office yesterday to go over some issues that I have had and that you wanted to talk to me about, and I thank you for even asking for that meeting.

So now my 5 minutes should start.

Director Orszag?

The CHAIRMAN. Your 5 minutes is now starting. [Laughter.]

Senator GRASSLEY. In December, OMB issued new guidelines and guidance as to how the Recovery Act recipients should report the number of jobs created or saved by the stimulus. Under the

new math, job counts, regardless of whether they were actually created or saved, counts merely jobs being funded with the Recovery Act, whether it is new or otherwise.

Did the administration not push the Recovery Act so that it would create jobs? Now it seems willing to admit that it is using taxpayers' money to merely fund jobs that have existed anyway. If the economy continues to lose jobs, is the administration going to continue to move the goalpost and claim success, no matter what?

Now you might say I am misreading what the President said or the administration said a year ago. I do not think I am, but, if they actually want to change policy, I think it is a good thing to say so. It might even be a good thing to say, well, what we said last year was not really very realistic. So, I have asked you the two questions, and I will give you an opportunity to respond.

Dr. ORSZAG. Thank you, Senator. I, too, appreciated the meeting yesterday.

Two points. First, let me clarify the change in job reporting, which was actually done in response not only to concerns that the recipients themselves had expressed, and not only concerns that the Government Accountability Office had expressed, but also in response to a letter that we got from a bipartisan group of Senators, including Senator Snowe, suggesting confusion, and that potential changes would be beneficial. So let me just be very precise about what has occurred.

Recipients were having difficulty figuring out whether a job would or would not have existed but for the Recovery Act. For many business managers, that is just kind of a foreign concept. A much simpler approach, which GAO and others had suggested, is, if a dollar of the Recovery Act goes to pay for a dollar of wages, count that, and that is exactly what we have done.

Now, some people said, well that is going to inflate the numbers somehow or bias the numbers. It turns out, if you look at the most recent reporting under this new system, which again was done to try to simplify things, there does not seem to be a significant shift in the numbers involved, and I think that may be because, even under the old system, that is what people were doing anyway, despite what the guidance had suggested.

Now, with regard to overall job figures, again, the recipient reporting only applies to a subset of the overall Recovery Act activities. It does not, for example, measure the impact of tax cuts. There are a variety of analyses out there, including from CBO, and our own Council of Economic Advisors, and others. The figures I used earlier reflect the CEA numbers, but they are in line with outside estimates, too, that there are 1.5 to 2 million people today who would be unemployed without the Recovery Act.

Senator GRASSLEY. Now I am going to ask you a question that came out of our meeting yesterday. And, if it is inappropriate because we had a private meeting, you do not have to answer it, but I want to ask it anyway.

Dr. ORSZAG. All right.

Senator GRASSLEY. Thank you.

During our conversation, you mentioned the Vice President takes an active role in overseeing the Recovery Act program. I was surprised to hear that he personally calls Governors, mayors, and oth-

ers when specific problems arise in their locality. Could you elaborate on Vice President Biden's role in the administration's stimulus efforts? For instance, you might be able to tell us what type of people he calls, and how often he calls, and that sort of thing.

Dr. ORSZAG. Sure. And again, he chairs a variety of interagency cabinet-level meetings to ensure that the Recovery Act is working as smoothly as possible. He has spoken—I do not feel like we are violating anything that was said in private—publicly that he is focused on making sure the Recovery Act dollars go to their intended purposes and that, when there is a misuse of the funds, he will call up the Governor or the mayor or what have you and insist that that be changed, or frankly, embarrass the Governor or mayor if necessary into changing it. So we can get you his public statements on the matter, too, but yes, he has been very active.

Frankly, I think one of the reasons that the Recovery Act—although nothing is ever perfect in this world—has been working relatively well is the attention that it has gotten at very high levels.

Senator GRASSLEY. All right.

Mr. Chairman, my time is up. I would like to ask a request. I am going to go down to Judiciary now and participate down there, and, if you are going to adjourn, if you would give me a 5-minute notice. If I can come back, I would like to come back.

The CHAIRMAN. Sure. Absolutely.

Senator GRASSLEY. Thank you, Dr. Orszag.

The CHAIRMAN. Senator Carper?

Senator CARPER. Thanks Mr. Chairman.

Dr. Orszag? To your left. Welcome. It is nice to see you again.

Dr. ORSZAG. Yes.

Senator CARPER. I would just say that I do not think the American people are interested in trying to assign the blame to the previous administration for this hole that we are in, and this financial hole we are in, and this economic hole that we are in, or this administration.

However, I think, what did Harry Truman used to say? "The only thing that is new in the world is history we have forgotten and never learned." I do think it is helpful, before I ask you a question or two, to go back in history.

Between 1993 and 2000, as I recall, we were in a period of time when we not only saw a lot of jobs created—I want to say about roughly 20 million new jobs were created. Does that sound about right?

Dr. ORSZAG. Yes, sir.

Senator CARPER. All right.

And we ended up in an 8-year period where we started off each year with annual deficits of \$200 billion a year and more. We ended up that 8-year period in 2000 and 2001 with budget surpluses, about \$200 billion in budget surpluses as far as the eye could see. Does that sound right?

Dr. ORSZAG. Yes. And as you remember, at the time the concern was that we would—

Senator CARPER. Pay off the debt.

Dr. ORSZAG. Pay off the entire debt too soon.

Senator CARPER. Pay off the debt too soon. It seems almost comical in retrospect.

Dr. ORSZAG. The world has changed, has it not?

Senator CARPER. So, 20 million new jobs between 1993 and 2001. Between 2001 and 2008, I do not recall how many jobs were created. I know it was a lot less than that. Do you have any recollection?

Dr. ORSZAG. We can get you the exact figures, but yes, it was much smaller.

Senator CARPER. It was less than 10 million, maybe 5 million. All right. Five million. All right.

Prior to 2001, do you have any idea, roughly, what our Nation's debt was, prior to 2001?

Dr. ORSZAG. Yes. I can give you the exact figure, actually, which was that at the end of fiscal year 2000, which is the beginning of 2001—it will just take me a second to get there. I am sorry. If you want to continue, I will look this up very briefly.

Senator CARPER. What I am getting at is, I would like to know whether our Nation's history—how much debt did we create in the first, roughly, 210 years of our Nation? How much new debt did we create in the years 2001 to 2008? That is what I am looking for. And I think we will find that the numbers are actually pretty close.

Dr. ORSZAG. All right. It will just take me a second.

Senator CARPER. All right. Someone is handing you a note.

Dr. ORSZAG. That is all right. I have it.

So, at the end of fiscal year 2001, publicly held debt was \$3.3 trillion.

Senator CARPER. All right.

New debt accumulated between, say, 2001 and, say, 2008?

Dr. ORSZAG. Well, let us go through the end of fiscal year 2009. The additional debt created was \$4.2 trillion.

Senator CARPER. All right.

So it is fair to say that we created as much new debt in that 8-year period of time as we did in pretty much the first 208 years of our Nation's history. Does that sound about right?

Dr. ORSZAG. That would be factually correct, yes.

Senator CARPER. All right. Thank you.

Let us go back to a year ago in terms of, not debt, but job creation. Every month we chart how many new jobs were created. In the Clinton administration, we were charting like a million new jobs created in a year and more. Take us back to about a year ago, January of 2009.

Dr. ORSZAG. Job losses were in excess of 700,000.

Senator CARPER. All right. Seven hundred thousand. So we went from—

Dr. ORSZAG. We are about to get a new employment report tomorrow. We will see what it shows, but private sector forecasts are dramatically lower than that. In fact, many private sector forecasters are in the range of zero.

Senator CARPER. Yes. So we are right about there. We have gone from 20 million new jobs during an 8-year period of time, something maybe a third of that during the next 8-year period of time, more new debt in 2001 to 2008 than in the entire history of our Nation, and a turnover of an economy that was shedding 600,000–700,000 jobs a month, and a budget that was proposed left, by the outgoing President, for a deficit that was roughly \$1 trillion. That

is pretty much what the handoff was. A year later, where are we? Net job loss is pretty much zero.

Dr. ORSZAG. Maybe a small job loss, but much smaller.

Senator CARPER. And GDP growth is up from the beginning of the year to, actually, what was it? Down about 5 percent or 6 percent?

Dr. ORSZAG. Down more than 5 percent at the end of the fourth quarter of 2008, up 5.7 percent in the fourth quarter of 2009.

Senator CARPER. All right.

Now, having said that, my colleagues and I—I cannot speak for all of my colleagues. I am very uneasy, very uncomfortable with the size of the deficits going forward. Very uneasy. I appreciate very much what you have proposed in terms of, I call it a smart freeze, on discretionary spending starting actually this October 1. I would urge you from now on not to say 2011. Rather, I would urge you to say this October 1 instead of saying 2011. I just suggest that you say that.

Dr. ORSZAG. All right.

Senator CARPER. Smart freeze kicks in this October 1 for 3 years. The Commission will be reporting back to us by the end of this year. I hope, on the Commission, we find a number of people who have served in government before, maybe have chaired budget committees, maybe have served in the House and Senate, both Democrats and Republicans who enjoy a lot of respect and have a lot of time on their hands and a lot of smarts.

I appreciate very much the budget that you have sent us. However, you address defense spending, weapons systems, major weapons systems cost overruns. I think there are \$45 billion, colleagues. There are \$45 billion in weapons systems cost overruns in 2011, and last year, \$295 billion. The administration has proposed a whole series of plans to pull the plug on weapons systems that we do not need anymore, and I think we have an obligation to support that.

I would urge the President to consider using his veto threat. The only way we killed the F-22 was the President said, you send that to me in a Defense bill, I will veto that bill. That is really the kind of leadership that is going to be needed to make these other proposals stick.

The CHAIRMAN. Senator Rockefeller?

Senator CARPER. Thank you. And somewhere later, maybe I could ask you a question. Thank you.

Senator ROCKEFELLER. But not now.

Senator CARPER. That was all prologue.

Senator ROCKEFELLER. Good morning, Dr. Orszag.

Dr. ORSZAG. Good morning.

Senator ROCKEFELLER. I am going to go at a question which I focus on a lot, because I have to, and I want to.

Would you agree that, if everything possible in the next 5 to 10 years was done on solar, wind power, biomass, nuclear, all the rest of it, that it would not come anywhere close to providing one half of the Nation's electric needs?

Dr. ORSZAG. Senator, I think what you are getting at is coal is going to remain a key part of our energy base for the foreseeable future.

Senator ROCKEFELLER. Well, I am going to dispute that in a moment, but I want you to answer the question.

Dr. ORSZAG. We need to move aggressively to new forms of energy, but it is going to take time.

Senator ROCKEFELLER. I want you to answer the question. In other words, in the next 5 to 10 years, if we do everything we can, and I am all for all of them.

Dr. ORSZAG. Sure.

Senator ROCKEFELLER. Solar, bio, the whole deal, wind power. We are trying to set those up.

Dr. ORSZAG. I do not think those sources will amount to half of our energy needs now.

Senator ROCKEFELLER. Anywhere near?

Dr. ORSZAG. Probably not anywhere near.

Senator ROCKEFELLER. Yes.

So then, we are going to have to have coal. Now, there are two definitions of coal. There is coal as it is today, as it is in some places today, which is not clean, and then there is something called "clean coal," which is what we are striving for and what there is remarkable progress on.

Just to give you two examples, which I have before, I am thinking of one company which is causing coal that goes into power plants' emissions to have been cut 90 percent out of carbon; another one, where 95 percent of emissions are cut out of carbon. I mean that the carbon is reduced by that amount. That is cleaner than nuclear.

Now, the question I really have in looking at the budget, listening to the President, listening to Lisa Jackson is, are you really on a path to do coal? And, of course, it is in the interest of the States of West Virginia and Montana, and others, but I am doubtful.

And this is the reason. One is, there has not been a new power plant built in West Virginia, even if it could be for clean coal, since 1993. Nobody is investing anything in anything new in coal. You have taken four tax credits in your budget and eliminated them just at the time that the coal industry—and I am doing my best on this, because I think there is going to have to be legislation on climate change. I separate myself from some of my colleagues from coal States in this respect, and even from some of my own constituents, but I think the only way to save coal is to have an energy bill that will price carbon and, thus, allow coal to take advantage of a lot of money from Wall Street and perhaps from bills out of Congress.

On the other hand, in the budget, when you cut out the tax credits, what you are going to do is you are going to reduce coal production. You just are. It is going to be partly psychological. People are going to reduce their production because they feel, uh-oh, here comes the Obama administration, and they are going to cut out coal.

And then you look at Lisa Jackson, and there are two parts of Lisa: one is mountaintop removal, but the other is the power she is given by the Supreme Court to reduce carbon, sort of at her discretion.

I tell my coal miners in West Virginia that the only way that we can save coal is to have legislation which produces large amounts

of money for carbon capture and storage and can do it at the 90–95 percent level. But it takes time. It takes time to do it, to deploy it, for Wall Street to have confidence in it and, therefore, to fund it, which it will, extravagantly, if time is given. The President has a little bit of money in for CCS, but not much. So I am looking—

Dr. ORSZAG. Five hundred and thirty million, if I am correct.

Senator ROCKEFELLER. I know. What that is equal to is one power plant in West Virginia—it happens to be the largest one in the country—cutting out 17 percent of its emissions, reducing the carbon down to 10 percent. So it really is, like, not anything at all. So what are my signals that I am meant to read? Where am I meant to, other than his words?

We met with him yesterday and he said, oh, I am for clean coal. Then he says it in speeches, but he does not say it in here, he does not say it in the actions of Lisa Jackson, and he does not say it in the minds of my own people, and he is beginning to be not believable to me. So I want you to put me at rest or put me away.

Dr. ORSZAG. A few comments, Senator. Thank you for the question.

As you know, also, in addition to any discussion you had with him yesterday, he also formed yesterday a cabinet-level task force precisely on CCS to explore the best path forward and named the Secretary of Energy and others, and I am on that task force, too.

Senator ROCKEFELLER. I was thrilled by that, Dr. Orszag.

Dr. ORSZAG. All right. Good.

Senator ROCKEFELLER. All right. Go ahead.

Dr. ORSZAG. That is one thing.

The second thing is, while I appreciate your concern that the funding level is not as high as you would like, there is more than a half billion dollars in the budget for CCS and clean coal research and development. And then, finally, one of the reasons we join you in believing that we should address climate change through comprehensive legislation is not only to avoid the regulatory approach, which would involve higher costs, but also because, as you correctly note, comprehensive legislation creates resources that can be devoted to particular activities, including expanded research into clean coal.

The CHAIRMAN. Senator Wyden.

Senator WYDEN. Thank you, Mr. Chairman.

Director Orszag, welcome. It is good to have you here.

As you know, our country has been grappling for many years with how to fund infrastructure, and particularly how to generate new revenue in order to go forward with the road improvements, the infrastructure improvements that are so critical to drive economic growth in our country.

And it looks like—as you know, I have spent a lot of years on this; I am very appreciative of Chairman Baucus’s support on it—that we have hit on something that the markets have reacted very well to, and that is Build America Bonds.

We projected last year, as part of the 2-year effort, that perhaps, since they were starting late, we might see \$5 billion worth of them issued in the first year. By the time the numbers were in at the end of the year, it was more than \$63 billion, and it is projected to go to \$130 billion by the end of this year.

The administration, to its credit, has now proposed making them permanent, which strikes me as really an extraordinary vote of confidence in an approach like this, to have the administration look at the numbers a year in and say the market is reacting well, we want to see it expanded. Is that the message we ought to take away from this?

Dr. ORSZAG. Yes. As you know, we propose making Build America Bonds permanent. Some changes to them also, but, yes, they are a promising approach, which is why we want to extend them.

Senator WYDEN. Well, I am appreciative of it. I am anxious to work with you on the details, as you and I have talked about, but I am very appreciative. I am also exceptionally appreciative to Chairman Baucus, because he and I talked about it often, and he was willing to give this a shot, and I am very appreciative, Mr. Chairman.

The CHAIRMAN. You bet. You bet.

Senator WYDEN. A question about health care cost, if I might, Director Orszag. Here, too, it seems to me you are onto what is the heart of health reform, and that is reigning in these costs. You have gone on to say that you really cannot get on top of the Federal budget until you reign in health care costs. And my view is that the best way to do it is to promote more choice and competition and to try to find some creative ways to do it.

The chairman has worked with me on an approach—and, again, I thank him for his support—that would in effect say that folks who spend over 8 percent of their income on health, but cannot get subsidies, they could get vouchers. In effect, they could go out and fire their insurance company. If their insurance company is not treating them well, they can go somewhere else, and they can go into the market.

Are there, in your view, other ideas for increasing choice and competition within the framework that will allow us to get support here that would allow us to contain these costs using the choice and competition that the President is talking about?

Dr. ORSZAG. Well, Senator, as you know, actually at the very heart of even creating an exchange in the first place is the thought that allowing individuals to enter, to purchase health insurance through an exchange, a choice of different providers, those providers competing for their business, will provide an improvement over, for example, the individual market today, where competition is often not as rigorous as we would like.

Senator WYDEN. And what is your sense about the size of the exchanges in order to make them as robust as possible? This has been a topic we have talked a lot about here in the committee, because, obviously, to the extent that you can get the size up, you spread cost and risk through a bigger group. I think we are on the right track in terms of discouraging adverse selection, but we know insurance companies are going to be clever marketers, and trying to get the pools as big as possible to expand the bargaining power of people strikes me as important. What is your thought about the size that is going to be necessary to make these robust?

Dr. ORSZAG. It is crucially important to have a substantial size in order to obtain the efficiencies that you discussed. There is always a bit of a trade-off in that you get those benefits, but then

allowing a variety of exchanges could introduce competition in the design of the exchange itself. I think on net, the suggestion that you want to be moving towards larger exchanges wins out.

Senator WYDEN. I appreciate that, and I think you are right. We have talked a lot about this in this committee, about how to strike the balance. You want them large, but you want them also to be creative in the sense that you can try a variety of different approaches. And something that works, for example, in the western States might not necessarily work on the eastern seaboard.

But my concern has been that, if the exchanges are limited to 10 percent of population years and years in, we will have missed some opportunities to grow them. I hope that we can continue to work on that. I know the chairman has worked hard on the exchange issue, and I am looking forward to working with him on that as well.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator SNOWE, you are next.

Senator SNOWE. Thank you, Mr. Chairman.

Welcome Director Orszag.

One of the issues that I have already raised with you in the letter that I submitted in early December and one we have had a discussion on—and I would just like to explore it further—is considering many of the job creation proposals in terms of how we pay for them. Now some suggest using TARP funds. I do not see that as appropriate, because TARP was meant to be repaid. They are loans. That would only add to the deficit.

That is why I have recommended using and redirecting unused, unallocated stimulus funding. After all, stimulus, when we passed it back in February, was supposed to be timely, targeted, and temporary. Now, if there are funds that have not been used—and we have only been expending \$269 billion—would it not be preferable to advance some of that funding, redirect it to other initiatives that could be far more effective in jump-starting this economy and doing it now, especially with all of the proposals that are going to be at the forefront of the jobs creation agenda? I mean, we really have to maximize the punch on this economy now, so, rather than adding to the deficit, why not just redirect some of this stimulus funding?

Dr. ORSZAG. Senator, a few responses. First, in the letter that I sent to Senator Grassley, which I believe has been made available to other members of the committee, various agencies are redirecting or repurposing Recovery Act funds away from projects that seem to be behind schedule or not progressing towards more promising alternatives, and we can get you a full list of that.

Second, with regard to the aggregate activity, aggregate spend-out rates, they are on track with what was initially projected. As you know, CBO came out with an analysis in January of the Recovery Act. I think it was in Appendix A of their *Economic and Budget Outlook*. By the end of this fiscal year, \$600 billion will have gone out the door, and that is in line with the spend-out rates that were initially projected. So, there is some repurposing that can be done, and the spend-out rates are on track with what was initially projected for the Recovery Act.

Senator SNOWE. I would certainly like to have that list, since I did some of this on December 11. So I would like to have a list of the unspent or whatever funding, because I really think this is critical. It was not in line with the projected timelines in the legislation that was passed last February. I do not think it is really a rationale for now. I mean, obviously, we had a 10-percent unemployment rate, much higher if you consider those who have given up looking for a job.

So, perhaps some of those projects are not worthwhile. If they do not meet the definition of timely and targeted, then we should redirect them in the most effective manner and not add to the deficits. I think that that would be prudent, worthwhile, and, frankly, practical, given the situation we are facing with deficits.

Dr. ORSZAG. Can I just clarify one thing?

Senator SNOWE. Yes.

Dr. ORSZAG. Because obviously, I always want to be responsive to incoming inquiries. You had asked about, in your December letter, categories of spending, what had spent out, and what had not. All of that information is available on *recovery.gov*, as I believe I may have mentioned at some point, so that is publicly available information.

Senator Grassley had asked a separate question, which is, within a given department, the Department of Veterans Affairs, are they taking any money, regardless of how quickly it is spending out, and moving it from one place to another in order to make it more effective? And the answer to that is, yes, there are some examples of that, and we could provide that to you in detail also.

Senator SNOWE. Well, the bottom line is, do you know how much money could be redirected? I mean, that is the issue. It is a very practical question. I mean, if the stimulus is not working, then maybe we should move it right now—I mean, I think that is the point—and fund it.

Dr. ORSZAG. I understand. We may have a different perspective on whether the Recovery Act is working or not.

Senator SNOWE. Well, when you say the level of unemployment is severe, I mean, there is no question—

Dr. ORSZAG. There is no doubt about that.

Senator SNOWE. And I just think we have to do everything we can to maximize the punch in this economy.

Dr. ORSZAG. We agree with you.

Senator SNOWE. And stimulus has always been defined as timely and targeted and temporary, and it is not clearly meeting two out of the three right now, given where we are in the state of the economy. I am just saying that is something. We ought to be flexible, we ought to respond to the moment in time and just do what we need to do, but I do not think using TARP is an option. I mean, because after all, it is adding to the deficit. It is a loan, not meant to be re-spent on something else, but paid back to the Treasury so we do not add to the deficits. So, I just think we ought to draw that line.

And I hope that you would consider it, because I really do think it is important. I understand those long-term investments. I was an advocate for some things down the road. But it has been a year out

with this stimulus plan, and it has not materialized in terms of the job creation, so we have to pivot.

Second, on these tax credit initiatives and payroll tax holidays for job creation, new hires, increased wages, how do we know what would work and not work? What have we learned from the lessons in the 1970s? Do you have any economic models, so that we are not just sort of shooting at a dartboard here, that we are getting it right, and being fine-tuned and precise and targeted in terms of the most effective means so that we do not have a plethora of ideas, but none of which work? What do we know will work to help this economy?

Dr. ORSZAG. The evidence from the jobs tax credit during the 1970s—the literature is a little bit split. There is one strand of the research by John Bishop, if I remember correctly, suggesting it was quite effective. Another strand of the literature was saying it did not work very well, and that analysis generally suggests the problem was, it was way too complicated. So, one of the key things is to keep this as simple as possible. We have tried to do that in our proposal. That is one lesson.

The second lesson is, do not just focus on creating new jobs, but, also, include an incentive to expand hours or increase wages for existing employees, and we have tried to do that, too.

Senator SNOWE. Thank you.

The CHAIRMAN. Thank you, Senator.

Senator Cornyn?

Senator CORNYN. Thank you, Mr. Chairman.

The CHAIRMAN. Welcome.

Senator CORNYN. It is good to see you, Dr. Orszag.

Dr. ORSZAG. It is good to see you.

Senator CORNYN. We are shuttling back and forth between different committee meetings, but thank you for being here.

I want to ask you, first of all, about the shared responsibility fee. That is the fee that will be imposed on a number of financial institutions, the President said, because we want our money back. Yet, would it not hit a number of institutions that have repaid TARP funds and on which the Federal Government has actually made a profit?

Dr. ORSZAG. The short answer is yes, but we think that the benefit that even those institutions received from the overall assistance provided to the financial services sector is larger than just the direct cash injected into their own entities. The point is, there has been, as again you can see from credit market spreads and what have you, a general recovery in financial markets, with a few exceptions, small business lending being a key exception, and those large institutions benefitted from the overall assistance, in addition to the direct assistance that they received.

Senator CORNYN. I understand your answer. But in what sense is that getting your money back from institutions that have repaid the TARP with a profit to the taxpayer and the Federal Government?

Dr. ORSZAG. I guess one perspective would be, just for example, to flip that on its head and say, the damage that was imposed on the economy from these institutions and from the financial market meltdown was far in excess of the repayments that they have made

in exchange for the TARP assistance that they provided, so to ask them to go beyond that and then fill in the rest of the hole in TARP seems justified, given that, again, the downturn that we have experienced comes from a financial market meltdown, which was a reflection of the activities of many of these institutions.

Senator CORNYN. Do you think all of the institutions that will be subject to this fee or tax were complicit?

Dr. ORSZAG. Well, I am not going to get into assigning liability to individual firms, but the financial services industry as a whole, including our largest institutions and the ones that were the most leveraged, I think, were at the heart of the problems that we face.

Senator CORNYN. Well, if you are not going to assign individual blame, then would you not agree with me that the tax or the fee is indiscriminate in the sense that it would apply to institutions that may have been responsible, but it would also, or could also apply to those that were not responsible for the financial crisis?

Dr. ORSZAG. Again, our perspective is, we are trying to discourage leverage and we are trying to repay the taxpayer in full for TARP and not get into—I do not think it is possible to go firm by firm and say, you were responsible for this piece of the financial meltdown, you were responsible for that piece of the financial meltdown. I do not even know that, analytically, that would be possible to do.

Senator CORNYN. Well, that is what struck me as so odd about the President's comment that this was designed to get our money back, suggesting that the affected firms would have been ones that, number one, received TARP money, and number two, did not pay it back, and that it would somehow be just and fair to impose this fee on them because they were complicit in causing the financial crisis. But you are saying that is not the rationale?

Dr. ORSZAG. No, no, I think it is. The industry as a whole was complicit in causing the financial crisis. The industry as a whole has benefitted from the assistance that was provided. That is why—and by industry here I am talking about big banks—we are imposing a fee on the industry as a whole to repay the assistance.

Senator CORNYN. Well, do you agree with me that, when you impose taxes on any business during a recession, that will make it harder on those businesses to retain employees or hire new employees?

Dr. ORSZAG. Senator, I want to try to avoid being inflammatory here, but with all due respect to the institutions, given the size of bonuses that are being paid out, I do not think they are having trouble attracting employees.

Senator CORNYN. So, you do not agree that imposing taxes on a business during a recession makes it harder for those businesses to retain or hire new employees?

Dr. ORSZAG. We are talking about a 15 basis-point charge on their liabilities, and I think they are not having any difficulty, especially given the size of the bonuses that they are paying, attracting employees.

Senator CORNYN. Ninety billion dollars. Is that what it comes out to?

Dr. ORSZAG. Over 10 years, yes.

Senator CORNYN. Over 10 years. It will not have any impact on their ability to hire or retain people?

Dr. ORSZAG. What I am saying is, they do not seem to be suffering from the lack of compensation for their employees.

Senator CORNYN. Do you believe that taxes imposed on a business ultimately get passed down to the consumer in higher costs?

Dr. ORSZAG. It depends on the structure of the industry, and the degree of pass-through will vary depending on the context.

Senator CORNYN. And do you agree that, by imposing higher fees on financial institutions, it makes it less likely, rather than more likely, that they will not be able to lend to the extent they would have if the fees had not been imposed?

Dr. ORSZAG. I think, in this particular case, because it is applied to large banks and not to smaller banks, there is sufficient competition in the lending business to mitigate any such effect.

Senator CORNYN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Bingaman?

Senator BINGAMAN. Thank you very much.

Peter, thank you for coming and speaking to us. Thank you for all of your work.

One issue that we have spent hundreds of hours talking about in this committee, and particularly the chairman has tried to provide leadership on, is the issue of the growth in national health expenditures.

When you look at the budget deficit projections going forward, the deficit remains very large for the next 10 years. It would seem to me that the only way to further improve our fiscal circumstance during that 10-year period, particularly in the out-years, would be to do a better job of reigning in the growth in national health expenditures. We struggled mightily to get some things included in the health reform legislation that we passed through the Senate that would move in that direction, but frankly, they were not adequate.

Would you have any suggestions on additional steps that the administration or the Congress could be taking to reign in this growth in health care cost?

Dr. ORSZAG. You mean, outside of comprehensive health legislation?

Senator BINGAMAN. Yes.

Dr. ORSZAG. Well, as an example, we are in the process of implementing health information technology, which is expanding and has the potential, working with other components of investments in the health sector, to, over time, improve quality and reduce costs, not sufficient by itself, but working in concert with other steps.

The budget includes an expansion in community health centers, which have been shown to be a cost-effective way of delivering quality care. But frankly, comprehensive health legislation is necessary because the key underpinnings of what is necessary to happen to contain costs over time can only be done through legislation and through an approach like the one the Senate has passed.

Senator BINGAMAN. And in your view, the budget that you submitted to the Congress here contemplates the enactment of the cost

containment provisions that are contained in that health care reform?

Dr. ORSZAG. Given that there was at the time we were locking down the budget, some question about exactly what form the legislation would take, we took the simple average of the House- and Senate-passed bills and reflected that in the budget.

Senator BINGAMAN. The average as calculated by OMB?

Dr. ORSZAG. By the Congressional Budget Office.

Senator BINGAMAN. By the Congressional Budget Office.

That is the main issue that I wanted to question you about. Thank you very much.

Dr. ORSZAG. Thank you very much, Senator. You may be the de facto chair.

Senator BINGAMAN. Are there other questions? Senator Carper, did you have questions.

Senator CARPER. Thank you. Thanks very much.

I want to go back and revisit the point raised by Senator Cornyn on the 15 basis-point charge against, what is it, banks with assets over \$50 billion?

Dr. ORSZAG. It applies to banks with assets of more than \$50 billion, yes.

Senator CARPER. Yes. And you said it would generate maybe \$90 billion over 10 years?

Dr. ORSZAG. Correct.

Senator CARPER. All right.

Yesterday, as you may know, the President was good enough to come in and visit our caucus retreat, much as he did the House Republican retreat a week or so ago, and we were asked in the later part of the program to kind of think through our core values and our principles, really, as a party.

One of the core values and principles we talked about was basic fairness. We actually talked about the Golden Rule: treat other people the way we want to be treated. And I just want to try to apply that, and in this case I know you say that all banks, large and small, benefitted by the rescue activities, including the TARP.

I tried to put myself in the shoes of a bank with assets of over \$50 billion, and basically, I did nothing wrong; I ran my business, I did a good job, I provided credit, and provided employment for folks. I was offered TARP infusion. I declined it. A capital infusion. I declined it from TARP.

The second category might be those who accepted capital infusion from TARP, did not want it, and sort of took it under duress. As you know, some banks were encouraged to do that so that there would not be a stigma attached to those which accepted it.

And, maybe a third category of banks who needed the capital infusion, very much needed it, to continue to function and accepted it, some of whom have repaid it.

Now, I do not know that it strikes me as fair to treat them all the same, even if we want to raise \$90 billion over 10 years from these sources. I would just ask the administration to think through the Golden Rule of treating other people the way you want to be treated. I do not know if it argues for not doing this at all. I guess there may be an argument for a tiered approach rather than just

in way of a progressive tax code. Maybe something like that might make more sense here.

Any initial thoughts in response to that?

Dr. ORSZAG. Well, Senator, the other thing I would say is the objective is not just sort of a justice or a repayment one, but also you are imposing a fee on leverage and on size. If one of the things that we want to do is, at the margin, discourage leverage in particular, the fee is also, again at the margin, accomplishing that to some degree.

Senator CARPER. All right.

I would just go back to say, in terms of the bank that declined accepting the capital infusion from TARP, that maybe their behavior with respect to leverage was appropriate. That is just another thought, as well. All right. Put that in the back of your mind with everything else.

Dr. ORSZAG. Thank you, Senator.

Senator CARPER. The second thing I want to come back and revisit is the point that Senator Snowe was drilling down on. I think it was the question: is it appropriate to take monies as they are repaid to TARP, take those monies in to use that to extend, I think you said, as much as \$30 billion in assistance to smaller banks to encourage them to extend liquidity to small businesses.

And I see a couple of different ways to do that. One, as the TARP monies are repaid, to use that money. Another is to say, as the capital investments that we have made, the capital infusion that we have made under TARP, as we earn interest from that, I think, what do we do? Buy preferred stock, in many cases, and we are getting interest off of preferred stock. I think that is the way it works. I think we also have some warrants that could be exercised somewhere along the way.

A second alternative might be, rather than just use the TARP repayments, how about the monies repaid to TARP for the investments that we made and the capital that was infused, or maybe even as we exercise our warrants, some of that money could be used for the \$30 billion?

Do you have any reactions to that? I am trying to come up with a variety of choices here so that we might find some common ground.

Dr. ORSZAG. Sure. Just a few comments. One, remember the motivation behind this proposal, which is that small businesses do continue—it is probably the one remaining part of our financial market system that still has significant problems. Small businesses are suffering from a lack of access to credit. It is one reason why we have \$17.5 billion in loan guarantees.

Senator CARPER. Which I think is a good idea, I am positive.

Dr. ORSZAG. Right. The Small Businesses Administration—

Senator CARPER. And I hope our Republican colleagues, including Senator Cornyn who is still here, can support that kind of approach.

Dr. ORSZAG. Second, Secretary Geithner, even in the document that he produced for testimony before a committee in December, signaled, when he said that he could reduce the amount of available resources necessary under TARP, that he intended at that

point to have \$30 billion or so go to promote small business lending.

Now, many banks, small, local banks, are concerned about the various restrictions and obligations associated with TARP and, frankly, the stigma associated with receiving TARP funds, which is why, at their request, they suggested it would be more effective to move that component out of TARP, create a separate program, and that they would be more likely to participate then.

But, again, the underlying goal here which I think we need to keep our eye on is to get credits flowing to small businesses again, and we are open to other ideas about how to do that.

Senator CARPER. Good. Well, I think most of us on this committee—I hope most of us in the Senate—believe that part of the solution to keeping the recovery going, this Nation's recovery going, is to extend more credit, more liquidity to small businesses, and one way is to take it out of the TARP. It could be out of repayments, it could be out of interest that we earned, it could be out of dividends that we earned from our capital infusion, it could be out of some money that we realized by exercising our warrants. And the other approach might be that which has been suggested by Senator Snowe, and that is, as we know, not all the money is being used in the stimulus. Actually, that is not an altogether bad thing. We have seen any number of infrastructure projects in my State where we are spending less money than we anticipated, simply because the bids—they are being competitively bid, and the bids are coming in 10 percent, 20 percent, 30 percent under what was expected, so we have extra money that can be used on, for example, road/highway projects, transit projects.

As long as those stimulus funds are being used in ways that actually do create jobs and meet good public policy, I am not all that convinced that we should draw entirely from that surplus, if it is being spent appropriately, to fund the \$30 billion for helping our smaller banks to lend more money. But that is an option.

Maybe there is some combination of that, but at the end of the day, you have to find some consensus so that we can go forward and do what you want to do, and what the administration wants to do, and that is extend liquidity to small businesses.

Can I ask a question, Mr. Chairman? I do not want to—

Senator BINGAMAN. I noticed Senator Cornyn probably has additional questions.

Senator CARPER. I do not want to—

Senator BINGAMAN. Should we do another round and allow him to ask some questions and then come back to you?

Senator CARPER. That would be great. Thanks.

Senator BINGAMAN. Senator Cornyn?

Senator CARPER. I may have to slip out, but thank you very much for your permission.

Senator CORNYN. Well, Mr. Chairman, I would be glad to defer to the Senator for one more question.

Senator CARPER. Maybe one more.

Senator BINGAMAN. Go right ahead.

Senator CARPER. Thank you. Thank you very much.

I want to drill down just a little bit on the \$5,000 tax credit. I think something along these lines is being proposed by Senator

Hatch, by Senator Schumer. I hear concerns about, businesses may be hiring people anyway, they are just going to take the \$5,000 and pocket it. If I think about it, right now we have businesses that are, like, extending the work week. That is a good thing. They are hiring temporary employees. That is a good thing. It is encouraging.

And the question is, maybe if we offer this tax credit, maybe some of those temporary employees will become permanent employees with jobs and benefits. I was trying to think through and do the numbers real quick here. A \$5,000 tax credit per employee hired this year. If 2 million people are hired, that would be \$10 billion. Does that sound about right?

Dr. ORSZAG. Yes.

Senator CARPER. Which is a lot of money, but creating 2 million jobs, that is a lot of jobs.

Is there some way that we can work together? Is the administration proposing a way to kind of ensure that we are not being duped or taken advantage of by some folks who hire people?

Dr. ORSZAG. Yes. And there are a variety of protections already built into the proposal that we have, but we look forward to working with you to strengthen them further to avoid gaming; for example, moving people from part-time, full-time, back and forth, to try to trigger a tax credit where it was not warranted. We can provide that full information to you, and we would look to work with you to add in additional protections.

Senator CARPER. Good. Thank you.

And I would just say to my colleague, Senator Cornyn, and to our chairman, a number of us who worked for years, especially the chairman, Republicans as well as Democratic colleagues, on the tax gap, because we were interested in reducing the budget deficit without raising taxes, to make sure we are doing a better job on collecting the taxes that are owed, I think the administration has proposed a number of steps to help us do a better job on tax collecting. I think we have an obligation to engage on those, and to support them where we can, and provide other options where we cannot.

Improper payments. I want to thank you for the work that is going on in improper payments—\$98 billion, monies improperly paid last year. That does not include the Department of Defense, that does not include some of the Homeland Security, and I do not think it includes the prescription drug program. I do not think so. So there is a fair amount that is still excluded. But I am glad we are requiring agencies to identify it, to report it. The key, as you know, is to then, after we have done that, to go out and recover the money. We are anxious to be your partner in doing that.

I would just say as I close out here, I would just say to my Republican colleagues, our Republican colleagues on this committee and in the Senate, we are trying to get some folks confirmed. Today we are trying to get, I think, the GSA Administrator, who has a huge job, confirmed.

And I know when I served in my old job, I used to say to the Delaware State Senate, when I was nominating people to serve on the administration, give me my team. The voters have voted. They said they wanted me to, fortunately, be their leader for 4 years or

8 years, and at least give me the opportunity to surround myself with the team that I need. For the most part, they were very good about doing that.

Whether the President happens to be a Democrat or Republican, we need to do more of that. We have way too many vacancies in this administration. We had too many in the Bush administration, but it is even worse here. We are a year into the administration. We need to get these positions filled, and then we need to hold folks responsible and accountable. I am not picking on my friend John, he knows that. But that said, I guess I needed to get that off my chest.

Thank you.

The CHAIRMAN. Thank you, Senator.

Dr. Orszag, do you have any estimates, any benchmarks and timelines, by which you want to “close this tax gap?”

Dr. ORSZAG. Senator, as you know, the budget includes a whole variety of proposals trying to close the tax gap. I know you have been a leader in trying to move the ball forward there, including additional information reporting, which is included in our budget proposals, including additional IRS enforcement resources which will be important, too, and a whole variety of other steps. I do not have a quantitative goal for you. I will check with my Treasury colleagues. As you know, they are very focused on reducing the tax gap and working with you.

The CHAIRMAN. I urge you to have some kind of quantifiable goal that makes it more likely we are going to achieve the objective. To be honest, in the previous administration, I spent quite a bit of time with Secretary Paulson, trying to encourage him to move more quickly to closing the gap. I must say, it was difficult, it was very difficult.

And maybe in part because it is politically a little bit difficult in the sense that a lot of the revenue loss is from businesses that are operating on a cash basis, maybe small businesses, independent contractors, and so forth. There is a lot of other lost revenue, too. I mean, some overseas revenue and so forth. But I would just encourage you to work on that very directly and assign some numbers, some goals to see how well we are accomplishing our objective.

Turning to another subject, I just want to read you a quote here which I found a little alarming, the fact that the President referred to this article in the *New York Times* last Sunday. He referred to it when we met with him yesterday. It is regarding China’s race to manufacture alternative energy equipment. I am sure you read the article.

Dr. ORSZAG. Yes.

The CHAIRMAN. Let me just read the one paragraph: “China has leapfrogged the West in the last 2 years to emerge as the world’s largest manufacturer of solar panels. These efforts to dominate renewable energy technologies raised the prospect that the West may some day trade its dependence on oil from the Mideast for reliance on solar panels, wind turbines, and other gear, manufactured in China.”

All of us have always suspected that China is working very aggressively. That is fine for them to grow. But we do not want to be lagging behind in the development of our technologies.

It reminds me a little bit of a conversation that you had with Senator Rockefeller. Even with clean technologies, conventional energy will probably be very dominant for the foreseeable future. In fact, as I recall, in that same article, if China is quite successful in its efforts, still only about 8 percent of China's energy production will be in solar and all of these new clean technologies. The rest will be coal and some hydro power and so forth.

I know we have this section, this 48(c) credit. How efficient is that, and what else needs to be done to move us along here?

Dr. ORSZAG. Well, Mr. Chairman, as you know, in addition to that, a little bit north of \$2 billion that was provided in section 48(c) was vastly over-subscribed, and there was a lot of demand for that credit. We are proposing a \$5-billion expansion/extension of that particular credit.

In addition to that, there are significant expansions in the so-called section 1703 and 1705 Loan Guarantee Programs through the Department of Energy for new energy sources. And, in addition to that, we have a whole variety of more than \$6 billion in clean energy research and development efforts to try to spur the next generation of technology, precisely to get at the issue that you are correctly identifying, which is that the world is moving in this direction. We need to be the world's leader in clean energy.

The CHAIRMAN. What more, if anything, is needed? A lot of us in Congress are considering more efforts with tax incentives, for example, more than exist currently in the code.

Dr. ORSZAG. Well, I guess that my response would be, we have put forward what we think is a very aggressive effort to move in this direction. So, I guess I would first urge you to enact what we have put forward, and that would be a very substantial shift. I mean, for example, since you had mentioned section 48(c), \$5 billion there would be a very substantial investment.

The CHAIRMAN. Sometimes I hear the complaint that, gee, all of these programs, say the loan guarantees, just take a long time to get processed. Are you aware of that?

Dr. ORSZAG. Yes. In fact, I have personally spent a significant amount of time with Secretary Chu to make sure that we have our systems in place to process these as quickly as possible. One of the issues that has arisen in particular with the nuclear loan guarantees is, these are very complex projects and the program was new, and so there was a little bit of startup issues that needed to be addressed. But I believe we are now in sync, working well, and they will be moving more smoothly in the future.

The CHAIRMAN. Have you given any thought to the long range—with these deficits as high as they are, public debt as high as it is? The world is changing so much, with war costs in Afghanistan and Iraq, and we are sort of joined at the hip with China when it comes to currency. I, frankly, have a hard time seeing how the United States can continue to “go it alone” the way we have.

By that I mean, how can the United States of America continue to have such a high defense budget and pay for all that we are spending money on? And it is not just Afghanistan and Iraq and

that part of the world, but we are the world policeman in other parts of the world as well, and it is expensive. I do not know that we could “win” in Afghanistan the way we are approaching it. I do not know that the dollars are going to be well-spent.

What I am getting at is the need for some kind of a regional solution, where a lot of the burden and effort is shared with other countries, because we are going to drain us if we keep spending Defense dollars in an effort that probably will not work anyway. If it is only an American effort, it is probably not going to work, in my judgment.

I was just wondering, how much effort is put in by this administration in order to think about how we get some of these—I am talking about the Defense budget—costs under control or get it more shared? Now there are trade-offs, clearly. It is not easy by any stretch of the imagination.

Dr. ORSZAG. Sure.

The CHAIRMAN. But, again, like China, too, we have to get some agreement, something, somehow, so we are not stuck with huge deficits by borrowing so much.

Dr. ORSZAG. Let me answer that briefly in two ways. The first is that, as I mentioned earlier, within the procurement part of the budget, which has to do with weapons systems, Secretary Gates is very focused on trying to cut back on the things we do not need, additional purchases of C-17s, alternative engine for the F-35, the Navy CG(X) cruiser, and so on down the list.

The CHAIRMAN. Right.

Dr. ORSZAG. The second part of your question, though, frankly, I think one of the things the administration is so focused on is changing our relationship with the rest of the world. Secretary Gates is focused on that, Secretary Clinton is focused on that. And, the issue that you are raising is just one dimension of that broader effort, which I can assure you is very much their focus.

The CHAIRMAN. Good. All right.

Dr. ORSZAG. Could I just very briefly, since Senator Grassley had asked, I have been passed some information and told that, in addition to the regular internal meetings that the Vice President holds with cabinet-level officials focused on Recovery Act implementation, he has talked with all 50 Governors, 101 mayors, and 34 county officials about effective implementation. So, he is very much focused on that topic.

The CHAIRMAN. He is a busy man.

Dr. ORSZAG. He is a busy man.

The CHAIRMAN. Senator Cornyn?

Senator CORNYN. Thank you, Mr. Chairman.

Dr. Orszag, I would like to talk to you a little about some of the tax provisions in the President's budget relative to the domestic oil and gas industry.

Dr. ORSZAG. All right.

Senator CORNYN. The President, in his State of the Union, said that we should pass a comprehensive energy and climate bill with incentives that will finally make clean energy the profitable kind of energy in America. Is it the policy of the administration to raise energy costs on fossil fuels needed by Americans today in order to make alternative energy sources the profitable kind of energy?

Dr. ORSZAG. I think it is the policy of the administration to move as aggressively as we can towards a clean energy future, not only by investing in R&D into those clean energy sources, but also in cutting back on the subsidies that we currently provide, in a way that we do not provide to other sectors, to fossil fuels.

Senator CORNYN. Well, do you believe it should be the policy of the U.S. Government to raise the cost of producing fossil fuels domestically?

Dr. ORSZAG. Again, we have subsidies that are provided through the tax code to fossil fuels that are not provided to other sectors, and we think it obviously is reflected in our proposal. We think that those should end.

Senator CORNYN. But I am not asking you that. I am asking you whether it is the policy of the administration to raise the cost of producing domestic oil and gas so as to make alternative energy sources more commercially competitive?

Dr. ORSZAG. I do not think that is the intention. Again, the goal here is to move towards alternative sources of energy as rapidly as possible.

Senator CORNYN. As you know, there has been a revolution in the technology for oil and natural gas production in this country, primarily through shale formation which is present in a number of parts of the country. Actually, I think Senator Landrieu and Senator Chambliss have created a natural gas caucus here to try to explore the role of natural gas and cleaner energy sources.

Does the administration believe that natural gas has an important role to play in terms of America's energy future?

Dr. ORSZAG. It clearly has an important role to play, yes.

Senator CORNYN. The impact of raising the cost on natural gas producers—what do you think the impact of that will be in terms of encouraging the production of more American natural gas as part of that energy future?

Dr. ORSZAG. Well, the answer to that depends on the context. I mean, for example, if we do enact comprehensive climate change legislation, that will tend to encourage natural gas as a source of energy relative to other sources of energy that are currently disproportionately in use. So, you have to sort of take an all-in approach. With climate change legislation, you would be encouraging natural gas as a source of energy because, as you know, it has lower greenhouse gas emissions than other sources.

Senator CORNYN. Well, I would submit that, by raising the costs on domestic oil and gas producers, it does nothing but increase our dependency on imported oil and gas from other parts of the world. Would you agree or disagree with that statement?

Dr. ORSZAG. I guess the way I look at it is that we need to be moving aggressively to become the world leader in green energy, and that is, again, what we are trying to do.

Senator CORNYN. And what do we do about the 78 percent of our energy resources that it is projected to be in 2035, the 78 percent of our total energy needs that will come from fossil fuels? Is that insignificant?

Dr. ORSZAG. Well, again, what we are trying to do is move to a future in which that projection is not realized because we have developed renewable energy. We have invested in nuclear energy

more aggressively than in the past. We have expanded alternate forms of energy, which I think most experts believe is the way we need to go.

Senator CORNYN. Let me switch topics on you, quickly.

Dr. ORSZAG. Sure.

Senator CORNYN. The Center for Medicare and Medicaid Services just came out with a new report, as you know, on health care expenditures, pointing out that national health care expenditures are at 17.3 percent of our GDP.

Is it not true that the CMS Actuary said that the Senate Health Bill would actually increase national spending by \$234 billion over 10 years?

Dr. ORSZAG. It is true that there would be a temporary increase in national health expenditures as you cover more people. I would note, however, that the Congressional Budget Office has indicated that the legislation would reduce the Federal deficit not only over the first decade, but in the decades thereafter.

Senator CORNYN. Is it not true that the CBO said that the Senate bill would increase the Federal budgetary commitment to health care by about \$200 billion over 10 years?

Dr. ORSZAG. While reducing the deficit by more than \$100 billion.

Senator CORNYN. Well, are you double-counting?

Dr. ORSZAG. No.

Senator CORNYN. Well, some would disagree with you.

Thank you very much.

The CHAIRMAN. Senator Nelson? Thank you.

Senator?

Senator NELSON. Thank you, Mr. Chairman.

Dr. ORSZAG. Senator.

Senator NELSON. Dr. Orszag, you are proposing \$100 billion for new, temporary job initiatives, and a new jobs tax credit proposed by the President is \$33 billion. What are the other proposals for the remaining \$67 billion?

Dr. ORSZAG. The President indicated late last year that he was hoping that infrastructure spending and additional clean energy investments would be part of the package. But the reason we have a placeholder for the remaining amount is so that we can work with you to fill in the details.

Senator NELSON. You also include \$166 billion to temporarily extend provisions from the Stimulus Bill.

Dr. ORSZAG. Correct.

Senator NELSON. Tax credits, FMAP, unemployment benefits.

Now, if the economic recovery follows the path that you are projecting in the Budget, do you anticipate that next year's budget is going to seek another extension of those provisions?

Dr. ORSZAG. No. What we laid out in the budget was what we thought was necessary, given the economic assumptions that are built into our budget, which are, again, consistent with most private-sector forecasts.

Senator NELSON. Why do you not take the opportunity to just settle down the markets by telling us and the folks who buy our debt how they are going to continue to buy that debt into the future?

Dr. ORSZAG. Well, again, one of the reasons that the 10-year bond rate is below 4 percent now is that private borrowing has collapsed and Treasury securities remain the safest investment in the world. That having been said, one of the reasons we are so focused on reducing our deficit as we go out over time is, ultimately, private borrowing will pick up again, and interest rates on our Treasury securities, as a result, will increase. We need to bring our deficits down to a more sustainable level in order to avoid a spike in interest rates at that point.

Senator NELSON. And so you are not anticipating that there will be that spike?

Dr. ORSZAG. If we act, there will not be. If we do not, ultimately there will be. We absolutely need to act in order to bring down our out-year deficits, and, if we do not, ultimately we will face a major problem in our credit markets. But with your assistance, we can get ahead of that problem and avoid that risk.

Senator NELSON. And, even under those projections, which I certainly hope are correct, we go from \$253 billion in fiscal year 2011 just for interest, all the way up to in excess of \$600 billion in 2020. What gives? Why do we get that high, and what can we do about it?

Dr. ORSZAG. Well, again, the reason we get that high is that we have a very deep fiscal hole that we are trying to work our way out of. The Budget, as you know, includes more than \$1 trillion in deficit reduction, but more is necessary. That hole is so deep that, as you go out over time, the additional debt that is involved in the size of that hole adds interest costs to the Federal budget. We need to get that problem under control, in part to reduce those interest payments and in part to avoid other credit market problems that would arise.

Senator NELSON. And when does that total interest tab start coming down in that decade of the 2020s?

Dr. ORSZAG. It depends on what we do between now and then. I would hope that well before 2020 we act aggressively to reduce those deficits and start bringing down debt as a share of the economy, and the interest payments as a share of the budget.

Senator NELSON. I was quite disappointed that we did not get the votes for a statutory budget commission that the President supported.

Dr. ORSZAG. Yes.

Senator NELSON. How, with your executive powers, is the President going to be able to crack the whip and make this a successful budgetary commission since it is not going to be etched in statute?

Dr. ORSZAG. Well, look, the success or failure of any commission depends on (A) a recognition of the problem, and (B) a willingness of both parties to come together to address it. That is what happened under the Greenspan Commission, which was an executive order commission; it is what has to happen now. So it is unfortunate that the statutory version failed, but it does not mean that we must fail to act or that we will fail to act to address our fiscal problems. What has to happen is a common recognition that we face a very deep fiscal hole, and the only way we are going to address it is if we address it together. With that recognition, and that willing-

ness to work together, an executive order commission can work just fine, and that is what we need to do.

Senator NELSON. And that is assuming—you mentioned the commission back in 1983. It was successful because a Republican President, Reagan, and a Democratic Speaker, O'Neill, worked together.

Dr. ORSZAG. Worked together.

Senator NELSON. It has been suggested to me that the Republican leader in the Senate is not going to cooperate. What do you know?

Dr. ORSZAG. I guess that is a question better directed to Mr. McConnell, but let me just go back and say the reason that we need to act is that we are on an unsustainable fiscal course, and the only way we are going to get our fiscal house in order is if we do it together. So, we remain hopeful that there will be broad recognition of that basic fact, and we will be able to move forward in a bipartisan manner.

Senator NELSON. Would you indulge me a couple more questions?

The CHAIRMAN. Fine. You bet. Go ahead.

Senator NELSON. Thank you, Mr. Chairman.

In your budget, why do we want to shift more of the tax burden away from corporate taxpayers to individuals? I note that you do this in the years from 2011 to 2012; individual income tax receipts grow by 60 percent, whereas corporate receipts grow by 30 percent. Why would we want that shift?

Dr. ORSZAG. I think that is primarily from the course of individual income and corporate income as opposed to policy changes. The only policy changes are ones that are designed to promote job growth today, for example, the bonus depreciation provision that was already discussed. But most of the change in revenue that you see is a result of economic recovery and the course of individual income versus corporate income.

Senator NELSON. I have shared with you—I cannot remember if it had been privately. It may have been in the Budget Committee the other day—

Dr. ORSZAG. I would also, just for whatever it is worth, just on that point, I would also note, the increase in corporate income taxes as a share of GDP is roughly in line with the increase in individual income taxes between 2010 and 2011, but we could follow up more afterwards, if you would like.

Senator NELSON. All right. If you would.

I shared with you the other day, very briefly, in the Budget Committee, but I have shared with a number of your colleagues in the White House privately—you all have made a major shift in the Nation's space program in your budget recommendations.

Some of those suggestions are quite good and are necessary, but the suggestions have been received with a perception that you are killing the manned space program. Now, you have to turn that around, because I know the President, and I know that he is a vigorous supporter, and indeed I will say further, an aficionado of the space program, both manned and unmanned. But I can tell you, in Florida, the perception is that you are gutting the manned space program, and I know that is not what he wants to do. What he is trying to do is to get us vigorously going.

Dr. ORSZAG. Yes.

Senator NELSON. There are two suggestions that I would make to you, and I have made them privately to some of your colleagues on the White House staff.

The President is the only person who can lead the space program. Congress cannot do it, the Administrator of NASA cannot do it, only the President, because the President has to set the vision. Look what President Kennedy did, and the Nation followed. Look what President Bush did. He set a goal. Now, he never gave the money for it, and that is the hole that you find yourselves in in NASA, because NASA was starved over those years after he set the goal of going to the moon.

We all know what the goal is, and the goal is to send humans to Mars. I think that you all ought to consider having the President set that goal. You have to design architectures and way stations to get there, because that is in the future. But you could give a vision, if the President would articulate it, which will counter this perception that he has gutted the manned space program.

And I would make one other recommendation to you. And you ask, Mr. Chairman, why am I saying this to the Budget Director? Because in my judgment, unfortunately, OMB has been running the space program for too long. And I am not picking on you. I am talking about, in previous administrations, OMB has been doing the space policy instead of the President.

My recommendation to you is that you have a lot of good technology in building toward that heavy-lift vehicle which you all support, which is to get us out and explore the heavens, which would be a necessary step to going to Mars. You support that. That is in your budget. But you have abandoned using the technology and building on it that you have done very successfully in the development of the Ares I. I am not talking about the Ares I rocket to do what President Bush said it was going to do; I am talking about using Ares I as a test vehicle to develop your technologies to later on build that heavy-lift vehicle.

I wish you would consider that and bring that back to your folks. I will be talking directly to the President's staff in the White House. I think that is a reasonable approach, and you need to correct the misperception that is out there right now.

Dr. ORSZAG. Thank you, Senator.

The CHAIRMAN. Thank you, Senator.

I have just one question. You may have seen this chart, Dr. Orszag. Basically, it is called the "Ring of Fire." What it does is, it groups countries. One axis is their deficits as a percentage of GDP, and the other is their publicly held debt as a percentage of GDP. I only have one copy, but I will give it to you.

Dr. ORSZAG. All right. My eyes are not quite good enough.

The CHAIRMAN. Fine. I guess a couple of observations, based on that so-called chart, "Ring of Fire." One is that Greece is pretty far out there in terms of this debt and deficit as a percentage GDP, and Japan is way out there in terms of publicly held debt. But it just seems to me that to some degree the European Union is going to have to solve the Greece problem somehow, maybe other countries will, too. Then, of course, there is Japan, which has 100 percent or whatever it is. Its publicly held debt as a percentage of GDP is like 100 and some percent. The question is, as we work to

solve our fiscal problem, to what degree do we have to keep an eye on some of these problems that other countries have, too?

Dr. ORSZAG. Well, it is inevitable, in an interconnected world, in a global financial market, that things that happen abroad will affect what we do, and vice versa. So, as you know, we are carefully monitoring all of the activities, including in Greece. One of the motivations that we have for bringing our deficits down over time, as you know, is to avoid any potential problems out in the future that would arise if we failed to do so.

The CHAIRMAN. Is it not true that Greece will probably lose some control over its internal decisions as their creditor comes to the aid, whomever the creditor is, whether it is EU or whomever?

Dr. ORSZAG. Let me put it this way: there is no good outcome that comes from having a fiscal crisis, period. One of the reasons that we are so focused on getting that trillion dollars in deficit reduction enacted and moving beyond that is to make sure that we are never put in that position.

The CHAIRMAN. Right. But the more we are in that position, the less control we have over our own destiny.

Dr. ORSZAG. That is absolutely the case.

The CHAIRMAN. Thank you. I appreciate your taking the time.

The hearing is adjourned.

Dr. ORSZAG. Thank you, Mr. Chairman.

[Whereupon, at 11:52 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Hearing Statement of Senator Max Baucus (D-Mont.) Regarding President's Fiscal Year 2011 Budget

In his March 1961 budget message, President John F. Kennedy said:

"[T]he federal budget . . . should, apart from any threat to national security, be in balance over the years of the business cycle — running a deficit in years of recession when revenues decline and the economy needs the stimulus of additional expenditures — and running a surplus in years of prosperity . . ."

President Kennedy's goal remains one that we should embrace today.

Today, our Nation is addressing new and complex threats to our national security. And today, our Nation is addressing a deep and painful period of recession.

And as President Kennedy recognized, in a recession, tax revenues naturally decline, as businesses make less money. And in a recession, automatic economic stabilizers like unemployment insurance and Medicaid naturally fulfill their purpose, resulting in additional expenditures.

Plainly, today, our top priority needs to be creating more jobs. Since this Great Recession began, more than seven million Americans have lost their jobs. We need to help American businesses to hire more workers.

The President's budget allocates \$100 billion for job creation initiatives. Thus far, the administration has announced a \$33 billion Small Business Jobs and Wages Tax Cut. It's not clear what initiatives will be supported by the remaining \$67 billion of the \$100 billion proposed for job creation measures. I plan to ask our witness about that.

The budget also includes \$166 billion for other temporary economic recovery measures. The budget would increase investment by extending the bonus depreciation tax cut for businesses. It would also increase investment by small businesses by extending the credit in section 179 of the code. The additional investment arising from these two tax cuts should help create jobs.

I support these jobs proposals. I look forward to working with my colleagues on both sides of the aisle to enact them into law.

The temporary recovery package would also extend the number of weeks of additional unemployment benefits for three months. And for 10 more months, it would continue tax credits that cover 65 percent of the cost of COBRA benefits for workers who lose their jobs. Again, I look forward to working with my colleagues on both sides of the aisle to enact these proposals into law.

So, as President Kennedy counseled, we are addressing the needs of the economy and American workers in times of recession.

But we must also lift our sights, as President Kennedy counseled, to the longer-term balance over the years of the business cycle.

The President has done so in his budget proposal. Over the next 10 years the President proposes \$2 trillion in deficit reduction measures.

Over the next 10 years, the administration suggests that the government ought to shoot to keep annual deficits below three percent of the economy. The administration argues that such deficits keep debt held by the public at a constant share of the economy.

But the deficits projected in the President's budget for the next 10 years do not yet hit that target. The budget proposes deficits of 3.9 percent of GDP in fiscal year 2014 and 4.2 percent of GDP in fiscal year 2020.

The budget suggests that the additional deficit reduction to reach the three percent goal will come from a bipartisan commission to be created by an executive order. I support the creation of this commission. And I support its mission to come up with proposals to further address our long-term deficits.

And we must also lift our sights even further, to balance over the long term. The budget's projections warn that without any policy changes, deficits and debt will explode in the long term.

The primary reason for these long-run deficit projections is that health care costs are growing too rapidly. Health care costs per person are growing faster than the economy is growing per person. And Medicare and Medicaid costs are growing faster than the GDP. That means that over the long-run, Medicare and Medicaid costs will consume an increasingly greater share of the economy. This rapid growth in spending drives up deficits and debt held by the public.

The answer is to enact comprehensive health care reform with strong cost containment. And that is exactly what the Congress has been doing.

According to the nonpartisan Congressional budget Office, the Senate-passed health care bill would reduce the deficit by \$132 billion during the next 10 years. And it would reduce the deficit by \$650 billion to \$1.3 trillion in the subsequent 10 years.

But the deficit reduction in our health care reform bill does not stop there. The bill contains new and innovative ideas for improving health care quality while reducing the incentives for inefficient and wasteful spending.

For example, our bill would bundle together payments to providers to encourage them to work together to find savings. Our bill would establish accountable care organizations that would give health care providers tangible incentives to cut costs. And our bill would create incentives to discourage costly hospital re-admissions.

In his March 1961 budget message, President Kennedy also said: "It is my determined purpose to be a prudent steward of the public funds — to obtain a dollar's worth of results for every dollar we spend."

Once again, President Kennedy's goal remains one that we should embrace today.

And so, let us work together to address the needs of the economy and American workers in these times of recession. Let us be prudent stewards and ensure that we obtain a dollar's worth of results for every dollar that we spend — in health care and elsewhere in the budget. And let us roll up our sleeves and begin the hard work of restoring fiscal responsibility over the longer run.

United States Senate
Committee on Finance

Sen. Chuck Grassley · Iowa
Ranking Member



Statement of Senator Charles E. Grassley
Senate Finance Committee Hearing on the President's Budget for Fiscal Year 2011
OMB Director Peter Orszag
February 4, 2010

I would like to thank the Chairman for scheduling this hearing and the opportunity to review the President's budget for Fiscal Year 2011.

Today marks the third in a series of hearings. We've heard a lot of revisionist history this week.

The President and others in his Administration insist the massive deficits projected under their budget are not really their fault.

They want the American public to believe they inherited these deficits from President Bush and the Republicans in Congress.

They insist the 2001 and 2003 tax cuts and the 2003 Medicare prescription drug bill are primarily responsible for the deficits in their budget.

But this re-interpretation of history overlooks the actual events of the past.

When President Bush took office in 2001, federal revenues were at their highest level since World War II. There was broad agreement on the need for tax relief.

The 2001 tax cuts passed with bipartisan support. Most of the Democrats who opposed these tax cuts voted for their own alternative which reduced revenue by nearly the same amount.

The 2003 tax cuts passed with bipartisan support to help our economy recover from recession following the dot-com bust and the terrorist attacks of 9/11.

Again, most of the Democrats who opposed these tax cuts offered their own alternative which cost just as much. The only difference was they had more spending and fewer tax cuts.

Finally, let's look at the Medicare drug benefit. It also passed with bipartisan support. And, ironically, most of the Democrats who were opposed said we did not spend enough. They wanted a drug bill that cost even more.

But ultimately both Republicans and Democrats agreed it was time to modernize the Medicare program and cover prescription drugs.

Those who blame our deficits on Republican tax cuts and Medicare drug benefits ignore the fact that most Democrats supported tax cuts and spending increases that cost just as much, or even more.

If the Administration thinks these bipartisan policies are so bad, why are they proposing to extend 80 percent of the tax cuts, and 100 percent of the Medicare drug benefits?

The Administration can't have it both ways. They can't put these policies in their own budget and then blame the Republicans. It's like saying you oppose them while actually supporting them. This kind of double-talk won't wash with the American public.

Finally, let me say a word about health care. Everyone knows the combined effects of an aging population and the rising cost of health care threaten to bankrupt our government.

Unfortunately, no one has put forward a specific plan to solve this problem.

Instead, the Administration wants to raise taxes and cut Medicare to pay for a brand new health care entitlement program.

But if they use all of the tax hikes and Medicare cuts they can support to pay for more spending, how will they ever achieve a sustainable budget policy?

The Administration's call for a bipartisan commission rings hollow when they continue to insist on creating new entitlement programs. They can't even pay for the ones we already have.

The American people are understandably skeptical about more promises of future fiscal discipline from Washington.

In the past year, they've seen billions spent on a so-called stimulus plan while private-sector jobs continue to disappear.

They've seen billions spent on financial bailouts while hundreds of banks have failed and CEO's collected millions in bonuses.

America is ready for a change. Unfortunately, this budget promises more of the same – more taxes, more spending, more deficits, and more debt.

Finally, I would like to ask unanimous consent to place two letters I recently sent to the Director Orszag in the record along with his response to me. All of these letters relate to the expenditure of Recovery Act money.

United States Senate

COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

January 28, 2010

Via Electronic Transmission

The Honorable Peter R. Orszag
Director
Office of Management and Budget
Eisenhower Executive Building
1650 Pennsylvania Avenue, NW
Washington, DC 20503

Dear Director Orszag:

As the senior senator from Iowa and Ranking Member of the United States Committee on Finance (Committee), I have a duty to conduct oversight of the executive branch. This duty includes monitoring executive branch activities and conducting oversight to ensure that taxpayer dollars are used appropriately. This duty is more important than ever as federal spending is at unprecedented levels, in part due to the implementation of the American Recovery and Reinvestment Act of 2009 (ARRA).

Congress passed ARRA in an attempt to stimulate economic activity and stave off further loss of American jobs. Nearly a year later, the American people have serious doubts about the effectiveness of ARRA, as a January 25, 2010 CNN Poll showed three out four Americans responded that “much of the stimulus money has been wasted.”¹ At a time of economic hardship for so many Americans, accounting for how this money is spent under the ARRA program should be a top priority of the Office of Management and Budget (OMB). At the very least, the American taxpayer deserves a transparent process when it comes to how their money is being spent.

At this time, I am specifically concerned about the process in which executive branch agencies obligate \$275 billion dollars of ARRA money through grants, loans, and contracts. In recent months my committee staff has been in contact with executive branch Inspectors General, as well as the Recovery Accountability and Transparency Board (RAT Board). They have done so in an effort to monitor the use of ARRA money and to better understand the Obama Administration’s efforts to spend these funds in a way that meets the intent of Congress while also preventing fraud, waste, and abuse of taxpayer dollars.

¹ The Stimulus Project, *CNN Poll, 3 of 4 Americans say much of stimulus money wasted*, cnn.com, January 25, 2010.

In light of this ongoing work, I will be conducting intensive oversight now and in the coming months over how these recovery initiatives are being administered. This will include letters of inquiry to many of the departments and agencies receiving ARRA funds and continued interviews and document reviews. As the Director of the office responsible for administering the ARRA program, I write today regarding my initial concerns across the federal government.

- **Insufficient Front-End Oversight**

In much of the federal government, the marching orders regarding ARRA funds seem to be, “spend now, chase later.” When federal and state bureaucrats spend money quickly, perhaps at the cost of it being spent carefully, we have a recipe for massive fraud, waste, and abuse of taxpayer dollars. Across the federal and state governments, audits are already demonstrating the risks of this mentality.

Critical to protecting taxpayer dollars is executive branch “Suspension and Debarment” programs (S&D program). The S&D Program is used to permit the exclusion of entities found to be unethical, dishonest, or otherwise irresponsible from receiving contracts and grants from the federal government. Each S&D Program links their information up to the U.S. General Services Administration (GSA) operated Excluded Party Listing System (EPLS). EPLS is a web-based system, accessed government-wide, that is supposed to provide an up-to-date and central listing of suspended or debarred entities. However, with the government’s stimulus efforts it appears that S&D programs have become a casualty of the “spend now, chase later” mentality. For instance, a January 7, 2010 audit by the U.S. Department of Transportation Office of Inspector General (DOT-OIG) reported serious deficiencies in the Suspension and Debarment Program at the Department of Transportation (DOT).² At the same time, DOT received \$48 billion in stimulus money, and according to the DOT-OIG, the DOT has not devoted sufficient resources to its S&D program; the result is putting billions in taxpayer money at risk of fraud, waste, and abuse.

Similarly, the Louisville *Courier-Journal* reported that parties linked to a prominent Lexington, KY contractor on trial for bribery, conspiracy, and obstruction of justice were awarded a \$24 million ARRA contract to work on federally funded roads from the Federal Highway Administration (FHWA).³ Parties linked to this prominent contractor were able to access ARRA money due to a 10-month decision making process made by S&D Program Operating Administrations’ at FHWA on whether or not these parties should be suspended from receiving federally funded contracts.

² U.S. Department of Transportation Office of Inspector General. DOT’s Suspension and Debarment Program Does not Safeguard against Awards to Improper Parties: Report Number: ZA-2010-034. January 7, 2010.

³ Tom Loftus, *U.S. audit criticizes payments to companies Lawson once head*, *Courier-Journal*, January 20, 2010.

Director Orszag, an efficient and proactive S&D Program, combined with EPLS, is vital to safeguarding taxpayer money. Whether the DOT's programs are an anomaly or a symptom of a government-wide problem remains to be seen. Though in light of unprecedented federal spending across our government, proactively preventing taxpayer dollars from winding up in the hands of crooks ought to be a top priority of both OMB and individual agencies.

- **Accounting of ARRA Funds**

To date, it is not clear that there is agreement within the federal government and among the agencies regarding how much ARRA money has actually been obligated or even spent. The chart set forth below illustrates the varying amounts of ARRA money obligated to each executive agency. As you can see, there are vast discrepancies between the amounts reported by the RAT Board and the executive agencies own website.

| Executive Branch Agency | Total available ARRA funds, according to RAT Board | Total available ARRA funds, according to agency website |
|--|--|---|
| | 12/11/2009 | 12/22/2009 |
| Department of Agriculture | \$9.7 Billion | \$28 Billion |
| Corporation for National and Community Service | \$163.7 Million | \$201 Million |
| Agency for International Development | \$22.5 Million | Did not state total |
| Department of Commerce | \$1.1 Billion | Did not state total |
| Department of Defense-Military | \$3.6 Billion | \$7.4 Billion |
| Department of Education | \$69.2 Billion | \$100 Billion |
| Department of Energy | \$19.6 Billion | \$36.7 Billion |
| Department of Health and Human Services | \$57.5 Billion | \$57.6 Billion |
| Department of Homeland Security | \$1.4 Billion | Did not state total |
| Department of Housing and Urban Development | \$11.3 Billion | \$13.61 Billion |
| Department of Justice | \$3.96 Billion | \$3.9 Billion |
| Department of Labor | \$58.4 Billion | Did not state total |
| Department of State | \$161.6 Million | \$564 Million |
| Department of the Interior | \$1.08 Billion | \$3 Billion |
| Department of the Treasury | \$5.6 Billion | Did not state total |
| Department of Transportation | \$31.7 Billion | Did not state total |

| Executive Branch Agency | Total available ARRA funds, according to RAT Board | Total available ARRA funds, according to agency website |
|-----------------------------------|--|---|
| | 12/11/2009 | 12/22/2009 |
| Department of Veterans Affairs | \$1 Billion | \$1.4 Billion |
| Environmental Protection Agency | \$7.08 Billion | Over \$7 Billion |
| Federal Communications Commission | \$77.74 Million | Did not state total |
| General Services Administration | \$1.9 Billion | Did not state total |
| NASA | \$622 Million | \$1 Billion |
| National Endowment for the Arts | \$49.9 Million | Did not state total |
| National Science Foundation | \$2.4 Billion | Did not state total |
| Railroad Retirement Board | \$141 Million | Did not state total |
| Small Business Administration | \$498 Million | \$730 Million |
| Smithsonian Institute | \$21.9 Million | \$25 Million |
| Social Security Administration | \$13.3 Billion | Did not state total |
| U.S. Army Corps of Engineers | \$2.7 Billion | \$4.6 for civil works / \$2-\$2.5 for DoD programs |

While I understand that some argue that it is difficult to keep an accounting of such vast amounts of the taxpayers' money, these discrepancies do not inspire confidence in the federal government's ability to monitor where this money is going and whether it is being lost to fraud, waste, or abuse. Despite their being compiled within a period of two weeks, as you can see these numbers vary widely. For instance, the Department of Labor's total available funds differ by \$360 million, depending on whether one consults the government's website or its ARRA watchdog. The website for the Department of Interior lists \$3 billion in ARRA funds, while federal totals elsewhere are a third of that. While my staff continues its efforts to get a clear understanding of why these discrepancies exist, I am troubled by the inadequate explanations provided to date.

- **Sub-recipients and States Ability to Track Expenditures Appears Limited**

I am equally concerned with the ability of federal and state agencies to track sub-recipients of ARRA funds. I recently reviewed an audit issued by the U.S. Department of

Education Office of Inspector General.⁴ This audit was performed prior to the New York State Department of Education receiving \$1.7 billion dollars of taxpayer money. Interestingly, the audit found that the state of New York suffered from **serious internal deficiencies** that would make tracking ARRA money much more difficult. Further, the audit report made it clear that sub-recipients of ARRA funds are subject to little oversight. A news report by the Albany, NY newspaper *Times Union*, sums it up well, “Cash in, and then what?”⁵

With so much ARRA funding already flowing through state governments to sub-recipients, it is critical that the sub-recipients use the money in a way that is both transparent and accountable. Based upon Department of Education’s Inspector General’s audit, it also appears that New York was unable to account for federal funds **prior** to receiving ARRA money so one wonders—why American taxpayers should have any faith at all in the Administration’s ability to ensure accountability of billions more of taxpayer dollars.

- **Accounting for Jobs “Saved” or “Created”**

In addition, there is much public confusion over the number of jobs ARRA funds have helped to “save” or “create.” As the economic stimulus package was being debated in Congress last year, the White House claimed it would create 3.3 million net jobs by this year. In the time since, the American workforce has shed another 3.5 million jobs, 3.1 million more than the White House estimated would be lost without the stimulus, creating a deficit of 6.8 million jobs between where the American workforce is today and where the White House estimated we would be with this unprecedented spending.

Despite this hard reality, the White House continues to defend its economic stimulus program, though in varying terms. White House adviser Valerie Jarrett recently said that the \$787 billion program merely “saved thousands and thousands of jobs,” while David Axelrod claimed the program “created more than – or saved more than 2 million jobs,” and White House spokesman Robert Gibbs claimed the program “saved or created 1.5 million jobs.” Adding to this confusion, your office issued a memorandum last month changing how these totals would be calculated, allowing any job that is fully funded by ARRA funds to be counted, regardless of whether it was in fact “saved” or “created” by the program.

- **Conflicts of Interest**

Finally, in recent years I have investigated a number of university researchers, universities, non-profits, and government agencies for a lack of disclosure of conflicts of interest involving federal funds. For instance, my investigations have uncovered systemic failures to comply with regulations requiring the disclosure of conflicts of interest by those receiving federal funds from the National Institutes of Health (NIH), the National Science Foundation (NSF), and other entities.

⁴ U.S. Department of Education Office of Inspector General. “New York State System of Internal Control Over American Recovery and Reinvestment Act funds”: ED-OIG/A02j0006, November 2009.

⁵ Rick Karlin, *Cash in, and then what?*, Times Union, January 5, 2010.

Under the ARRA program, NIH will dole out a total of \$8.2 billion in taxpayer funds, and NSF will be handing out \$2.4 billion dollars. Given my past investigations, one can expect conflicts of interests in the research community to continue and these billions of taxpayer dollars must be safeguarded against their influence. In that regard I am interested in understanding what process the Administration is using to ensure that it has knowledge of who is and who is not conflicted and to what extent prior to the release of ARRA money. Please note also that my concerns over conflicts of interest do not end just in the sciences. Every government agency that is awarding contracts, grants or loans should make it a priority to have any conflicts disclosed before any ARRA money is obligated.

In light of these concerns I request that OMB respond to the following questions, responding by first repeating the enumerated question followed by the corresponding answer.

- 1) Through conversations with federal officials with direct involvement in the ARRA program, my staff has been told that recipients of ARRA funds do not have to report their use of the money until it is spent. If this is the case, by what mechanisms does the federal government oversee the money after it is disbursed but before it is officially spent?
- 2) Please describe what rules or guidance exists regarding interest earned on ARRA funds by state governments and private entities after they are disbursed but before they are spent.
- 3) In what ways does the executive branch penalize recipients who do not report on their use of ARRA funds? Are these penalties mandatory or permissive?
- 4) Is OMB aware of other situations similar to the one mentioned in the DOT-OIG report? If so, how many and what has been done to recover funds granted, loaned, or otherwise given to entities on the S&D list? Please explain in detail.
- 5) What safeguards are in place to ensure that tax cheats and/or criminals do not receive ARRA money? Please explain in detail.
- 6) Please answer the following questions regarding S&D Programs:
 - a. Please provide the Committee with a copy of OMB's policies regarding S&D Program.
 - b. Who is charged with monitoring the S&D Program at OMB?
 - c. What has the federal government done to ensure that EPLS is accurate? Please provide my staff a briefing on EPLS.
 - d. Please provide a current list of all suspended and debarred parties across the federal government.

- 7) What systems are in place to detect or deter conflicts of interest among executive branch officials charged with awarding ARRA grants, loans, and contracts?
- 8) Please explain the discrepancies in the total ARRA accounting described above.
- 9) Please provide a chart detailing the amount of ARRA money appropriated to each executive branch agency. This chart should include the total amount of ARRA money obligated and the total amount currently been spent by each executive branch agency.
- 10) What systems do OMB and the federal agencies at large have to ensure that sub-recipients of ARRA funds will be monitored to prevent fraud, waste, and abuse? Please describe in detail.
- 11) Does OMB believe the states have adequate ability to protect ARRA money from fraud, waste, and abuse? Please identify any work that has taken place to ensure accountability at the state level, as well as any concerns your office has on this matter.
- 12) Regarding the recent change in accounting for jobs saved or created, please explain what led to the change and whether the Administration plans to refer to these new jobs as “funded,” rather than “saved” or “created.”
- 13) According to OMB, how many jobs have been saved within the federal government due to the ARRA program? Please explain in detail.
- 14) According to OMB, how many jobs have been saved within the private sector due to the ARRA program? Please explain in detail.
- 15) According to OMB, how many jobs have been created within the federal government due to the ARRA program? Please explain in detail.
- 16) According to OMB, how many jobs have been created within the private sector due to the ARRA program? Please explain in detail.

Thank you in advance for your cooperation in this matter. I know you share my vigilance to protect taxpayer dollars, and look forward to your continued assistance in these efforts. As I conduct oversight of the individual agencies and departments in the coming months, your answers regarding cross-agency concerns will be very helpful.

Please provide the requested information by February 2, 2010. Should you have any questions regarding the contents of this letter please do not hesitate to contact Christopher Armstrong or Brian Downey of my Committee staff at (202) 224-4515. All formal correspondence should be sent electronically in PDF format to Brian_Downey@finance-rep.senate.gov or via facsimile to (202) 228-2131.

Sincerely,

A handwritten signature in black ink that reads "Chuck Grassley". The signature is written in a cursive, slightly slanted style.

Charles E. Grassley
Ranking Member

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

February 3, 2010

Via Electronic Transmission

The Honorable Peter R. Orszag
Director
Office of Management and Budget
Eisenhower Executive Building
1650 Pennsylvania Avenue, NW
Washington, DC 20503

Dear Director Orszag:

Thank you for your prompt response to my recent letter on the stimulus program. As the federal government moves forward with this unprecedented federal spending, continuous dialogue between the executive and legislative branches is critical to ensure taxpayer dollars are spent in a transparent and accountable manner. Throughout my career in Congress, I have believed I have an obligation to oversee how our government conducts the people's business and spends their money. I have worked to fulfill this obligation through both Republican and Democratic administrations.

As Ranking Member of the Senate Committee on Finance, I conduct oversight of federal health care spending, including the Medicare program. In this one program alone, taxpayers are bilked out of at least \$60 billion every year through fraud, waste, and abuse. So you can understand my consternation over the Administration's efforts to spend more dollars in a shorter period of time than we have seen in our nation's history. Administration officials, as well as others, have predicted no less than \$55 billion dollars in Recovery Act money will be lost to waste, fraud, and abuse. I think this is being optimistic.

Although I appreciate your prompt response to my earlier letter and the effort that it took to prepare it, I find that too many questions remain unanswered and the reliance on future plans and guidance to correct current problems is, at best, misguided. Let me provide you with a few examples.

While it is true that "OMB's guidance requires Recovery Act grant recipients to begin reporting as soon as an award is issued," all too often this is not the case. It is also true that "Recovery Act contract recipients are required to begin reporting as soon they invoice for the first time, which occurs before any funds reach them." But, again, this is not always the case. Too often, recipients fail to report because they understand that they are unlikely to be penalized.

After reading your response, I continue to have concerns. Therefore, I reached out to the Recovery Accountability and Transparency Board (RAT Board), which advised me that about 1,500 ARRA recipients have failed to file for two quarters, and that more than 2,000 ARRA recipients who filed for the first quarter failed to file in the second quarter. And then there are those ARRA recipients who were not required to file during the first quarter; but were required to file during the second quarter and failed to do so. That's more than 3,500 recipients of ARRA money who are not following the rules. Perhaps they have little incentive to do so.

As the Chair of the RAT Board testified late last year, there are a "considerable number of recipients who" do not report to the Recovery Act because it "prescribes no penalties for failure to report." Perhaps even more important is the fact that the Administration currently does not **require** that agencies take any punitive action(s) against ARRA recipients who fail to file; rather it provides the agencies with discretion as to whether or not action should be taken if an ARRA recipient fails to file. In the interim, it is critical that federal agencies do everything they can to clamp down on non-reporting recipients and OMB ought to be encouraging them to do so. In addition, please provide to me the total number of recipients penalized for not reporting data or reporting it late, and describe what, if any, punitive action has been taken against them as of the date of this letter.

In my letter I also raised concerns about Suspension & Debarment (S&D) problems at the Department of Transportation. It is also my understanding that until recently the Interior Department completely lacked an S&D program at all; so it would not be unusual to find that the Interior Department gave ARRA money to an organization that had earlier failed in, for example, some aspect of its performance to Interior.

I also greatly appreciated your response to my inquiry regarding the Excluded Parties List System (EPLS) and my staff looks forward to receiving a briefing on that system. According to its website the EPLS is intended to:

provide a single comprehensive list of individuals and firms excluded by Federal government agencies from receiving federal contracts or federally approved subcontracts and from certain types of federal financial and nonfinancial assistance and benefits. The EPLS is used to keep agencies abreast of administrative, as well as, statutory exclusions taken throughout the Federal Government.

However, there is a substantive and critical concern that has been brought to my attention by federal officials regarding the EPLS that I would like you to address. Let me start with an example to illustrate my concern. Company/Individual ABC receives a \$5 million dollar ARRA contract from Agency X on June 1, 2009. Subsequently, on August 1, 2009, Company/Individual ABC is placed on EPLS for "administrative, as well as, statutory exclusions taken." From my conversations with federal officials, it is my understanding that because the ARRA contract was awarded prior to Company/Individual ABC being placed on the EPLS system, ARRA contract payments will continue to be paid.

This is an appalling bureaucratic mishandling of taxpayer funds. Please let me know as soon as possible whether this type of scenario is being addressed, and if not, why not.

But even for recipients who want to report data, it is not always easy to do so. A January 6, 2010 column in the *Washington Examiner* described the many problems one business owner had when reporting a \$2,000 contract to federalreporting.gov.¹ The article noted that the business owner spent seven hours attempting to input the data, and did so only after all of the stimulus money was spent.

In addition, in response to my inquiry I was recently advised by the RAT Board that it does not have access to a complete list of precisely who received a loan, grant or contract, pursuant to the Recovery Act. To say that this is remarkable and a serious shortcoming is an understatement. How can the RAT Board do its job efficiently or effectively when it does not have possession of the most basic and fundamental of information to conduct its work, namely: who got the money?

While I am eager to see the completion of the Federal Awardee Performance and Integrity Information System (FAPIIS), I remain concerned by flaws in the current system and the numerous cases that have already arisen regarding questionable entities receiving Recovery Act dollars. For instance, a recent report told the story of two entities that have both received stimulus funds under circumstances that do not inspire confidence.² In one case, a construction company under criminal investigation for bilking the taxpayers of San Diego, California, received \$6.4 million in stimulus funds to repair roads and runways. In another case, a large corporation recently fined for polluting a creek with chromium, dioxin, lead, and mercury received \$15.9 million in stimulus funds to conduct environmental monitoring on the same site. Please keep me updated on the completion of the FAPISS, and provide me with the total amount of ARRA funds and non-ARRA funds that will be spent to create it and maintain it.

I was also interested to read your response regarding the federal government's irregular accounting of ARRA funds. Your letter stated that these "alleged discrepancies" were the result of "incorrect assessments of the sources referenced." Any incorrect assessments occurred within the executive branch, as the terms and data in my prior letter originated there. Indeed an executive branch official told my staff: "in the federal government everybody is using different terms to talk about the same thing, and similar terms to talk about different things." In addition, I read your response to Question 5 with great interest and note that it is limited strictly to tax cheats and/or criminals who are contractors. Please provide to me your response with regard to those who received ARRA grants or loans as well.

¹ Barbara Hollingsworth, *UPDATE: Even with a real zip code, it takes 7 hours to report on \$2,000 contract*, The Washington DC Examiner, January 6, 2010.

² Bill Evans, *Some Firms beset by probes get stimulus fund*, California Watch, January 10, 2010.

Regarding the ability of states to protect ARRA funds from fraud, waste, and abuse, you stated that OMB is “very concerned about States’ capacity to protect against waste, fraud and abuse.” I share your concern. Until better controls are in place to protect these funds the waste, fraud, and abuse will only grow and we will find ourselves again in a ‘pay and chase’ system that routinely ends poorly for taxpayers.

My concern with sub-recipients continues despite your responses and it seems that my concerns are well founded. I recently came to learn that there are over 10,000 sub-recipients of ARRA money that reported for the first quarter. However I understand, in response to an inquiry I made, that thousands of these same sub-recipients did not report in the second quarter. Please provide information indicating whether the rules changed regarding their reporting and, if not, why these sub-recipients stopped reporting and what is the Administration going to do about it.

Additionally, I was also pleased to read in your letter that OMB is open to “alternative uses” of unobligated stimulus money if taxpayers would be “better serve[d].” But like so many Americans I remain confused about how so many of the stimulus projects were determined to be the best use of limited taxpayer dollars in the first place. For instance, recent reports by my colleague Senator Coburn and others have highlighted the following ARRA projects:

- Millions of taxpayer dollars to buy road signs reminding taxpayers of how their money is being spent.
- \$2.2 million grant to construct new water pipes for a San Francisco golf course.
- \$1.15 million to construct a guardrail around a Woodward, Oklahoma lake that does not exist.
- \$578,661 to combat homelessness in a New York town that never requested the money and does not have homelessness. A HUD official encouraged town officials to come up with “creative strategies” to use the funding.
- \$1,849,627 to a Nevada non-profit for weatherization services, after the non-profit was terminated from the same project for deficient work and failing to follow accountability requirements.
- \$800,000 for the construction of a super-runway at a Johnstown, PA airport that serves an average of 20 passengers per day.

Finally, I appreciate your noting that additional funds have been provided to the Inspectors General community to pursue ARRA matters. At the same time, I am interested in learning more about the resources that each agency is dedicating to ARRA administration and oversight. Accordingly, please let me know how many full-time employees are being provided by each agency to conduct ARRA activities.

It is no surprise that Americans are worried, and they have good reason. With a ballooning federal debt and growing unemployment, Americans are rightfully angry to see their hard-earned dollars as well as dollars the government has borrowed to fund projects that are so patently wasteful. Hundreds of thousands of dollars here and there might not sound like a lot to some in Washington, but it is an incredible amount for the millions of Americans struggling to put food on the table and pay their bills.

Please provide the requested information by February 10, 2010. Should you have any questions regarding the contents of this letter please do not hesitate to contact Christopher Armstrong or Brian Downey of my Committee staff at (202) 224-4515. All formal correspondence should be sent electronically in PDF format to Brian_Downey@finance-rep.senate.gov or via facsimile to (202) 228-2131.

Sincerely,

A handwritten signature in black ink that reads "Chuck Grassley". The signature is written in a cursive, slightly slanted style.

Charles E. Grassley
Ranking Member

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503
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Testimony of Peter R. Orszag
Director of the Office of Management and Budget
United States Senate Committee on Finance

Chairman Baucus, Ranking Member Grassley, and Members of the Committee, thank you for inviting me to testify this afternoon about the President's Fiscal Year 2011 Budget. I come before you after a trying year for the Nation. One year ago, the economy seemed on the verge of a severe collapse, perhaps leading to a second Great Depression. Together with the Congress, the President worked aggressively to stabilize the financial system and bring the economy back from the brink. The worst now appears to be behind us. However, the country faces two significant and ongoing challenges: high unemployment and a medium- and long-term fiscal situation that will ultimately undermine future job creation and economic growth. It took years to create the current jobs gap and our budget deficits, and it is our responsibility to start addressing them without delay.

Rescuing and Rebuilding the Economy

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

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

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

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

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

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

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

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

Recovery Act programs to leverage private investment in energy efficiency and create clean energy manufacturing jobs.

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

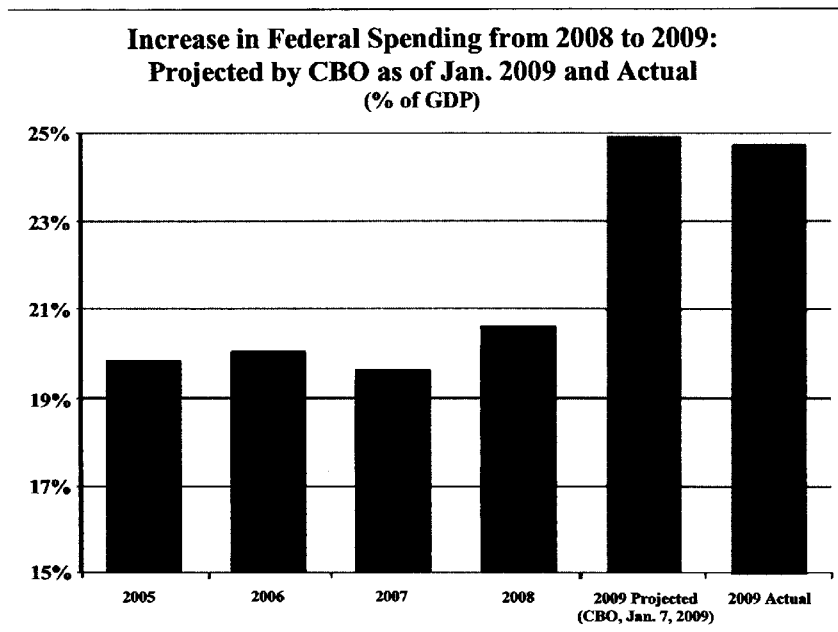
Restoring Fiscal Discipline

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

Short-term deficits

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

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



Medium-term deficits

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

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

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

More than half of these deficits can be linked to the previous Administration's failure to pay for the 2001/2003 tax cuts and the prescription drug bill. Over the next ten years, these two unpaid-

for policies are slated to add \$5.8 trillion to the deficit, including interest expense on the additional associated debt. Put differently, if these two policies had been paid for, projected deficits—without any further deficit reduction—would be about 2 percent of GDP per year by the middle of the decade, and we would have been on a sustainable medium-term fiscal course.

The recession that began in December 2007 also adds considerably to the projected deficits. When the economy enters a recession, the Federal Government's receipts automatically fall and the costs for certain programs, such as unemployment insurance, automatically rise. Over the next ten years, these automatic stabilizers are projected to add about \$2.4 trillion to the deficit, including interest expense.

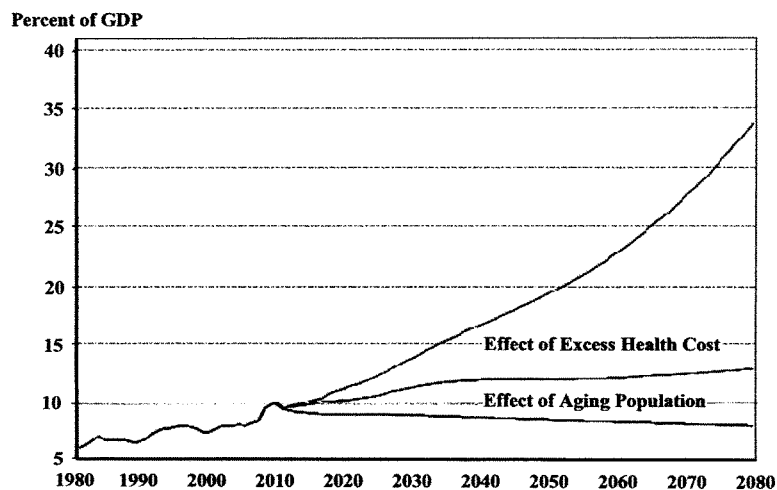
Finally, it is worth noting that the Recovery Act—which, as discussed, has been key to restoring economic growth—plays a relatively small role in the projected deficits compared to these other costs. Over the next ten years, the deficit impact of the Recovery Act is less than one-tenth the size of the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

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

Long-term deficits

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

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



Policies to Reduce the Deficit and Restore Responsibility

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

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

The President's Budget represents another important step toward fiscal sustainability. The Budget reduces deficits by \$1.2 trillion over the next 10 years—not including savings associated with our presumed ramp-down of operations in Iraq and Afghanistan. If those savings are

included, deficit reduction under our Budget comes to \$2.1 trillion. Furthermore, the President's Budget cuts the inherited deficit in half as a share of GDP by the end of the President's first term. The deficit reduction steps include:

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

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

And to keep Americans building new and competitive skills throughout their working lives, the Budget provides \$19 billion for job training and employment programs Government-wide, a \$1.1 billion, or 6 percent, increase from 2010. This level includes two new innovation funds that will test and evaluate new approaches to training disconnected youths, building regional partnerships, and supporting apprenticeships. The Budget will also support a ten-year extension of Trade Adjustment Act assistance for American workers who have lost their jobs due to imports or shifts in production overseas, and provide additional support for training in green jobs. Similarly, R&D is a cornerstone of a thriving economy, and the Budget features \$61.6 billion for civilian research and development—an increase of \$3.7 billion, or 6.4 percent, over 2010 levels. But while continuing the commitment to double funding for three key basic research agencies—the National Science Foundation, the Department of Energy's Office of Science, and the National Institute of Standards and Technology—the Budget also eliminates programs that are not effectively achieving their goals. For example, the Budget cancels NASA's Constellation program, which was intended to return astronauts to the Moon by 2020, but has run severely behind schedule and over-budget. In place of Constellation, the Budget proposes to leverage international partnerships and commercial capabilities to set the stage for a revitalized human space flight program, while also accelerating work—constrained for years due to the budget demands of Constellation—on climate science, green aviation, science education, and other priorities.

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

Allowing the 2001-2003 tax cuts for households earning more than \$250,000 to expire. The Budget proposes allowing most of the 2001/2003 tax cuts to expire in 2011, as scheduled, for those families making more than \$250,000 (\$200,000 for single individuals). The additional revenues gained would be devoted to deficit reduction. These tax cuts were unaffordable at the time they were enacted, and remain so today. The Budget would simply return the marginal tax rates for these wealthiest Americans to what they were prior to 2001. Altogether, allowing these tax cuts to expire would save \$678 billion over the next ten years relative to current policy.

Limiting the rate at which itemized deductions can reduce tax liability to 28 percent for families with incomes over \$250,000. Currently, if a middle-class family donates a dollar to its favorite charity or spends a dollar on mortgage interest, it gets a 15-cent tax deduction, but a millionaire who does the same enjoys a deduction that is more than twice as generous. By reducing this disparity and returning the high-income deduction to the same rates that were in place at the end of the Reagan Administration, the Budget raises \$291 billion over the next decade.

Eliminating funding for inefficient fossil fuel subsidies. As we work to create a clean energy economy, it is counterproductive to spend taxpayer dollars on incentives that run counter to this national priority. To further this goal and reduce the deficit, the Budget eliminates tax preferences and funding for programs that provide inefficient fossil fuel subsidies and undermine efforts to deal with carbon pollution. The Budget proposes eliminating 12 tax breaks for oil, gas, and coal companies, closing loopholes to raise nearly \$39 billion over the next decade.

Health Insurance Reform

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

create an infrastructure that would help to improve quality and constrain costs over the long term.

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

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

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

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

Fiscal Commission

The President has now proposed two budgets that reduce out-year 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.

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FY 2011 Budget - Senate Finance Committee QFRs**Senator Max Baucus**

Last Saturday's *New York Times* reported the following about China's race to manufacture alternative energy equipment:

"China has leapfrogged the West in the last two years to emerge as the world's largest manufacturer of solar panels...these efforts to dominate renewable energy technologies raise the prospect that the West may someday trade its dependence on oil from the Mideast for a reliance on solar panels, wind turbines and other gear manufactured in China."

I am pleased that the President proposed \$5 billion in more funds for Section 48C. The Finance Committee wrote and passed this credit as part of last year's Recovery Act, to promote the production of clean-energy technology here in the U.S.

Are there other incentives we should consider to encourage clean-energy technology?

In addition to the proposed increase in funding for the Section 48C tax credit, the Budget includes \$6.3 billion for clean energy technology programs across the Federal government, which provides incentives for research, development, demonstration, and deployment as well as the manufacture of clean energy technologies.

For example, the Budget for the Department of Energy provides \$2.4 billion for Energy Efficiency and Renewable Energy (EERE) programs, nearly \$800 million for Nuclear Energy programs, and over \$540 million for Fossil Energy programs. The \$302 million in the EERE budget for the Solar Energy program includes funding for the first full year of support for the Photovoltaic (PV) Manufacturing initiative, started in FY 2010. The PV Manufacturing initiative intends to accelerate the commercialization and cost reduction of solar cell technologies by coordinating solutions across industry that will facilitate PV manufacturing in the U.S. The initiative seeks to help create a robust U.S. PV manufacturing base and to help develop a workforce with the critical skills required to meet these goals. The Administration believes that passage of a comprehensive energy and climate bill with market-based incentives is another key step to spur domestic production of clean energy technologies, and the Administration looks forward to working with Congress to complete such legislation.

Senator Jay Rockefeller

Economists remind us that job creation usually lags behind the economic recovery, often for many months. Given the hardship that we know families are facing, and the fact that the current unemployment extension expires on February 28th, I believe extending unemployment benefits must be a top priority, and should be longer than the previous two-month extension. Unemployment benefits are likely to be largely spent and spent quickly, hence their effects on the economy tend to be much larger. For example, according to Mark Zandi, a dollar of across the board tax cuts would lead to an additional \$1.02 of output, while a dollar of unemployment benefits would lead to \$1.64 of output, 60% larger.

a. Can you describe the Administration's proposal for unemployment benefits and its link to our economic recovery?

b. How important is it to have a longer term approach for families who are worried about finding a job in this economy?

The President's FY 2011 Budget includes \$49 billion in funding for extending unemployment benefits for Americans who are suffering from long-term joblessness due to the economic downturn. The Administration is working so that this important safety net is not cut off at the end of February.

The President has also made clear that his top priority is accelerating the pace of job creation. In his State of the Union Address, President Obama set out a number of specific job creation proposals and called on Congress to move without delay on legislation that will help get Americans back to work. The President's FY 2011 Budget reflects this commitment to near-term job creation, alongside an effort to begin restoring fiscal discipline. The Budget allocates \$100 billion in resources to invest in targeted, near term initiatives to encourage businesses to hire and bolster the economic recovery.

Senator Jay Rockefeller

States all over this country are facing extremely serious budget crises – that threaten public sector jobs and health care coverage for vulnerable Americans.

Isn't it true that if the ARRA FMAP stimulus funding is not extended beyond this December, some states will further scale back Medicaid eligibility and provider payment?

The Recovery Act's temporary increase of the Medicaid Federal Medical Assistance Percentage (FMAP) has been an effective way to help States maintain their Medicaid programs during a period of high enrollment growth and reduced State revenue. Recognizing that States will continue to face large budget shortfalls even as the U.S. economy recovers, the President's FY 2011 Budget proposes to extend the Recovery Act FMAP increase for six months, through June 2011, to help State and local governments avoid program cuts in their FY 2011 State budgets.

Senator Jay Rockefeller

I strongly support the creation of an independent Medicare advisory commission to address Medicare provider payment policy – something you and I have discussed many times. Such an entity will protect the solvency of Medicare and improve patient health outcomes.

How can we move forward on this concept?

The Administration agrees that the establishment of such an independent advisory commission is essential to improving quality and reducing costs in the Medicare system—and, thereby, putting the Federal government on a more fiscally sustainable path. In fact, on November 17, 2009, a group of 23 prominent economists sent a letter to the President and cited the creation of this commission as one of the four key elements of health reform legislation to help keep health care costs under control.

I was pleased to see the inclusion of an independent payment advisory commission in H.R. 3590—the Patient Protection and Affordable Care Act—and the Administration will continue to work with you and other leaders to enact comprehensive health reform legislation that includes such a commission.

Senator Jay Rockefeller

You and I have frequently discussed the ongoing need to address the variance of health care costs across the country, particularly near the end of life. As you know, 25% of Medicare spending is for care in the last year of life. I was disappointed to see that the President's budget does not contain any comprehensive strategies to address end-of-life care.

What are the Administration's plans on this issue?

As you know, researchers have found substantial regional variation in Medicare spending for care in general, and evidence suggests that higher spending is not associated with better quality of care. Both of these statements are also true with regard to end-of-life care. Also, researchers have found that this variation is not explained by differences in patient preferences. As you state, about a quarter of Medicare expenditures occur during the last year of life. We must do better — and the Administration is committed to making sure that Medicare beneficiaries receive high-quality health care that best reflect their informed preferences.

That is why, as part of health reform, the Administration supports patient education and access to information, improved communication between physicians and patients, and efforts that improve the quality of care for our Medicare beneficiaries.

Senator Jay Rockefeller

Unfortunately, progress on e-prescribing has been repeatedly delayed. With a more than 400 percent increase in methadone-related deaths in West Virginia between 1999 and 2005, we need every tool possible to track prescribing and improve patient safety.

What is the status of the final rule for e-prescribing controlled substances?

What is the reason for its ongoing delay?

The Administration is committed to facilitating the use of modern technology for prescribing controlled substances. E-prescribing controlled substances has vast potential to reduce errors caused by illegible handwriting and miscommunication in oral instructions, increase efficiencies and patient safety by integrating the records of pharmacies with hospitals and other health care providers, and better identify incidents of illegal diversion of controlled substances through automated record keeping and reporting.

The Drug Enforcement Administration's (DEA) rule is currently under review by the Administration. The rule would revise DEA's regulations to allow physicians the option of writing prescriptions electronically and permitting pharmacies to receive, dispense, and archive those prescriptions. The Administration is working to conclude review as quickly as possible.

The Administration is committed to maintaining a balance between serving the legitimate needs of patients and health care providers, while at the same time ensuring that controlled substances do not fall into the hands of those who use them illegally. It is important that these goals are met in the final rule, as well as sufficiently addressing the public's comments to the proposed rule.

Senator Orrin Hatch

Mr. Director, I was a bit surprised by your testimony concerning the effect of last year's Recovery Act. I think there is some revisionist history going on here. You asserted that about one-third of the \$787 billion spent on the Recovery Act was "dedicated to tax cuts for small businesses and 95 percent of working families." I take exception to your characterization that a lot of the resources of the Recovery Act were dedicated to tax cuts for small businesses. According to my calculations, only about 2.5 percent of the resources of this bill were allocated to tax cuts for all businesses, large and small.

Don't you think that if more of the resources of the Recovery Act had been dedicated to tax cuts for businesses, as the President's budget seems more willing to do this year, that we would have less need for a jobs bill now? In other words, could we not have saved or created more jobs last year had we provided more in tax incentives for businesses and less on public projects, billions of which still has not been spent?

Recovery Act tax cuts totaled \$288 billion, which is just under 40 percent of the Recovery Act total of \$787 billion, according to the original CBO scoring. This includes capital gains taxation on small businesses, increased expensing for small businesses, and introduced 5-year carryback of operating losses for small businesses. In addition, millions of small business owners benefited from the Making Work Pay tax credit and AMT relief through their individual tax returns. The Administration believes that small businesses are a key to economic recovery and job creation. That is why the President recently proposed a Small Business Jobs and Wages Tax Credit that will provide small businesses with a tax credit of \$5,000 for each new worker they hire, as well as a new \$30 billion small business lending authority.

Senator Orrin Hatch

Again, in connection with last year's Recovery Act, there has been a lot of criticism directed against Republicans for not supporting the bill. However, I need to point out that one of the many reasons for this is that it did not include very much in terms of tax relief. You may recall that the President promised that it would be comprised of at least 40 percent tax relief. In fact, though, the tax relief portion was far less than this and it did not even reach the one-third you claim in your testimony. The reality was that it was about 28 percent tax relief, if you do not count the outlay portions from the refundable part of the Making Work Pay credit. And again, almost all of this tax relief went to individuals, whom many economist say did not spend the money as was hoped, but rather saved it or pay down credit card debt. Do you believe, as many of us do, that if we had enacted a more effective Recovery Act a year ago, we would not be looking at the double digit unemployment rate we have now?

The Recovery Act included substantial tax relief -- \$288 billion or just under 40 percent of the total, according to the original CBO scoring. The Recovery Act is one of the most sweeping economic recovery efforts in our nation's history. By providing immediate tax relief to families and businesses and investing in priorities like health care, education, energy, and infrastructure, it pulled the economy back from the brink of a second Great Depression and has begun to lay a new foundation for long-term economic growth. The Council of Economic Advisers (CEA) estimates that The Recovery Act added between 2 and 3 percentage points to real GDP growth in the second quarter of 2009; between 3 and 4 percentage points in the third quarter; and between 1½ and 3 percentage points in the fourth quarter. The CEA estimates that as of the fourth quarter of 2009, the Recovery Act has raised employment relative to what it otherwise would have been by 1½ to 2 million jobs.

Senator Orrin Hatch

In your testimony, you assert that more than half our currently projected deficit can be attributed to the previous Administration's failure to pay for the 2001/2003 tax cuts and the prescription drug bill. As you recall, the nation was suffering from a very serious economic setback following the terrorist attacks of September 11, 2001, and the 2003 tax cuts were largely enacted to counter this recession. Is it your testimony that these 2003 tax cuts had a deleterious effect on the economy and that we would have been better off had they not been enacted? And, if it is the Administration's position that the 2001 and 2003 tax cuts were harmful to America, why doesn't the budget call for a total reversal of these cuts, rather than just those that benefit those making over \$200,000 or \$250,000 per year?

The Administration believes that Congress should enact tax and mandatory legislation on a pay-as-you-go basis. The failure of the previous Administration to pay for just two policies—the 2001 and 2003 tax cuts and the prescription drug bill—would add \$5.8 trillion to the deficit over the next ten years if current policies are continued. Moving forward, the Administration calls for new tax and mandatory policies to be paid for. And, the Administration is pleased that the Congress passed and the President signed into law a PAYGO bill that will hold policymakers to this standard. The 2001 and 2003 tax cuts, by contrast, are by now inherited policy, so their continuation is not a violation of the PAYGO principle.

The PAYGO statute as adopted by Congress is more restrictive than the general PAYGO principle with respect to most of the upper-income provisions of the 2001 and 2003 tax cuts. It requires the continuation of those portions of the tax cuts to be paid for, which would therefore reduce projected deficits. The Administration agrees that the tax-code must be rebalanced and that tax breaks that disproportionately benefited the highest income Americans should be rolled back. That is why the Administration supports allowing most of the 2001/2003 tax cuts for families making more than \$250,000 to expire, with the savings devoted to deficit reduction.

Senator Orrin Hatch

Can you please explain to us the need for a Fiscal Commission, which apparently would be established by executive order of the President. Doesn't the President have the authority to propose any spending cuts or tax increases that he wishes to reduce the deficit?

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

The President has also signed into law PAYGO legislation that would require Congress to pay for new entitlement or tax policies—reinstating the law that helped to turn deficits into surpluses during the 1990s.

Even with those steps, we recognize that more needs to be done. And that is why the President is creating a new, bipartisan National Commission on Fiscal Responsibility and Reform—to build bipartisan consensus to tackle our long-ignored fiscal challenges.

With members appointed by the leaders from both political parties in both houses of Congress, as well as the President, this Commission will be tasked with balancing the budget excluding interest payments on the debt by 2015 and to meaningfully improve the long-term fiscal outlook. In the past, our nation's leaders used extraordinary processes—much like this Fiscal Commission—to construct solutions that, for instance, helped save Social Security for generations to come and turn deficits into surpluses. We believe that the National Commission on Fiscal Responsibility and Reform can be just as successful.

Senator Orrin Hatch

As I read it, the President's FY 2011 budget proposes an additional \$641 in new revenues over the next five years. Much, if not most, of this is in the form of higher taxes on individuals and businesses. Now if I'm a business owner, or an investor or consumer, why wouldn't these higher taxes deter me from investing or spending more next year and the next, knowing that I will have to pay more in taxes?

The FY 2011 Budget includes more than \$300 billion in tax cuts for individuals, families, and businesses over the next ten years. These include relief for businesses—such as expanded expensing of capital investments for small businesses this year and permanent elimination of capital gains on small business stock—as well as relief for working families, such as an expanded child and dependent care tax credit.

The Budget also seeks to rebalance the tax code by closing loopholes and ending tax breaks that have benefited the wealthiest Americans. Importantly, the Budget does not include any tax increases this year. And, in 2011, there is a net tax cut overall. Further, the tax increases only affect families making more than \$250,000—and would return the top tax rate to what it was during the 1990s, a time of robust economic expansion. Finally, these measures are an important step toward returning the nation to a fiscally sustainable course, which is key to supporting long-run economic growth.

Senator Orrin Hatch

With a stagnant double digit unemployment rate, how will raising the marginal tax rates on a small business owner who pays taxes at the individual level affect the economy? How will these other tax increases serve to further the goal of restoring confidence in the economy?

The Administration has laid out a strong agenda to help small businesses recover and grow. As part of our plan to get the economy going again, we have proposed:

- Providing a new tax cut for small businesses creating jobs and increasing wages for their workers;
- Cutting taxes for small businesses making new investments and for entrepreneurs who invest in small businesses;
- Increasing capital and lending to small businesses; and
- Giving income tax relief to the overwhelming majority of small business owners.

In FY 2011, the Budget proposes to allow many of the 2001/2003 tax cuts for families making more than \$250,000 to expire. This would affect only a very small share of individuals with business income and would simply return the top tax rate to its level in the late 1990s, a time of robust economic growth.

Senator Orrin Hatch

Mr. Director, Secretary Geithner, who testified here on Monday, stated that deep and immediate spending cuts would damage growth, exacerbating our fiscal challenges. Do you agree with this? Why cannot the same be said for tax increases? The Administration's budget calls for more than \$2 trillion in more revenues over the next ten years than is in the baseline. Won't these revenue increases also damage economic growth and stifle job creation?

When the Administration came to office, it faced twin deficits—a trillion dollar deficit between what the economy was producing and what it could produce and a trillion dollar federal fiscal deficit. The first order of business was to address the first of these deficits—to stabilize the economy, spur recovery, and to create jobs. That's why, less than one month after taking office, the President signed the American Recovery and Reinvestment Act, and that's why we continue to support additional measures to support job creation and help working families through the recession. This has required temporarily increasing the deficit. Cutting back these efforts too soon—whether through spending cuts or tax increases—could endanger the current recovery.

Over the medium-term, the Administration is committed to addressing the second inherited deficit—the fiscal deficit. That's why, as part of this Budget, the Administration proposes more than \$1 trillion in deficit reduction—the most deficit reduction, as a share of GDP, in any President's Budget in over a decade. Tax increases affect only families making more than \$250,000; do not start until 2011 (the same year as our freeze on non-security discretionary funding begins); and would return the top tax rate to what it was at the end of the 1990s.

Senator Orrin Hatch

The stated rationale for the Financial Crisis Responsibility Fee is to recoup taxpayer money used to bail out reckless behavior. However, it appears to me that the proposed tax will fall almost exclusively on institutions that either never received direct federal assistance or on those that have since repaid any assistance, in most cases with a considerable return for the taxpayer. At the same time, the proposal appears to exempt institutions such as the auto makers, AIG, and Fannie and Freddie, who all received a great deal of assistance also. This appears to me to be a pretty blunt tool.

Can you tell me the reasons for exempting some of these other recipients of taxpayer assistance?

If the goal here is to recoup taxpayer money from institutions whose reckless behavior contributed to the financial crisis, and who therefore benefitted directly or indirectly from the bailout, rather than using this blunt tool, wouldn't it make more sense to target the tax at institutions engaged in the types of over-leveraging and other high risk activities that brought about the crisis?

The Administration has proposed a Financial Crisis Responsibility Fee to be assessed on major financial firms until the American people are fully compensated for the extraordinary assistance—both direct and indirect—they provided to Wall Street. The fee will be in place for at least 10 years, and longer if needed to pay back the cost of TARP. The fee will not affect community banks or small firms.

The fee would be levied on the debts of financial firms with more than \$50 billion in consolidated assets, providing a deterrent against excessive leverage for the largest financial firms. By levying a fee on the liabilities of the largest firms – excluding FDIC-assessed deposits and insurance policy reserves, as appropriate – the Financial Crisis Responsibility Fee will place its heaviest burden on the largest firms that have taken on the most debt. Over sixty percent of revenues will most likely be paid by the 10 largest financial institutions.

Senator Olympia Snowe

We must immediately begin to confront our long-term budget challenges. Indeed, the President's Budget indicates that our \$7.5 trillion debt held by the public will more than double to \$18.6 trillion by 2020, causing interest payments on our debt to surge from \$188 billion this year to \$912 billion in 2020. And these debt numbers do not even reflect our unfunded obligations to Social Security and Medicare. We simply cannot continue this trend.

Although I voted against a proposal for a statutory Commission last week – due to the absolutist “take-it or leave-it” approach – I do not oppose the concept of a Presidentially appointed panel if it allows all members of Congress to participate in the process or amend the recommendations. That's why I was extremely disturbed to read reports in Congress Daily on February 3 that indicate that the Administration has reached an agreement with Leader Reid under which he would attempt to drive a process under which no amendments would be allowed to the Commission's proposal. That's unacceptable.

In addition to allowing amendments to any proposal, the commission must have clearly defined goals for recommendations to reduce the deficit beyond 2015. Such an understanding at the outset would provide a Commission with a clear charge and reduce the likelihood that the panel's recommendations simply sit on the shelf.

Director Orszag, would you agree with my assessment that the Administration should issue a precise directive for what a bipartisan budget commission should achieve over the longer term beyond 2015 and that Congress should be allowed to offer amendments? Why or why not? What specific fiscal goals a commission should set out to reach beyond 2015 and how quickly you believe the deficit can be brought down?

The Fiscal Commission is tasked with an important step in restoring the nation to fiscal balance—achieving primary balance in the medium term and, accordingly, stabilizing the debt-to-GDP ratio at an acceptable level.

However, the Administration recognizes that the steps required to achieve this goal in the medium term will not be enough to generate fiscal sustainability over the longer term. That is why the President has also instructed the Commission to examine policies that could “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.”

It is also why he is committed to achieving comprehensive health insurance reform, which would institute a range of important steps to improve quality of care, while slowing the rate of health care cost growth—the principal driver of our long-term fiscal imbalance.

Senator Olympia Snowe

Director Orszag, although I understand the absolute imperative of controlling spending and support the Administration's proposal to free non-security-related discretionary spending, I am concerned that the President's Budget may be underfunding the Social Security Administration (SSA), which will prevent it from continuing to make progress on addressing pending disability claims and improving service to the public.

The President's Budget proposes \$12.5 billion in funding for SSA in 2011, which is admittedly an 8 percent increase that the Administration contends will enable the Agency to reduce its disability backlog from 723,000 pending claims at the end of FY 2009 to 657,000 in FY 2011 and, thereby, take strides toward meeting SSA's goal of eliminating the backlog – 467,000 pending hearings by the end of FY 2013. Yet, I am concerned that this level of funding will be insufficient to accomplish these goals, as well as improve service at an agency in which upon calling the Agency, individuals do not get through approximately half of the time, and upon going to an office, millions of customers wait more than one hour to be served.

My understanding is that for FY 2011, the increases in fixed costs for SSA are likely to total about \$600 million. Additionally, SSA will spend \$350 million in funds received through the stimulus for claims-processing in FY 2010. These funds will be spent almost entirely on staffing and, therefore, will have to be maintained in FY 2011 to avoid staff layoffs. In total, this means SSA would require a funding increase of approximately \$950 million to maintain current staffing levels.

Yet, current staffing levels are likely to be insufficient to allow SSA to reduce the disability backlog and improve its service to the public. Early in 2009, SSA indicated that it intended to hire 1,450 Administrative Law Judges (ALJs) to eliminate the hearings backlog (defined as 466,000 pending hearings) by the end of FY 2013. However, given the recent projections of increased initial claims brought about by the recession, 1,450 ALJs will no longer be enough to meet backlog reduction goals. It is estimated that the SSA will need an additional \$480 million to deal with the surge in disability claims and an additional \$300 million to accommodate new hearings.

Director Orszag, as you are aware, I joined Chairman Baucus and Senators Bingaman, Lincoln, Kerry, and Kohl, to request that the Administration provide SSA with \$13.2 billion in funding to ensure that SSA has the resources necessary to eliminate the disability backlog on schedule by FY 2013 and improve service to the public. Given the numbers that I have cited, which indicate that it would take \$950 million just to maintain current staffing levels, never mind dealing with the impact of the recession that has exacerbated the hearings backlog, can you explain why you believe a \$930 million budget increase is sufficient? Are you confident that the Agency will be able to eliminate the backlog by FY 2013 and that Americans' calls will actually be answered when they phone SSA?

The President's FY 2011 Budget requests \$12.5 billion for the Social Security Administration's operating budget, an 8 percent or \$900 million increase over FY 2010

enacted. The operating budget includes the Limitation on Administrative Expenses, Research & Demonstration, and the Office of the Inspector General.

Between FY 2008 and FY 2011, SSA's budget will have grown by 27 percent and 10,000 FTEs. Our request funds the same (and in some instances, more) core workloads as in the Senate Finance Committee letter to the Director of Office of Management and Budget and Social Security Administration Commissioner's request, including completion of every retirement claim, a record number of initial disability claims, and program integrity work such as Continuing Disability Reviews and SSI Redeterminations.

With respect to backlogs, the request will allow SSA to process over 3 million initial disability claims, which will reduce the backlog below one million. The Budget will also allow SSA to complete 800,000 appeal hearings, reducing that backlog by 50,000 and reducing processing time by about 25 days. The Budget cannot lower the backlogs to the agency's target levels in one year; however, it does provide SSA with the funding necessary to stay on track to meet target levels by the end of 2013 -- despite a record increase in new claims driven by the economic downturn. The funding level proposed in the FY 2011 Budget also provides funds to reduce the wait times for individuals who call SSA.

The \$930 million increase in SSA funding—and, as mentioned, three-year increase of 27 percent—provides resources to meet the goals we share with you and your colleagues: meeting our backlog reduction targets by 2013 and continuing to improve SSA services.

Senator Olympia Snowe

Snowe:

· List of repurposed ARRA funds, [recommendation: we need to carefully think through responding to this question, and once we settle on a response, perhaps Peter should follow up with Senator Snowe in further conversation about funding that can be redirected. there was a fair amount of confusion on unobligated vs. repurposed.]

ORSZAG:

Senator, a few responses. First, in the -- in the letter that I sent to Senator Grassley, which I believe has been made available to other members of the committee, various agencies are redirecting or repurposing Recovery Act funds away from projects that seem to be behind schedule or not promising toward more promising alternatives. And we can get you a full list of that.

Agencies regularly post updated project lists online which reflect any changes in investments or repurposing of funds. Note that in all cases where ARRA funds are repurposed, funds remain within the same program account, via routine changes to the spend-plans and project lists that the agency had initially published. In response to several requests for additional information, however, OMB will be asking agencies to take an additional step to improve transparency in this process by publishing a summary of the changes online whenever they implement project replacements, substitutions, or otherwise alter their original project lists. We will continue to keep you updated on the progress this undertaking.

Senator Debbie Stabenow

As you may know, I've had concerns with the LIFO (Last In First Out) repeal since its inclusion in the last budget. We have had a number of businesses tell us that LIFO repeal may adversely effect, or even threaten the very existence of, a significant number of businesses throughout the country, further aggravating the nation's jobs crisis. Has the Administration conducted any analysis on the potential job losses that may occur as a result of the implementation of LIFO repeal? If so, could you please advise the Committee about your process in that regard? I think your responses would be helpful to the Committee's evaluation of the proposal.

Under current law, a business with inventory may determine the value of its inventory and its cost of goods using a number of different methods. The most prevalent method is the first-in first-out (FIFO) method, which matches current sales with the costs of the earliest acquired inventory items. As an alternative, a taxpayer may elect to use the last-in, first-out (LIFO) method, which treats the most recent acquired goods as having been sold during the year. The repeal of the LIFO method would eliminate a tax deferral opportunity available to taxpayers that hold inventories, the costs of which have increased over time. In addition, the LIFO repeal would simplify the tax code by removing a complex and burdensome accounting method that has been the subject of controversy between taxpayers and IRS. Moreover, International Financial Reporting Standards do not permit the use of the LIFO method.

Senator Debbie Stabenow

I am concerned that the Administration is proposing to cut funding for the Great Lakes Restoration Initiative, which includes funding to fight invasive species in the Great Lakes. We understand that last year's \$475 million was unprecedented and funding hasn't been distributed yet, but we are facing multiple and urgent threats to Michigan's \$7 billion boating and fishing industry.

How will the \$300 billion for Great Lakes funding be used to fight Asian carp and did the OMB consider this threat to Great Lakes and the necessary long term funding needed when it recommended cutting funding for this program?

The Administration takes very seriously the threat Asian carp may pose to the ecosystem and economy of Great Lakes states. As such, we recently held a White House summit with Great Lakes governors to discuss the issue and find ways to best coordinate our efforts to prevent the spread of Asian carp to the Great Lakes. The Administration has committed over \$65 million in FY 2010 funding to constrain the migration of Asian carp. The FY 2010 funding and requested Great Lakes Restoration Initiative (GLRI) funding for FY 2011 will bring a total Federal investment of \$775 million over two years to significantly advance Great Lakes protection. Within this total, sufficient funding will be available in FY 2011 for actions necessary to address Asian carp.

Control of invasive species is one of five main focus areas of GLRI. The proposed reduction to GLRI reflects the challenge of getting a new, large program off the ground quickly. Over much of the past year, EPA and the agencies have been working together and with stakeholders to establish administrative and accountability systems, and craft a GLRI action plan that will guide restoration efforts. Implementing these critical accountability measures now will ease program administration in the future and result in better coordination and results, especially for complex activities such as invasive species work, which demands a great deal of collaboration with Federal, State, and local agencies.

Federal agencies have developed a unified strategy to address the potential threat of Asian carp (<http://www.asiancarp.org>). The strategy includes immediate actions like fishing, netting, and barrier construction along with scientific assessments and feasibility studies which will inform future Asian carp management actions. Many of the short term actions identified in the strategy, and likely many of the longer-term activities, will be funded through GLRI. Necessary actions to reduce the threat of Asian carp will receive priority consideration in the distribution of FY 2011 GLRI funds.

Senator Mike Enzi

The FY 2011 budget includes what many describe as a placeholder for cap and tax legislation. In the FY 2010 budget, the Administration showed that such a bill would raise approximately \$646 billion in revenue. Why didn't the Administration include the amount of revenue that implementing a cap-and-tax program will raise in the fiscal year 2011 budget?

The Administration remains committed to comprehensive, market-based climate change legislation. Last year, the Budget reflected a climate change policy in which 100 percent of carbon permits were auctioned; the corresponding proceeds would have been returned to consumers through the Making Work Pay tax credit. In crafting its own cap-and-trade legislation this year, Congress developed other means for both distributing permits to producers and compensating consumers. As a result of these legislative developments, this year's Budget reflects a deficit-neutral allowance that does not assume a specific level of revenue; the allowance underscores the Administration's commitment that any such legislation be deficit neutral and that consumers receive compensation—even if not through the Making Work Pay tax credit.

Senator Mike Enzi

What is the status at OMB of the \$8 billion tranche of DOE loan guarantees for fossil fuel projects employing carbon capture and sequestration that were authorized to be issued under the Energy Policy Act of 2005 and for which DOE selected projects in accordance with its RFP (Solicitation Number: DE-FOA-0000008)? More specifically, what is the status of the loan guarantee for the Medicine Bow Industrial Gasification and Liquefaction Project which is slated to occur in Medicine Bow, Wyoming? In July of 2009 the Project was notified by DOE that it had been selected subject to final due diligence and definitive agreements for such a guarantee. Has anything transpired which would call into question the commitment to move forward subject to due diligence under the parameters of the RFP referenced above?

The Administration does not comment on the status of any application being reviewed under a competitive procurement process, consistent with Federal acquisition regulation. Once final selections are made, that information can be shared with the Congress and the public.

Senator Mike Enzi

If the Administration is successful in eliminating tax preferences for fossil fuels, do you anticipate that the energy industry will absorb the tax increases in their internal budgets or do you believe that those costs will be passed along to consumers?

The exact impact depends on the structure of the industry. Given that there are other energy producers, fossil fuel producers are unlikely to be able to pass much of the cost along to consumers without losing considerable market share. Thus, it is unlikely that consumers will see prices rise. The Administration is committed to moving aggressively toward a clean energy future, not only by investing in R&D into those clean energy sources, but also in cutting back on the distortionary subsidies that we currently provide through the tax code to fossil fuel providers.

Senator Mike Enzi

In my experience as a business owner, if you incur additional costs, you need to find areas to cut costs. It is estimated that the repeal of tax preferences for fossil fuels will raise approximately \$39 billion over 10 years, which would be paid for by the companies work in those industries. I am concerned that the companies would choose to absorb the tax increases by cutting jobs to lower operating costs. If the Administration is successful in eliminating tax preferences for fossil fuels, do you anticipate job losses in the impacted industries?

We do not expect that repealing oil, gas, and coal tax preferences will have a significant effect on employment, and removing these subsidies will also put other clean fuel technologies on a more level playing field, which should stimulate jobs in those sectors. Oil and gas companies have been receiving economically inefficient corporate tax breaks for years. Eliminating these tax breaks will improve economic efficiency. Any impact on jobs would be negligible.

The Administration is committed to moving aggressively toward a clean energy future, not only by investing in R&D into those clean energy sources, but also in cutting back on the distortionary subsidies that we currently provide through the tax code to fossil fuel providers.

Senator Mike Enzi

The Administration has cited a lack of reclamation work as a reason for terminating funding to certified states through the Abandoned Mine Land Trust Fund. Is the Administration aware that some certified states, including Wyoming and Montana, have a substantial amount of high priority abandoned coal mines that need to be reclaimed and that the Administration's proposed \$10 million fund is insufficient to ensure that reclamation of those high priority abandoned mines occurs? If the Administration proposes to end payments to certified states, will you support eliminating the AML tax that companies pay in states that do not receive funding?

The Administration supports using Abandoned Mine Land (AML) fee receipts to restore the highest-priority abandoned coal mine lands before the fee expires. This proposal, as the Surface Mining Control and Reclamation Act (SMCRA) intended, will hold the entire coal industry responsible for reclaiming hazardous coal mine sites when the original owners cannot be found, regardless of where the fees are collected or where the mines are located.

States and Tribes certified as having completed all high-priority coal mine reclamation projects can use mandatory AML payments for any purpose, and therefore do not fulfill the intended purpose of the AML program of restoring abandoned coal mine lands. This proposal will also require non-certified States to use their funds only for high-priority coal sites, to target AML fee receipts at high-priority coal mine reclamation projects.

One change from last year's proposal is that the Budget recognizes that some coal mine reclamation issues may develop or be discovered after certification, so this proposal has been modified to set aside \$10 million each year to address high-priority coal problems in States without AML programs, which would include certified States and Tribes. The Office of Surface Mining's (OSM) Abandoned Mine Land Inventory System currently shows \$22 million worth of high-priority coal projects in States without AML programs, \$13 million of which are in certified States and Tribes. Therefore, this set-aside would address all of the high-priority coal issues in these States in roughly 2 years.

OSM's inventory shows no remaining high-priority coal reclamation projects in Montana. The States should work with OSM to ensure that this inventory is as accurate as possible.

The Administration supports the continued use of AML fee receipts for coal reclamation projects, since those are national needs and should be addressed through a fee imposed nationally on the industry that previously caused the problem. The receipts should be spent where they are most needed, not just where coal mining currently takes place.

Senator Mike Enzi

According to the Administration's FY 2011 Budget documents released this week, the Pension Benefit Guaranty Corporation has a deficit close to \$17 billion. What is the Administration's proposal to reduce the deficit and in what time frame?

The Pension Benefit Guaranty Corporation (PBGC) has estimated that its deficit at the end of FY 2009 was \$21.95 billion. Though the FY 2011 Budget does not include a proposal to reduce the PBGC deficit, the Administration believes the PBGC plays an important role in supporting defined benefit pension plans and favors policies that strengthen those plans and the firms that offer them. The Administration has taken a number of additional steps to strengthen pensions and retirement security in the Budget, including doubling the tax credit for firms that start a new pension plan.

In addition, the Department of Labor recently issued a request for information regarding lifetime income options for participants and beneficiaries in retirement plans to obtain suggestions for how best to strengthen this feature of retirement security.

Senator Mike Enzi

Does the Administration support relief from the pension funding laws for single employer and multiemployer pension plans in light of the recent economic downturn? What empirical data does the Administration use to base its decision? Does the Administration support relief for the years 2008, 2009, 2010 or 2012?

The Administration supports defined benefit pension plans and favors policies that strengthen those plans and the firms that offer them. If any funding relief is provided it should be structured in such a way that it leaves the nation's system of private defined benefit pension stronger. The Administration looks forward to working with Congress on efforts to strengthen this system. Congress has already provided some funding relief to plans for 2009 and 2010 under the Worker, Retiree, and Employer Recovery Act of 2008 (WRERA). In addition, the Department of Treasury released two rulings in 2009 that provided funding relief by allowing employers to use higher discount rates to reduce the size of pension liabilities in 2009 and confirming that employers using the higher rates can switch to a different method next year. These Treasury rulings combined with WRERA will reduce required employer pension contributions by \$53 billion in 2009 and 2010, according to Pension Benefit Guaranty Corporation projections.

Senator Mike Enzi

As the majority shareholder in GM, what is the federal government's funding obligation with respect to the Voluntary Employee Benefits Association (VEBA) established out of the GM bankruptcy proceedings? Does the Administration anticipate future funding and budgetary obligations for the VEBA within the next 5 years?

Consistent with its role in not intervening in the day-to-day management of the company, the government does not participate in decisions regarding GM's employee benefit plans. The VEBA is an independent entity, not part of General Motors. It is managed by its own independent oversight body. These questions are best directed towards the company and the VEBA.

Senator Mike Enzi

As the majority shareholder in GM, what actions have been undertaken to ensure that GM's pension plans remain viable? What is the Administration doing to ensure that GM contributes its minimum funding obligations for its pension plans? What are the current funding percents of GM's pension plans? Is there a chance that GM's pension plans could become a liability to the Pension Benefit Guaranty Corporation within the next 5 or 10 years?

The Administration is not intervening in the day-to-day management of the company, but is confident in the company's ability to contribute the minimum funding obligations for its pension plans. Following the emergence from bankruptcy GM is being run as commercial enterprise by their management team, which reports to a new, independent Board of Directors. In acting as a lender and investor in GM, the Auto Task Force closely monitors the loans and investments made in both companies, but as previously stated, is not involved in the operational decisions of the companies.

Senator Robert Menendez

A new paper recently issued by the nonpartisan Center on Budget and Policy Priorities, stated: “Because rising health care costs represent the single largest cause of the federal government’s long-term budget problems, fundamental health reform must be part of any budget solution.”

Do you agree with this statement – and what would be the economic consequences to our nation and our families and small businesses across the country if we fail to adopt comprehensive health reform with meaningful cost containment?

Rising health care costs are the key driver of our nation’s long-term fiscal imbalance. The numbers speak for themselves. Under current projections, within the next half century, spending on Medicare, Medicaid, and Social Security is projected to exceed 20 percent of GDP, more than double their current share of the economy. Over the long run, the deficit impact of every other fiscal policy variable is swamped by the impact of health-care costs. For example, reducing excess cost growth by just 15 basis points (0.15 percentage points) generates more savings than closing the entire Social Security deficit over the next 75 years. Both the House and Senate health insurance reform legislation would be important steps in tackling this central challenge to our fiscal future: they would each reduce the deficit over the next decade and in the decade beyond as scored by the non-partisan Congressional Budget Office (CBO).

As you note, small businesses and families also would bear the consequences of inaction on health reform legislation. On average, small businesses pay about 18 percent more than large firms for the same health insurance policy. Because of their higher health care costs, small businesses are far less likely to provide health insurance for their workers than larger businesses. Only 49 percent of firms with 3 to 9 workers and 78 percent of firms with 10 to 24 workers offered any type of health insurance to their employees in 2008. In contrast, 99 percent of firms with more than 200 workers offered health insurance. And the fraction of small firms offering health insurance has been declining in recent years. From 2002 to 2008, the fraction of firms with 3 to 9 employees offering health insurance to their workers declined from 58 to 49 percent.

Under the legislation passed by the House and Senate, small businesses that meet certain criteria would be able to purchase health insurance through an “insurance exchange” – allowing them to choose among a multitude of plans that would provide better coverage at lower costs than they could find in the current small group market.

Families also have faced rising health insurance premiums, a trend which is likely to continue absent reform. Over the past decade, take-home wages have been stagnating despite increasing worker productivity, in part because a larger and larger fraction of compensation is taking the form of health benefits. Without reform, take-home wages are predicted to eventually fall as skyrocketing costs magnify this effect. Slowing the growth rate of health care costs will enable firms to once again give raises in the form of take-home pay rather than more expensive health insurance.

Senator Robert Menendez

I understand the Administration's program does not include the TARP restrictions on pay, so that the Administration's proposed program may require new Congressional legislation.

Is that interpretation correct? In your opinion, are small business lending programs generally consistent with the purposes of TARP?

The Small Business Lending Fund would be separate from the Troubled Asset Relief Program (TARP) and would be targeted solely to small and community banks that devote the highest percentage of their lending to small businesses in their communities. The Administration will propose legislation to exempt this program from TARP restrictions that have hampered participation in prior programs we have initiated for small businesses. By not subjecting these small banks to, for example, restrictions on executive compensation, it will encourage broader participation and more lending to small businesses. In this way, participants will avoid any challenges associated with receiving TARP funds.

The proposed lending facility is consistent with the purposes of the TARP. Established under the Emergency Economic Stabilization Act with the specific goal of stabilizing the United States financial system and preventing a systemic collapse, TARP programs have contributed substantially to the broader improvement in our financial markets. TARP was intended to adequately capitalize financial institutions, but this was not an end in itself; rather, it was undertaken to ensure that these institutions could engage in sound lending to help re-start the economy. As an essential component of this goal, we believe we can and should do more to help encourage lending to our Nation's smaller businesses. Based on our prior experience we believe the best way to maximize participation is to create a brand new program outside of other TARP programs that is completely dedicated to small banks and small business lending.

We believe the incentive structure we have designed for the program will increase small business lending among participants. Lenders will benefit from a reduced dividend on the capital they receive based on the amount they increase lending over a 2009 baseline. Therefore, they can get capital at as low as 1 percent if they immediately increase their loans by 10 percent or more. Additionally, the terms of the lending program will incentivize small banks to repay taxpayer money within five years.

Senator Robert Menendez

Over the years, Congress has considered 5 year budgets and 10 year budgets. Under the previous Administration, the Budgets from FY02 to FY09 were submitted as 5 year proposals. For the second year in a row, this Administration has presented 10 year budget proposal.

Why is it important for this Administration and Congress to consider a 10 year budget picture? Does the 10 year budget provide tax payers with a clearer understanding our fiscal policies?

In general, a 10-year budget provides more information than a five-year budget. This is especially the case when short-term trends differ from the longer-run picture. Two current examples illustrate this point. First, our Budget shows a rapidly declining deficit in the nearer-term. As a share of GDP, the deficit declines from 10.6% of GDP in 2010 to 3.9% of GDP in 2015. This is the greatest improvement in the deficit over a period of 2, 3, 4, or 5 years since the end of World War II. While the accomplishment is definitely worth celebrating, a ten-year picture shows that the improvement stops at that point and that the deficit continues to remain higher than is desirable. Thus, while the five-year picture is more favorable, the ten-year picture is more honest. Second, CBO cost estimates of the House and Senate health reform bills show that the further out one looks, the greater the net savings achieved by these bills. A five-year picture would not have revealed this important result.

Senator Robert Menendez

There seems to be a consensus that we need to address our debt crisis and develop policies that will achieve long term sustainability. However, the thought of a Bipartisan Commission to address this issue has been attacked from all sides. The President has made a commitment to create a Commission by executive order.

How does the Administration plan to create a Bipartisan Commission when seven Republican cosponsors of the Conrad-Gregg proposal withdrew their support a week before we voted on the Commission amendment?

The Commission will be charged with reducing our long term debt. What do you expect the Commission to consider in terms of spending and tax policies?

The President believes that the American people—irrespective of party—want Washington to clean up its act and put the nation back on a fiscally sustainable course. We are confident that leaders of both parties will put political games aside and come together in this bipartisan process. The fact that a former Senate Republican Whip and distinguished leader like Alan Simpson has agreed to co-chair the National Commission on Fiscal Responsibility and Reform is a positive step in that direction.

As for the range of policies the Commission will consider, the President believes the Commission needs to be given the flexibility to consider all options in light of the current unsustainable course. The Commission's recommendations should reflect that many middle class Americans are struggling—and were even before the current recession. However, the President does not want to prejudge the Commission's outcome.

Senator Robert Menendez

I want to commend the Administration's commitment to innovation in its budget and specifically measures to foster the high-wage jobs created and sustained by conducting cutting-edge research here in America.

Can you briefly discuss both the steps the administration has taken and what you believe still needs to be done as we rebuild a 21st century American economy? In other words, what policies do you believe will be most effective going forward as we work to ensure America's competitive edge as the leader of tomorrow's economy?

First and foremost, there are still too many Americans without work. Until our businesses are hiring again and jobs are being created to replace those we have lost, the recovery will not be finished.

Because an educated workforce is essential in a 21st Century global economy, we are undertaking a reform of elementary and secondary school funding by setting high standards, encouraging innovation, and rewarding success.

But even the best-trained workers in the world can't compete if our businesses are saddled with rapidly increasing health care costs, so we are fighting to reform our Nation's broken health insurance system and relieve this unsustainable burden. The Budget includes funds to lay the groundwork for these reforms by investing in health information technology, patient-centered research, and prevention and wellness, as well as to improve the health of the Nation by increasing the number of primary care physicians, protecting the safety of our food and drugs, and investing in critical biomedical research.

Because small businesses are critical creators of new jobs and economic growth, the Budget eliminates capital gains taxes for investments in small firms and includes measures to increase these firms' access to the loans they need to meet payroll, expand their operations, and hire new workers.

The Budget creates the incentives to build a new clean energy economy – from loan guarantees that will encourage a range of renewable energy efforts and new nuclear power plants to spurring the development of clean energy on Federal lands.

The Budget makes critical investments that will make sure that we continue to lead the world in new fields and industries; doubling research and development funding in key physical sciences agencies; expanding broadband networks across our country, and working to promote American exports abroad.

To help put our country on a fiscally sustainable path, we propose freezing non-security discretionary funding for three years. We also propose allowing the 2001 and 2003 tax cuts to expire for those making more than \$250,000 per year, closing corporate tax loopholes, and making other tax reforms. Lastly, the President has also created a Fiscal Commission to reduce the deficits in the out years, in order to stabilize the debt-to-GDP ratio at an acceptable level once the economy recovers.

Senator Tom Carper

The OMB prepared an impressive list of budgetary savings for fiscal year 2011. The “Terminations, Reductions, and Savings” lists many ideas, some eliminate or reduce programs, others focus on cost savings from government agencies become more efficient. I would like OMB’s thoughts on a an additional, common sense idea to audit mobile communications contracts and equipment. The Government Services Administration (GSA) estimates an annually savings of \$262 million - \$432 million, with up to \$78 million in the first year. The GSA’s Federal Strategic Sourcing Initiatives Telecommunications Expense Management (TEM) initiative would establish an outside audit of an agency’s mobile phone use by a private audit contractor. A small number of agencies have engaged in the TEM initiative and the evidence of financial savings is impressive. Past audits using the TEM initiative have revealed many instances of overpriced mobile phone contracts, lost cell phone devices, and a general lack of understanding of possible cost savings measures among the agencies. However, despite very good efforts by the GSA, too few agencies are engaging in this or similar initiatives.

The OMB savings document mentions a similar initiative by the Air Force (“Cellular Airtime Optimization”), but there are many additional opportunities for audits of mobile communications expenditures across the federal government.

Could you comment on the opportunities and challenges for a greater number of federal agencies to employ audits of mobile telecommunications usage and contracts, including the GSA TEM initiative?

OMB continues to support government-wide efforts to leverage spending and save taxpayer dollars through such efforts as the various FSSI and agency-wide initiatives that reduce unnecessary spending. GSA’s Telecommunications Expense Management (TEM) effort can help agencies identify unused lines, consolidate purchasing to maximize pricing discounts and maintain price consistency, identify billing errors, and put employees on the right plans to match their usage profiles so the government isn’t paying for unused minutes or premiums for overcharges. Additionally, GSA is working on a follow on to this effort to establish government-wide vehicles for purchasing devices and rate plans. Based on GSA’s estimate of savings, we agree that the opportunity to improve how the government buys and manages telecommunications is significant and will continue to encourage agencies – through OMB leadership of both the Chief Acquisition Officers Council and the Chief Information Officers Council – to move toward better telecommunications solutions as they identify ways to reduce spending.

Senator Tom Carper

There is a section of the President's budget that calls for several budget process reforms. The very last proposal briefly lays out the President's desire to have some sort of expedited rescission authority that allows Congress to quickly consider his proposed cuts.

I have introduced a bill, S.907—the Budget Enforcement Legislative Tools Act—that provides the President with nearly this exact authority. My bill guarantees that Congress will vote on the President's proposed rescissions within 10 days, provided that the President doesn't propose to make revenue changes, rescind entitlement spending, or rescind authorized items by more than 25 percent.

In order for the rescissions request to become law, it would need to pass both chambers of Congress by a simple majority. The authority would expire after four years, allowing the Congress to test drive the new executive branch power.

I've worked on this issue for a number of years, and I'm glad the President is considering it as a potential proposal to take a small bite out of wasteful spending. If the President gets this kind of authority from Congress, how does he envision using it? More specifically, is this authority a key cornerstone of the President's strategy for implementing a three year non-defense discretionary spending freeze?

As you stated, expedited rescission authority might take only a small bite out of wasteful spending. If this authority were to be enacted, the Administration would use it to curb excessive or wasteful spending. For example, it could be used in cases in which the legislative process has not shown itself responsive to the President's requests for program terminations or reductions, but where there is some indication that Congress as a whole would be more responsive than the committees involved with the specific programs in question. Some also speculate that the existence of the authority by itself would prompt more responsiveness from Congress. If this is the case, the authority would achieve a positive result even if it is never "used."

Senator Tom Carper

The following is provided as followup to discussion about job creation since 1993.

CARPER:

... in retrospect.

So, 20 million new jobs between '93 and 2001. Between 2001 and 2008, I don't recall how many jobs were created. I know it was a lot less than that. Do you have any recollection?

ORSZAG:

We can get you the exact figures, but, yes, it was much smaller.

Between January 1993 and January 2001, there were 22.7 million payroll jobs created. Between January 2001 and January 2009, there were only 1.1 million payroll jobs created.

Senator Chuck Grassley

On Friday December 11, 2009, the Treasury Department issued Notice 2010-2, 2010-2 IRB 1. Notice 2010-2 concerns the “Application of Section 382 [of the Internal Revenue Code] to Corporations Whose Instruments are Acquired and Disposed of by the Treasury Department Under Certain Programs Pursuant to the Emergency Economic Stabilization Act of 2008.”

According to the Congressional Review Act, whether a rule promulgated by a Federal agency is a “major rule” or not is based upon a finding made by the Administrator of the Office of Information and Regulatory Affairs of the Office of Management and Budget. See 5 USC § 804(2).

Please let me know whether the rule contained in Notice 2010-2 is a major rule within the meaning of the Congressional Review Act. Please explain your answer.

Thank you for this question, and for your letter to the OIRA Administrator, Cass Sunstein dated December 17, 2009. Please see Administrator Sunstein’s response dated March 5, 2010 attached.

Attachment



ADMINISTRATOR
OFFICE OF
INFORMATION AND
REGULATORY AFFAIRS

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

March 5, 2010

The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510-6200

Dear Senator Grassley:

Thank you for your letter of December 17, 2009, regarding the Department of the Treasury's Internal Revenue Service (IRS) Notice 2010-2, which concerns the "Application of Section 382 [of the Internal Revenue Code] to Corporations Whose Instruments Are Acquired and Disposed of by the Treasury Department under Certain Programs Pursuant to the Emergency Economic Stabilization Act of 2008." You inquired whether IRS Notice 2010-2 is a "major" rule under the Congressional Review Act of 1996 (CRA).

It is OMB's understanding that the practice of the IRS with respect to the CRA is both longstanding and well-established; indeed, it extends from the enactment of the CRA to the present. According to the Government Accountability Office's (GAO) online Federal Rules Database, as of February 19, 2010, IRS has submitted 794 rules to Congress directly pursuant to the CRA (see attached list). This practice of the IRS was established in 1996 during the Administration of President Clinton, and it has remained in place during the Administrations of President Bush, when approximately two-thirds of these rules were submitted to Congress, and President Obama.

Again, I appreciate your inquiry about IRS Notice 2010-2.

Sincerely,

Cass R. Sunstein
Administrator

Enclosure

Treasury/IRS Congressional Review Act Submissions to GAO: March 1996 to February 2010
Total Number of Rulemakings: 794

CORPORATE REORGANIZATIONS; DISTRIBUTIONS UNDER SECTIONS 368(A)(1)(D) AND 354(B)(1)(B); TD 9475
1545-BF83, December 18, 2009

REDUCTION IN TAXABLE INCOME FOR HOUSING HURRICANE KATRINA DISPLACED INDIVIDUALS
1545-BF14, December 14, 2009

PUBLICATION OF TIER 2 TAX RATES
November 27, 2009

AGREEMENTS FOR PAYMENT OF TAX LIABILITIES IN INSTALLMENTS
1545-AU97, November 25, 2009

NOTICE REQUIREMENTS FOR CERTAIN PENSION PLAN AMENDMENTS SIGNIFICANTLY REDUCING THE RATE OF FUTURE BENEFIT ACCRUAL
1545-BG48, November 24, 2009

EMPLOYEE STOCK PURCHASE PLANS UNDER INTERNAL REVENUE CODE SECTION 423
1545-BH68, November 17, 2009

INFORMATION REPORTING REQUIREMENTS UNDER INTERNAL REVENUE CODE SECTION 6039
1545-BH69, November 17, 2009

SECTION 108 REDUCTION OF TAX ATTRIBUTES FOR S CORPORATIONS; TD 9469
1545-BH54, October 30, 2009

GUIDANCE UNDER SECTION 2053 REGARDING POST-DEATH EVENTS
1545-BC56, October 20, 2009

MEASUREMENT OF ASSETS AND LIABILITIES FOR PENSION FUNDING PURPOSES; BENEFIT RESTRICTIONS FOR UNDERFUNDED PENSION PLANS; TD 9467
1545-BH07, October 15, 2009

DEFINITION OF OMISSION FROM GROSS INCOME; TD 9466
1545-B194, September 28, 2009

DETERMINATION OF INTEREST EXPENSE DEDUCTION OF FOREIGN CORPORATIONS; TD 9465

1545-BF71, September 28, 2009
INFORMATION REPORTING FOR DISCHARGES OF INDEBTEDNESS
1545-BH99, September 17, 2009
MODIFICATIONS OF COMMERCIAL MORTGAGE LOANS HELD BY A REAL ESTATE MORTGAGE INVESTMENT CONDUIT (REMIC)
1545-BG77, September 16, 2009
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1545-BH91, September 14, 2009
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1545-BD67, September 9, 2009
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AND REQUIREMENT OF RETURN FOR FILING OF THE EXCISE TAX UNDER SECTION 4980B, 4980D, 4980E OR 4980G
1545-BG71, September 8, 2009
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1545-BH53, September 8, 2009
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FOLLOWED BY A RECONTRIBUTION TO A NEW TARGET, AS A CROSS-CHAIN REORGANIZATION; TD 9458
1545-BI72, September 4, 2009
TREATMENT OF SERVICES UNDER SECTION 482; ALLOCATION OF INCOME AND DEDUCTIONS FROM INTANGIBLE PROPERTY; STEWARDSHIP EXPEN
1545-BI80, August 4, 2009
SUSPENSION OF RUNNING OF PERIOD OF LIMITATIONS DURING A PROCEEDING TO ENFORCE OR QUASH A DESIGNATED OR RELATED SUMMONS
1545-BC55, July 31, 2009
NOTIFICATION REQUIREMENT FOR TAX-EXEMPT ENTITIES NOT CURRENTLY REQUIRED TO FILE
1545-BG37, July 23, 2009
GUIDANCE UNDER SECTION 7874 REGARDING SURROGATE FOREIGN CORPORATIONS; TD 9453
1545-BI81, June 12, 2009
APPLICATION OF SEPARATE LIMITATIONS TO DIVIDENDS FROM NONCONTROLLED SECTION 902 CORPORATIONS; TD 9452

1545-BB28, June 11, 2009
INFORMATION REPORTING FOR LUMP-SUM TIMBER SALES
1545-BE73, May 28, 2009

GUIDANCE NECESSARY TO FACILITATE BUSINESS ELECTION FILING; FINALIZATION OF CONTROLLED GROUP QUALIFICATION RULES; TD 9451
1545-BF25, May 27, 2009

ALLOCATION AND REPORTING OF MORTGAGE INSURANCE PREMIUMS; TD 9449
1545-BH84, May 7, 2009

USE OF ACTUARIAL TABLES IN VALUING ANNUITIES, INTERESTS FOR LIFE OR TERMS OF YEARS, AND REMAINDER OR REVERSIONARY INTERESTS
1545-BH96, May 7, 2009

AUTOMATIC CONTRIBUTION ARRANGEMENTS
1545-BG80, February 24, 2009

PROCEDURES FOR ADMINISTRATIVE REVIEW OF A DETERMINATION THAT AN AUTHORIZED RECIPIENT HAS FAILED TO SAFEGUARD TAX RETURNS OR RETURN INFORMATION; TD 9445
1545-BF21, February 11, 2009

GAIN RECOGNITION AGREEMENTS WITH RESPECT TO CERTAIN TRANSFERS OF STOCK OR SECURITIES BY UNITED STATES PERSONS TO FOREIGN CORPORATIONS; TD 9446
1545-BG09, February 11, 2009

APPLICATION OF SECTION 367 TO A SECTION 351 EXCHANGE RESULTING FROM A TRANSACTION DESCRIBED IN SECTION 304(A)(1); TREATMENT OF GAIN RECOGNIZED UNDER SECTION 301(C)(3) FOR PURPOSES OF SECTION 1248; TD 9444
1545-BI42, February 11, 2009

POSTPONEMENT OF CERTAIN TAX-RELATED DEADLINES BY REASON OF A FEDERALLY DECLARED DISASTER OR TERRORISTIC OR MILITARY ACTION
1545-BG16, January 15, 2009

SECTION 482: METHODS TO DETERMINE TAXABLE INCOME IN CONNECTION WITH A COST SHARING ARRANGEMENT; TD 9441
1545-BI46, January 5, 2009

CONSOLIDATED RETURNS; INTERCOMPANY OBLIGATIONS
1545-BA11, December 29, 2008

DISCLOSURE OF RETURN INFORMATION TO THE BUREAU OF ECONOMIC ANALYSIS
1545-BC93, December 29, 2008

EMPLOYER'S ANNUAL FEDERAL TAX RETURN AND MODIFICATIONS TO THE DEPOSIT RULES; TD 9440
1545-BI39, December 29, 2008

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1545-BI00, December 16, 2008

GUIDANCE REGARDING THE TREATMENT OF STOCK OF A CONTROLLED CORPORATION UNDER SECTION 355(a)(3)(B)
1545-BH61, December 15, 2008

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1545-BC88, December 12, 2008

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1545-BH23, November 28, 2008

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1545-BH36, November 13, 2008

INFORMATION REPORTING FOR DISCHARGES OF INDEBTEDNESS; TD 9430
1545-BH99, November 10, 2008

INFORMATION REPORTING ON EMPLOYER-OWNED LIFE INSURANCE CONTRACTS
1545-BG58, November 6, 2008

TREATMENT OF PAYMENTS IN LIEU OF TAXES UNDER SECTION 141; TD 9429
1545-BF87, October 24, 2008

DEPARTMENT OF THE TREASURY, INTERNAL REVENUE SERVICE; DEPARTMENT OF LABOR, EMPLOYEE BENEFITS SECURITY ADMINISTRATION; DEPARTMENT OF HEALTH AND HUMAN SERVICES, CENTERS FOR MEDICARE AND MEDICAID SERVICES; FINAL RULES FOR GROUP HEALTH PLANS AND HEALTH INSURANCE ISSUERS UNDER THE NEWBORNS' AND MOTHERS' HEALTH PROTECTION ACT
1210-AA63, October 20, 2008

SECTION 1367 REGARDING OPEN ACCOUNT DEBT; TD 9428
1545-BD72, October 20, 2008

BALANCED SYSTEM FOR MEASURING ORGANIZATIONAL AND EMPLOYEE PERFORMANCE WITHIN THE INTERNAL REVENUE SERVICE
1545-BE45, October 14, 2008

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1545-BF62, September 11, 2008

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1545-BH85, September 9, 2008

S CORPORATION GUIDANCE UNDER AICA OF 2004 AND GOZA OF 2005
1545-BE95, August 14, 2008

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1545-BE70, July 31, 2008

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1545-BE65, July 29, 2008

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1545-BE39, July 22, 2008

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1545-BH74, July 16, 2008

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1545-BB84, July 14, 2008

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1545-BE52, July 14, 2008
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1545-BD19, July 10, 2008
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1545-BF06, July 9, 2008
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1545-BE78, July 8, 2008
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1545-BF54, July 8, 2008
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1545-BD01, July 2, 2008
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1545-BE62, July 1, 2008
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1545-BE97, June 27, 2008
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1545-BH02, June 24, 2008
GUIDANCE UNDER SECTION 956 FOR DETERMINING THE BASIS OF PROPERTY ACQUIRED IN CERTAIN NONRECOGNITION TRANSACTIONS

1545-BH58, June 24, 2008
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1545-BH33, June 17, 2008
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1545-BG97, May 27, 2008
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1545-BE93, May 20, 2008
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1545-BD70, May 19, 2008
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1545-BA31, April 30, 2008
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1545-BD80, April 29, 2008
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1545-BF97, April 17, 2008
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1545-BF85, April 9, 2008
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1545-BE11, April 7, 2008
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1545-BE37, March 28, 2008

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AND LEGAL REPRESENTATIVES OF WHISTLEBLOWERS
1545-BG74, March 25, 2008

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1545-AY91, July 18, 2003

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1545-BC47, July 18, 2003

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1545-AX34, July 16, 2003

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1545-AX52, July 11, 2003

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1545-AY83, July 10, 2003

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1545-BB22, July 9, 2003

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1545-BB06, July 7, 2003

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1545-BD11, April 21, 2004

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1545-BA92, March 26, 2004

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1545-BC96, March 15, 2004

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1545-BC02, March 11, 2004
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1545-BC27, March 1, 2004

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1545-BA85, January 6, 2004

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1545-BA00, January 5, 2004

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1545-AX96, January 2, 2004

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1545-AY82, January 2, 2004

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1545-BC17, January 2, 2004

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1545-BC62, December 19, 2003

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1545-BA78, December 17, 2003

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1545-BA91, November 21, 2003

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1545-BC01, November 10, 2003

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1545-AX39, October 22, 2003

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1545-BA44, September 17, 2003

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1545-BC19, September 8, 2003

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1545-BC31, September 4, 2003

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1545-BC38, September 4, 2003

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1545-AY24, August 5, 2003

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1545-AH49, August 4, 2003

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1545-AY91, July 18, 2003

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1545-BC47, July 18, 2003

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1545-AX34, July 16, 2003

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1545-AX52, July 11, 2003

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1545-AY83, July 10, 2003

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1545-8878, July 9, 2003

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1545-8A24, July 8, 2003

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1545-A031, July 7, 2003

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1545-8833, October 22, 2002

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1545-8A98, September 10, 2002

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1545-AN64, August 21, 2002

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1545-AX27, August 14, 2002

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1545-AW48, July 26, 2002

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1545-AY66, July 23, 2002

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1545-BA97, July 22, 2002

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1545-AW98, July 19, 2002

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1545-AW64, July 18, 2002

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1545-BA56, June 19, 2002

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1545-BA62, June 18, 2002

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1545-AY31, May 15, 2002
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1545-AX66, April 29, 2002
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1545-BA55, April 26, 2002
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1545-BA68, April 25, 2002
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1545-AY56, April 24, 2002
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1545-AY69, April 17, 2002
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1545-AY02, March 20, 2002

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1545-BA51, March 12, 2002

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1545-BA42, February 6, 2002

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1545-AY19, February 1, 2002

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1545-BA40, January 29, 2002

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1545-AY65, January 23, 2002

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1545-AW91, January 18, 2002

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1545-BA39, January 17, 2002

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1545-AX20, January 9, 2002

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1545-AW05, January 8, 2002

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1545-BA21, January 2, 2002
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1545-BA48, December 31, 2001

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1545-AW09, December 28, 2001

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1545-BA49, December 26, 2001

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1545-AY16, December 17, 2001

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1545-AW37, December 14, 2001

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1545-AY78, December 13, 2001

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1545-AY88, November 20, 2001

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1545-AI47, October 17, 2001

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1545-AW86, October 4, 2001

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1545-AY55, September 27, 2001

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1545-AX11, August 9, 2001

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1545-AY09, August 9, 2001

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1545-BA04, August 7, 2001

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1545-BA01, August 3, 2001

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1545-AY21, August 1, 2001

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1545-AX69, July 31, 2001

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1545-AX98, July 25, 2001

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1545-AO75, July 20, 2001

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1545-AY25, July 20, 2001

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1545-AY36, June 29, 2001

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1545-AY10, June 26, 2001

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1545-AV61, June 25, 2001

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1545-AV00, June 22, 2001

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1545-AY58, June 22, 2001

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1545-AY43, June 19, 2001

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1545-AY80, June 19, 2001

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1545-AY79, June 15, 2001

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1545-AY47, May 23, 2001

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1545-AY85, May 18, 2001

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1545-AX41, March 6, 2001

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1545-AY00, February 14, 2001

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1545-AY51, February 13, 2001

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1545-AY73, February 13, 2001

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1545-AX87, January 18, 2001

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1545-AX13, January 12, 2001

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1545-AX60, January 12, 2001

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1545-AQ30, January 11, 2001

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1545-AW17, January 11, 2001

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1545-AW34, January 11, 2001

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1545-AT60, September 26, 1997

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1545-AL98, January 7, 1997

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1545-AC06, December 27, 1996

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1545-AT19, December 26, 1996

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1545-AS30, December 24, 1996

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1545-AE94, December 23, 1996

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1545-AS19, December 20, 1996

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1545-AT91, December 18, 1996

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1545-AS52, December 17, 1996

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1545-AT48, December 17, 1996

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1545-AU13, December 17, 1996

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1545-AU52, December 17, 1996

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1545-AS95, December 16, 1996

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1545-AS14, December 12, 1996

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1545-AT23, December 12, 1996

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1545-AT64, November 29, 1996

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1545-AT92, November 29, 1996

DEPOSITS OF EXCISE TAXES [CORRECTED 3/31/98 (63 FR 15292)]
1545-AT25, November 12, 1996

TREATMENT OF GAIN FROM THE DISPOSITION OF INTEREST IN CERTAIN NATURAL RESOURCE RECAPTURE PROPERTY BY S CORPORATIONS AND THEIR SHAREHOLDERS
1545-AM98, October 10, 1996

REQUIRED USE OF MAGNETIC MEDIA
1545-AU48, October 10, 1996

Senator Bill Nelson

The following is provided as followup to discussion about NASA and the Ares rocket.

NELSON:

And I'd make one other recommendation to you. And you asked, Mr. Chairman, why am I saying this to the budget director? Because in my judgment, unfortunately, OMB has been running the space program for too long. And I'm not picking on you, I'm talking about previous administration -- administrations -- OMB has been doing the space policy, instead of the president.

My recommendation to you is that you have a lot of good technology in building toward that heavy-lift vehicle which you all support, which is to get us out and explore the heavens, which would be a necessary step to going to Mars. You support that. That's in you budget. But you have abandoned using the technology and building on it that you've done very successfully in the development of the Ares I.

I'm not talking about the Ares rocket to do what President said it was going to do. I'm talking about using Ares I as a test vehicle to develop your technologies to later on build that heavy lifting. I wish you would consider that and bring that back to your folks. I'll be talking directly to the president's staff in the White House. I think that is a reasonable approach, and you need to correct the misconception that is out there right now.

The President has chosen to initiate a bold new direction for human space flight focused initially on developing the technology breakthroughs that will enable NASA to explore the solar system. OMB's role is to serve the President in carrying out this strategic direction. NASA should be proud of the work accomplished and lessons learned through the Ares I efforts to date and will be careful to retain these data and discoveries for future use. However, the schedule for the successful completion of the Ares I vehicle was steadily slipping further and further and its costs were increasing compared to earlier projections. NASA originally estimated the Ares I/Orion combination would be available in 2012 but the independent Augustine Committee found that the Ares I/Orion would not have achieved the critical Full Operational Capability milestone until 2017. Further, once Ares was ready, years late and billions over budget, its operating costs would have been prohibitively high.

The new budget for NASA adds \$6 billion over five years to create the technologies that will allow us to conduct a better exploration program that reaches more places at a lower cost. Continued development and testing of Ares I would squeeze out numerous other worthwhile programs, such as heavy-lift propulsion development and space launch complex modernization, that are needed to enable us to build a strong future exploration program. In addition, it is far from clear that a solid rocket based on Ares technologies would be a useful component of an advanced heavy-lift vehicle. Historical heavy-lift rockets like the Saturn V and the Soviet Energia didn't use solid rockets, and today's developers will likely need to look beyond solids to build a 21st century exploration launch vehicle with improved overall engine robustness and

efficiency, health monitoring, affordability, and operability. Even if a new heavy-lift rocket did use solid rocket motors, the Ares I design's high operating costs could drive up the costs of any rocket based on it, reducing our ability to fly that rocket at a fast enough cadence to sustain a strong exploration program.

Senator Bill Nelson

NELSON:

Thank you, Mr. Chairman.

In your budget, why do you want to shift more of the tax burden away from corporate taxpayers to individuals? I note that you do this in the years from '011 to '012. Individual income tax receipts grow by 60 percent, whereas corporate receipts grow by 30 percent. Why would we want that shift?

ORSZAG:

I don't -- I think that's primarily from the course of individual income and corporate income, as opposed to policy changes. The only policy changes are ones that are designed to promote job growth today. For example, the bonus depreciation provision that was already discussed. But most of the change in revenue that you see is a result of economic recovery and the course of individual income versus corporate income.

NELSON:

I have shared with you -- I can't remember if it'd been privately -- it may have been in the budget committee the other day.

ORSZAG:

And also, just for what it's worth, just on that point I'd also note the increase in corporate income taxes as a share of GDP is roughly in line with the increase in individual income taxes between 2010 and 2011. But we can follow up more afterwards, if you'd like.

NELSON:

OK, if you would.

The following is provided to follow up on discussion of individual vs. corporate receipt growth.

On a policy basis, individual income taxes grow by 19.8% in FY 2011 and 18.3% in FY 2012. Because they are recovering from much larger decreases during the recession, corporation income taxes grow by much larger amounts, increasing by 89.4% in FY 2011 and 23.4% in FY 2012.

The growth in corporation income taxes in FY 2011 is the effect of two factors: (1) the growth in GDP and other economic measures that affect the profitability of corporations, and (2) the effect of the Administration's proposals, which reduce corporation income taxes by \$19 billion in FY 2010 but increase corporation income taxes by a net \$4 billion in FY 2011. Continued growth in the economy and the Administration's proposals, which increase corporation income taxes by a net \$33

billion in FY 2012, contribute to the growth in corporation income taxes in FY 2012. The proposed reductions in corporation income taxes in FY 2010 include temporary recovery measures, such as extension of bonus depreciation and increased expensing for small businesses. These and other proposed tax cuts for businesses are more than offset in FY 2011 and FY 2012 by proposals that close loopholes and eliminate subsidies to special interests.

The much lower growth in individual income taxes in FY 2011 is the net effect of two factors: (1) the growth in wages and salaries and other sources of income subject to taxation, which is partially offset by (2) proposed net tax reductions (including the proposed extension of expiring provisions) of \$211 billion in FY 2011 compared to proposed net tax reductions of \$33 billion in FY 2010. Continued growth in the economy and smaller proposed net tax reductions (\$168 billion in FY 2012) contribute to the growth in individual income taxes in FY 2012.

As a percent of GDP, individual income taxes grow from 6.4 percent of GDP in 2010 to 8.2 percent in 2012. This is an increase of a little more than 25 percent in GDP share.

By comparison, corporation income taxes grow from 1.1 percent of GDP in 2010 to 2.3 percent in 2012, more than doubling as a share of GDP.

Senator Mike Crapo

According to a recent Wall Street Journal article, CBO notes in a recent background paper the standards for when to include Government Sponsored Enterprises (GSEs) in the budget. The questions include who owns the agency, who selects its managers, and do the Congress and the President have control over the agency's program and budget. In the case of Fannie Mae and Freddie Mac, the answers to these standards would confirm that these entities should be on the government's budget. Do you agree?

Fannie Mae and Freddie Mac have been placed under conservatorship by their regulator, the Federal Housing Finance Agency (FHFA), but their charters as Government-Sponsored Enterprises (GSEs) can only be dissolved or amended by an act of Congress that is approved by the President. The Administration has carefully considered whether Fannie Mae and Freddie Mac should now be classified as budgetary entities and concluded that for the FY 2011 Budget, they will remain non-budgetary. The Administration recognizes that the budgetary classification of an entity depends on whether and the extent to which the Government owns and controls the entity in question. For this reason, the Administration will conduct a further review of the budgetary classification of the GSEs as legislative proposals regarding the future of the GSEs are developed by Congress and the Administration. The 2011 Budget includes a new summary table (S-12) that displays for comparison purposes the estimated budgetary transactions between the Treasury Department and Fannie Mae and Freddie Mac under the Preferred Stock Purchase Agreements (PSPAs) as well as the estimated market value of the GSE's and their balance sheet information for prior years.

**Senator John D. Rockefeller IV
Statement for the Record
Senate Finance Committee
Fiscal 2011 Budget Overview**

Our federal budget is a reflection of our priorities as an institution and as a nation. It says everything about the values we hold dear and our goals for the months and years ahead.

The budget hearings taking place in the Senate right now are an important opportunity to chart a clear path forward. For the American people, this Administration, and me, there is no doubt that the process of building a strong future begins with three things: jobs, jobs, and jobs. It is that simple: protecting jobs and creating new jobs.

Director Orszag, as you have often said yourself, fixing our economy means we must also pass meaningful health care reform legislation—a bill that I know can and will provide quality, affordable care to millions of Americans.

And I strongly believe that one of the best ways to fulfill the promise of more jobs and a stronger economy is to make the critical investments we need to fix our broken health care system. Our budget can show the way forward.

During this recession, the health care sector has actually added jobs while virtually every other sector of our economy has lost jobs. According to recent reports from the Bureau of Labor Statistics, the health care sector added 631,000 jobs in the last two years, including 22,000 in the last month alone.

A new report from the Center for American Progress projected that health care reform will add between 250,000 and 400,000 jobs in America. That is a serious boost—the kind of progress that is essential to turning our job market around.

Targeted investments in our health care system will have the dual effect of creating more good paying jobs AND expanding access to necessary medical care. Reducing the price of providing coverage will mean more employers can afford to hire more workers. What is more, strong health care reform will increase productivity, and spur tremendous growth in public health, research, information technology, and medicine.

All of these actions will make American businesses more competitive and more successful in the global marketplace.

While we included some effective new investment efforts in the Recovery Act last year, we still have opportunities to expand jobs in the health care sector as part of a jobs package and as part of this budget.

We have a responsibility to make broad new investments in medical research. I am glad the President has done just that as part of his budget, targeting \$32.1 billion for the National Institutes of Health, including \$6 billion for cancer research to initiate 30 new

drug trials in 2011. Efforts such as these create new high paying jobs and also will bring us closer to treating and curing some of the most devastating diseases.

I am also happy to see the new budget bolsters core prevention activities by expanding community health activities, strengthening the public health workforce, and enhancing surveillance and health statistics to improve detection and monitoring of chronic disease and health outcomes. That includes \$20 million to fund a new effort in up to 10 of the largest U.S. cities to reduce the rates of morbidity and disability due to chronic disease. West Virginia leads the nation in chronic disease, with almost a third of all residents considered obese.

We are also protecting coverage for the 390,000 West Virginians who currently rely on Medicaid each year—even more during the economic downturn. \$25.5 billion is budgeted for additional Federal Medicaid assistance nationwide to help states maintain their Medicaid programs and ensure access to health care for millions of Americans. This is something I have continued to fight for, and am introducing legislation on this week with Leader Reid. Medicaid is a solid investment in our state that will produce jobs right here in West Virginia.

Too many families depend on this program for us to allow a shortfall of funding. In addition to ensuring coverage for children, parents, seniors, and people with disabilities, this extended funding will help states like West Virginia retain employees and relieve state funding shortfalls.

Medicaid is a significant economic generator in West Virginia, paying almost 20 percent of the total cost of West Virginia's health care system and supporting an estimated 19,800 jobs in the state.

According to recent studies, every \$100 million in new federal Medicaid funding would generate an estimated \$183 million in increased business activity, \$64 million in increased wages, and 1,900 new jobs. We cannot afford to ignore this opportunity.

Lastly, given the important role health centers play in West Virginia, I am happy to see another \$2.5 billion in the budget for them to provide access to affordable high quality primary and preventive care to underserved populations, including the uninsured. This funding will allow health centers to continue to provide care to the 2 million additional patients they served—including 55,000 in West Virginia—under the Recovery Act and support approximately 25 new health center sites.

West Virginians tell me all the time that they need and want to keep their families healthy and to make their lives better and I spend every day fighting to do just that. With this budget we can continue to craft the road forward and make the critical investments in health care that are absolutely essential to creating jobs, rebuilding our economy, and enacting meaningful health reform that will improve the lives of all Americans.

COMMUNICATION



February 17, 2010

The Honorable Max Baucus
The Honorable Charles Grassley
Finance Committee
U.S. Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Re: CFED Comment on Senate Finance Committee Hearing on The President's Fiscal Year 2011 Budget on February 4, 2010; Enact asset-building investments included in President Obama's FY 2011 budget request

Dear Chairman Baucus and Ranking Member Grassley:

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

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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.

They recognize that those with assets are more economically secure, have 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.

CFED urges the Finance 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.

Expand Matched Savings Accounts

CFED also supports expanding IDAs through the bipartisan and bicameral *Savings for Working Families Act* (SWFA) (S.985/ H.R.2277) championed by Senators Lincoln, Lieberman, Bunning, Kerry, Snowe and Collins. 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 encouragement 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 IRA 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 Senate Finance 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

Carol E. Wayman
Federal Policy Director

CC: Treasury Secretary Timothy F. Geithner
OMB Director Peter R. Orszag

Senator Blanche Lincoln
Senator Jim Bunning
Senator Joe Lieberman
Senator John Kerry
Senator Olympia Snowe
Senator Susan Collins