

NOMINATION OF PETER R. ORSZAG

HEARING

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

OF THE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

NOMINATION OF PETER R. ORSZAG TO BE DIRECTOR, OFFICE OF
MANAGEMENT AND BUDGET

JANUARY 14, 2009

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NOMINATION OF PETER R. ORSZAG

WEDNESDAY, JANUARY 14, 2009

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 2:03 p.m., in room 342, Dirksen Senate Office Building, Hon. Joseph I. Lieberman, Chairman of the Committee, presiding.

Present: Senators Lieberman, Levin, Akaka, Carper, Pryor, Landrieu, McCaskill, Tester, Collins, Voinovich, and Coburn.

OPENING STATEMENT OF CHAIRMAN LIEBERMAN

Chairman LIEBERMAN. Good afternoon and welcome to our hearing today. Today, we are going to hold two hearings back-to-back for the nominees to lead the Office of Management and Budget (OMB). First, we will consider the nomination of Peter R. Orszag to be Director of OMB. That child of yours, I would say, is absolutely adorable. I am going to give you a moment later on to introduce him. But I would say as a parent and now a grandparent, I am greatly admiring of his posture. He is sitting right up there. [Laughter.]

Senator LEVIN. He is embarrassing the rest of us.

Chairman LIEBERMAN. After Mr. Orszag, immediately after, we will hear the nomination separately of Robert L. Nabors to be Deputy Director.

At this point, I would welcome both of you. We are happy to have you with us today, and thank you for your service to our country and your willingness to serve once again.

These nominations come at a time of unprecedented budgetary and economic peril for our Nation beyond even the normal for the Office of Management and Budget and those who lead it. The economy, after all, is facing a painful recession at the same time our government faces massive budget deficits. In response, the incoming Obama Administration is putting together a major economic recovery and reinvestment package, developing plans to achieve long-term budget stability, and at the same time instituting an ambitious program to improve performance and reduce the cost of government.

Those are difficult, important, and enormous undertakings, and OMB must be a leader in all of them. So the two of you have your work cut out for you.

Dr. Orszag, with your extensive experience in budget and public policy, you are well qualified to assume the big responsibilities of

the position to which you have been nominated. Your government experience includes nearly 2 years as Director of the Congressional Budget Office (CBO) and several years as a Senior Economic Advisor in the Clinton White House. You have also held prominent academic and private-sector positions in a wide range of economic and policy areas.

The Director of OMB is a key member of the President's economic team, helping the President prepare and execute the budget across 14 Cabinet departments and more than 100 executive agencies, boards, and commissions. The OMB Director recommends how to spend every tax dollar, oversees the management of every Federal Government agency program, and reviews rules, every rule, really, but rules, I mention by example, vital to our public health, worker safety, environmental protection, and regulation of our financial institutions.

If confirmed as OMB Director, you will be overseeing more new government money being spent more rapidly than I think we have ever experienced in our history. The stimulus package that the new Administration is putting together, between \$750 and \$800 billion, dwarfs the size of the budgets of most of the countries in the world and if enacted would be more than eight times the size of the annual budget of our largest State, California.

So I look forward to hearing from both of you today about the measures you intend to take to ensure that these enormous sums that will be spent quickly will also be spent wisely and responsibly.

Beyond the immediate crisis, we face long-term fiscal imbalances that have been rising for years while we here in Congress and in the Executive Branch, as well, have acted as if they were not there. Now, the moment of truth, and I hope the moment of responsibility, has arrived.

Last week, the Congressional Budget Office projected a \$1.2 trillion national deficit in fiscal year 2009, this year, and a cumulative deficit of over \$3 trillion over 10 years. These numbers don't even take into account the cost of the stimulus package that I have just talked about or the long-term costs of rising health care and Social Security expenditures beyond the 10-year budget window.

Mr. Orszag, in both academia and government, you have been a leader in identifying and analyzing the major long-term budgetary challenges of our time, so I am eager to hear this afternoon your thoughts on how the new Administration can move our country with Congress toward fiscal responsibility.

For decades, we have depended on the willingness of our trading partners to subsidize our consumer and government deficits. The result has been large trade deficits and a gradual transfer of wealth from the United States to foreign countries, notably China and countries in the Middle East. Over the long term and perhaps shorter than that now, this is not just undesirable, it is unsustainable. I want to know how you would begin to right these imbalances, both at the governmental and macro-economic levels.

The OMB Director, I presume and hope, will also be a key player in helping to strengthen what we all agree now is our fragmented and inadequate financial regulatory structure to prevent the type of meltdown we are now experiencing from happening again. Failure of our regulatory agencies to police Wall Street adequately has

certainly contributed mightily to the current national economic crisis.

I personally believe that rather than adding layers of regulation to the patchwork that already exists, real reform must begin by clearing the table of the entire existing Federal framework of financial governance so that we can begin by building a new regulatory system that really will protect America's investors, institutions, consumers, and economy. On this, too, I look forward to hearing your views today.

Oversight of Federal acquisition of goods and services is another increasingly important responsibility of the OMB Director. Federal purchasing has exceeded \$400 billion for the past several years, and OMB must wring every possible efficiency out of the contracting process.

Finally, the OMB Director has critical responsibilities to guide implementation of information technology and e-Government across the Federal Government. I personally am excited that the President-Elect has big plans to use technology to increase public accessibility to government and government accountability. This Committee has done extensive work in authorizing e-Government legislation, and we look forward to working with you to help this shared vision become a reality.

So we have a lot of ground to cover today. It is important, critical ground, and, of course, a lot of important work to do together in the years ahead. I, for one, look forward to it. Thank you.

[The opening prepared statement of Senator Lieberman follows:]

OPENING PREPARED STATEMENT OF SENATOR LIEBERMAN

Good afternoon. Today we hold two back-to-back hearings for the nominees to lead the Office of Management and Budget. First, we will consider the nomination of Peter R. Orszag to be Director of OMB, and immediately afterward, we will consider the nomination of Robert L. Nabors to be Deputy Director.

Dr. Orszag and Mr. Nabors, I welcome you both. We're happy to have you with us today and thank you for your service to our country.

These nominations come at a time of unprecedented budgetary and economic peril for the nation, which means challenge beyond even the normal for OMB and those who will lead it. The economy is facing a painful recession at the same time our government faces massive budget deficits. In response, the incoming Administration is putting together a major recovery package, developing plans to achieve long-term budget stability, and at the same time instituting an ambitious process to improve performance and reduce costs of government. Those are difficult and critically important undertakings, and OMB must be a leader in all of them. So the two of you have your work cut out for you.

Dr. Orszag, with your extensive experience in budget and public policy, you are well qualified to assume the big responsibilities of the position to which you have been nominated. Your government experience includes nearly two years as director of the Congressional Budget Office and several years as a senior economic advisor in the Clinton White House. You have also held prominent academic and private-sector positions in a wide range of economic and policy areas.

The Director of OMB is a key member of the President's economic team, helping the President prepare and execute the budget across 14 cabinet departments and more than 100 executive agencies, boards, and commissions. The OMB Director recommends how to spend every tax dollar, oversees the management of every Federal Government agency program, and reviews rules vital to the public health, worker safety, environmental protection, and regulation of our financial institutions.

I do not believe I am overstating the gravity of the situation to say that we are at a defining moment in our history. GDP is falling and unemployment is rising. In the last year, America's stock markets and housing sector have lost more than \$12 trillion in value. Consumers are not spending, banks are not lending, manufacturing plants are closing down, and icons of American industry—such as General Motors and Chrysler—are on the brink of bankruptcy. Over half a million workers

lost their jobs in December, bringing the total jobs lost in 2008 to 2.6 million. The national unemployment rate is 7.2 percent and rising. Most economists now predict that the current downturn will be the worst since the Great Depression.

The incoming Administration has adopted an aggressive and activist approach to jumpstart the economy based on an economic recovery and reinvestment program which will inject a massive increase in demand for goods and services—a demand that would come from the government through public works spending, and from consumers and businesses through tax relief. The price tag of \$800 billion or more is jaw dropping, unprecedented, and, in this case, necessary.

If confirmed as OMB Director, you will therefore be overseeing government spending like none we have ever witnessed. The stimulus package alone dwarfs the size of most nations' budgets and, if enacted, it would be more than eight times the size of the annual budget of our largest State—California. I look forward to hearing from both of you today about the measures you intend to take to ensure the maximum benefit for our people and our economy.

Beyond the immediate crisis, we face long-term fiscal imbalances that have been rising for years, while we have acted as if they were not there. Now, the moment of truth and responsibility has arrived. Last week, the Congressional Budget Office projected a \$1.2 trillion national deficit in fiscal year 2009 and a cumulative deficit of over \$3 trillion over 10 years. And these numbers don't even take into account the cost of the stimulus package or the long-term costs of rising health care and Social Security expenditures beyond the 10-year budget window. In both academia and government, Mr. Orszag, you have been a leader in identifying and analyzing the major long-term budgetary challenges of our time, so I am eager to hear your thoughts on how the new Administration can move our country, with Congress, toward fiscal responsibility.

For decades, we have depended on the willingness of our trading partners to subsidize our consumer and government deficits. The result has been large trade deficits and a gradual transfer of wealth from the United States to foreign nations, notably China and the Middle East. Over the long term, and perhaps now in the short term, this is not just undesirable, it is unsustainable. I want to know how you would recommend we begin to right these imbalances, both at the governmental and macro-economic levels.

The OMB Director will also be a key player in helping to strengthen what we all agree is our fragmented financial regulatory structure to prevent the type of financial melt-down we are now experiencing from happening again. The failure of our regulatory agencies to police Wall Street adequately has contributed mightily to the current crisis. I personally believe that rather than adding layers of regulation to the patchwork that already exists, real reform must begin by clearing the table of the entire Federal framework of financial governance so we can build a new regulatory system that will work to protect America's investors and institutions. The OMB Director will have an important voice in any substantial reorganization of the financial regulatory structure, and so I would like to hear your views on what should be done.

Oversight of Federal acquisition of goods and services is another increasingly important responsibility of the OMB Director. Federal purchasing has exceeded \$400 billion a year for the past several years, and OMB must wring every possible efficiency out of the contracting process. We simply cannot afford the cost overruns or wasteful spending that we too often see. The government's increased reliance on contractors has created a need for more sophisticated and demanding management across agencies on a range of complex issues, including oversight of contractor performance, safeguards against conflicts of interest, prohibitions on contractors performing inherently governmental work, and the replenishment of the acquisition workforce.

Finally, the OMB Director has critical responsibilities to guide implementation of information technology and e-Government across the Federal Government. I personally am excited that the President elect has big plans to use technology to increase accessibility and accountability. This Committee has done extensive work in authorizing e-Government legislation, and I look forward to working with you to help this shared vision become a reality.

We have a lot of important ground we must cover today, and a lot of critically important work we must do together in the years ahead.

Senator LIEBERMAN. Senator Collins.

OPENING STATEMENT OF SENATOR COLLINS

Senator COLLINS. Thank you, Mr. Chairman. The fact that our opening statements are so similar does not indicate collusion but just the fact that there is bipartisan concern about the issues that you raise.

As you indicated, seldom have nominees for the Director and Deputy Director of the Office of Management and Budget come before this Committee at a more critical time. The Federal budget is under tremendous stress from the impact of a deep recession and the costs of rescue and stimulus packages. Spiraling entitlement costs are driving long-term budgetary imbalances. And the next few years will also see the cresting waves of baby boom retirements with enormous effects on Social Security and Medicare expenditures as well as on our own Federal workforce.

Pointing to these trends and to the estimated \$1.2 trillion deficit for the current fiscal year, the President-Elect has prudently warned that unless strong measures are taken, the outlook is for "red ink for as far as the eye can see." Our Nation's public debt has reached \$6.3 trillion, about 45 percent of our gross domestic product (GDP). According to the CBO, Federal spending will climb to an astonishing 25 percent of GDP this year, more than at any time in American history outside of World War II, and I know given our nominee's background that he will not contest those CBO figures in this case.

With a stimulus package worth another perhaps \$800 billion, our Nation's debt as a percentage of GDP could rise to 60 percent, the highest level since World War II. That is, of course, an unacceptable and unsustainable scenario in the long-term for our government, for the economy, and for the families and business owners who pay the government's bills.

OMB will be the leading player as the incoming Administration formulates policy to deal with the grim present and an uncertain future. OMB will also be an indispensable link to Congress as the Executive and Legislative Branches work toward consensus on finding a sustainable path forward.

Dr. Orszag comes before the Committee with an impressive set of skills and experiences. As the former Director of the CBO, he is very familiar with the Legislative Branch as well as with the intricacies of the budgets and policy analysis.

I take special interest in several issues for which the OMB Director is a key player. The overriding concern, of course, is the Federal budget. Dr. Orszag has already indicated that the economy and stimulus measures portend a near-term rise in the deficit. But as he knows and as we have heard from former Comptroller General, David Walker, and other experts, the outlays in recent years and the growth of unfunded entitlements are unsustainable.

This recession will not last forever, so we desperately need a realistic plan to avoid having the Federal budget become an enormous drag on opportunities for job growth and higher personal income, for people's ability to decide what to do with their own money. And let me add that the public expects from the next Administration far better oversight and aggressive stewardship of the Troubled Asset Relief Program (TARP) and of any future economic recovery packages.

Another major OMB responsibility falls under the general heading of Executive Branch management. This Committee has repeatedly documented a voluminous, shocking waste of taxpayer dollars by the Federal Government in virtually every program and department. Many of these examples have arisen in the realm of government contracting. Our Committee has successfully passed important reform legislation to improve the Federal acquisition process, but additional reforms, particularly the revitalization of the Federal acquisition workforce, must be high on OMB's list of targets for critical improvements.

Effectiveness and equity are other key management concerns. Homeland Security grants, for example, are essential to ensure that every State can achieve a baseline level of readiness and response capability for both manmade and natural disasters. OMB needs to examine budget plans carefully to ensure that they are consistent with that goal.

Other special concerns, which the nominee has recognized in his responses to our pre-hearing questions, include transparency in government operations, an issue of vital importance, I know, to Dr. Coburn and to many on this panel; metrics for agency performance, so we actually can measure and evaluate more effectively; closer attention to the Government Accountability Office (GAO) High-Risk List; and the need to tackle escalating costs of health care and entitlement programs.

Today, the Committee will also consider the nominee for one of the Deputy Directors at OMB, Robert Nabors. I look forward to learning more about his background, particularly his experience as a program examiner at OMB during the Clinton Administration. That past OMB service included oversight of a previous census, and this Committee is painfully aware of the failures, particularly in the area of technology and planning for the upcoming census.

Our exploration today with both nominees of the financial and management hurdles facing the Federal Government makes this a critically important hearing.

Thank you, Mr. Chairman.

[The opening prepared statement of Senator Collins follows:]

OPENING PREPARED STATEMENT OF SENATOR COLLINS

Seldom have nominees for director and deputy director of the Office of Management and Budget come before this Committee at a more critical time.

The Federal budget is under tremendous stress from the impacts of a deep recession, and the costs of rescue and stimulus packages. Spiraling entitlement costs are driving long-term budgetary imbalances. And the next few years will also see the cresting waves of Baby Boom retirements, with enormous impacts on Social Security and Medicare expenditures, as well as on our Federal workforce.

Pointing to these trends and to the estimated \$1.2 trillion deficit for the current fiscal year, the President-Elect has prudently warned that unless strong measures are taken, the outlook is for "red ink as far as the eye can see."

Our Nation's public debt has reached \$6.3 trillion—about 45 percent of gross domestic product. According to the Congressional Budget Office, Federal spending will climb to an astonishing 25 percent of GDP this year—more than any time in American history outside of World War II. With a stimulus package worth another \$800 billion or more, our Nation's debt as a percentage of GDP could rise to 60 percent, the highest level since World War II. That is, of course, an unacceptable and unsustainable scenario for the government, for the economy, and for the households and business owners who pay the government's bills.

OMB will be the leading player as the incoming administration formulates policy to deal with a grim present and uncertain future. OMB will also be an indispensable

link to Congress as the Executive and Legislative branches work toward consensus on a sustainable path forward.

Dr. Orszag comes before the Committee with an impressive set of skills and experiences. As a former director of the non-partisan Congressional Budget Office, he is familiar with the legislative branch, as well as with the intricacies of budgets and policy analysis. His earlier service as an economic advisor, as a scholar, and as a consultant has given him other important perspectives that will prove valuable if confirmed as OMB director.

I take special interest in several issues for which the OMB Director is a key player.

The overriding concern, of course, is the Federal budget. Dr. Orszag has already indicated that the economy and stimulus measures portend a near-term rise in the deficit. But as he knows—and as we have heard from former Comptroller General David Walker and other experts—recent years' outlays and the growth of unfunded entitlements are unsustainable.

The recession will not last forever, so we desperately need a realistic plan to avoid having the Federal budget become a mammoth drag on opportunities for job growth and higher personal income—and for people's ability to decide what to do with their own money. And let me add that the public expects far better oversight of the Troubled Asset Relief Program and of any future economic-recovery package.

Another major OMB responsibility falls under the general heading of Executive Branch management. This Committee has documented a voluminous record of shocking waste of taxpayer dollars by the Federal Government in virtually every program and department.

Many of these examples have arisen in the realm of contracting. This Committee has successfully passed legislation to improve the Federal acquisition process, but additional reforms, including revitalization of the Federal acquisition workforce, must be high on OMB's list of targets for critical improvements.

Effectiveness and equity are other key management concerns. Homeland Security Grants, for example, are essential to ensure that every state can achieve a baseline level of readiness and response capability for natural or man-made disasters. OMB needs to examine budget plans carefully to ensure that they consistently support our Nation's first responders and help achieve our national goal for all-hazards emergency preparedness.

Other special concerns—which Dr. Orszag recognizes in responses to pre-hearing questions—include transparency in government operations, metrics for agency performance, close attention to GAO's High-Risk List, and the need to tackle the escalating costs of health care.

Today the Committee will also consider the nominee for one of the deputy directors at OMB, Robert Nabors.

I look forward to learning more about Mr. Nabors' background, particularly his experience as a program examiner at OMB during the Clinton Administration. That past OMB service included oversight of a previous Census and of agency technology investments, both areas of considerable concern today.

Our exploration with these nominees of the financial and management hurdles facing the Federal Government makes this a critically important hearing. Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thanks very much, Senator Collins.

We are really honored to have with us today to introduce Mr. Orszag, Congressman John Spratt, Congressman Paul Ryan, the Chairman and Ranking Member, respectively, of the House Budget Committee. I gather that a vote has gone off in the House, so I want to let you two go forward. Speak as long or short as time allows, and then we will understand if you depart. But your presence is appreciated.

TESTIMONY OF HON. JOHN M. SPRATT JR.,¹ A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. SPRATT. Mr. Chairman, what I will do is read the opening paragraph and the concluding paragraph and submit my testimony for the record, with your consent.

Chairman LIEBERMAN. That is a good precedent for this Committee. [Laughter.]

Mr. SPRATT. Given the questions you outlined for Mr. Orszag, I don't think we need to be here anyway because I think you will be occupied for the rest of the afternoon.

Chairman Lieberman, Ranking Member Collins, and Members of the Homeland Security Committee, thank you for allowing me to testify on behalf of Peter Orszag for Director of OMB.

As I told the Budget Committee earlier this week, had the choice been mine, Peter Orszag is exactly the person I would have chosen for OMB, and indeed, 2 years ago, when the nomination for the Directorship of CBO was ours, Senator Conrad and I picked Peter Orszag, and let me tell you, he has fulfilled or exceeded our expectations in every way.

Mr. Chairman, our economy is in recession, but this is not your garden-variety business cycle recession, and there is no off-the-shelf traditional solution for us to turn to. In times like these, we need our best and our brightest, and Peter Orszag fills that bill. He has the skills, the temperament, the intelligence, and the experience needed at OMB.

I urge his confirmation and hope it will come swiftly because the work to be done at OMB is already laid out, which includes next year's budget coming on the heels of this year's stimulus bill. He has enough to do for us to confirm him as swiftly as possible and put him to work, where I know he will be an enormous help to the Government of the United States.

I, without qualification and with the highest recommendation, recommend him for this post.

Chairman LIEBERMAN. Thanks very much, Congressman Spratt. Congressman Ryan.

TESTIMONY OF HON. PAUL RYAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. RYAN. Chairman Lieberman, Ranking Member Collins, it is a pleasure for me to be here, as well, with Mr. Spratt to support Mr. Orszag's nomination.

The three of us have spent a lot of time together over the last 2 years, and I always enjoy the fact that when you typically have a witness, usually they put a glass of water in front of you. With him, we put a pitcher of Diet Coke in front of him. [Laughter.]

Mr. RYAN. He is a high-octane, high-energy individual.

One of the reasons why I am here to support his nomination is because of how he conducted himself and how he ran the CBO over the last 2 years. We budgeters really expect great integrity, fairness, and impartiality from the Congressional Budget Office. That is exactly the kind of leadership he provided to the CBO.

¹The prepared statement of Mr. Spratt appears in the Appendix on page 41.

While Mr. Orszag and I may come from and have different economic philosophies and doctrines, we have great respect for one another. This is a job at a time when we have the largest economic challenges in a generation, arguably the greatest fiscal challenges in the history of our Nation, and we need somebody to hit the ground running. He will not miss a beat on that.

And I have every expectation and confidence that he will bring that sense of integrity in the numbers, that sense of impartiality to this new job. He is going from a job as an impartial referee to a job as an advocate for a particular Administration. And while I have concerns with the fiscal direction of this Administration on some levels, I have much more comfort. I am very pleased that he is going to be over there as the Director of the OMB.

So it is with those thoughts in mind that I am here also to offer my support for his nomination.

Chairman LIEBERMAN. Thanks very much, Congressman Ryan.

The presence of both of you means a lot to us, as I know it does to Mr. Orszag, so please feel free to go back and vote, and thanks for your attendance here.

Mr. SPRATT. Thank you, Mr. Chairman.

Chairman LIEBERMAN. All the best.

Mr. Orszag has filed responses to a biographical and financial questionnaire, answered pre-hearing questions submitted by the Committee, and had his financial statements reviewed by the Office of Government Ethics. Without objection, this information will be part of the hearing record, with the exception of the financial data, which is on file and available for public inspection in the Committee offices.

Our Committee rules require that all witnesses at nomination hearings give their testimony under oath. Mr. Orszag, would you please stand and raise your right hand.

Do you swear that the testimony you are about to give to the Committee will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. ORSZAG. I do.

Chairman LIEBERMAN. Thank you very much. Please be seated.

Mr. Orszag, we have previously referred to at least one member of your family who is here. If there are others, family or friends you would like to introduce, this is a good time.

Mr. ORSZAG. Yes. In addition to my son, Joshua, I would also like to introduce my significant other, Claire. Joshua has joined me at the witness table. [Laughter.]

Chairman LIEBERMAN. You are welcome to call on Joshua.

Senator CARPER. Should we ask him to take an oath? [Laughter.]

Senator LEVIN. Representative Ryan thinks you are high octane. He should meet your son.

Mr. ORSZAG. Yes, I have to keep up with him.

Chairman LIEBERMAN. That is true.

Before we proceed with your statement, and I promise you that this is the last time I will do this in public, but it is too irresistible for me. In the interest of full disclosure, Mr. Orszag, having taken the oath, I want to disclose a relationship that the two of us have.

His mother grew up in Stamford, Connecticut, in the neighborhood of my mother, where my family grew up. Both Peter and I

have found out from his mother and mine, different generations, that her father, Peter's grandfather, courted my mother when they were both teenagers living in the same neighborhood. And to give you a sense of what the courtship was like in those days, my mother remembers—he has passed away now, but she remembers your grandfather with great warmth—that he used to come over and help my mom, who was one of six children in a family whose father had died very early, do the family wash. A good man. [Laughter.]

Undoubtedly, with a genetic interest in budgetary control and thrift, but anyway, now that is over and I have gotten that out—

Senator COLLINS. Now the questions are going to come. [Laughter.]

Chairman LIEBERMAN. Please proceed with your statement at this time.

TESTIMONY PETER R. ORSZAG,¹ TO BE DIRECTOR, U.S. OFFICE OF MANAGEMENT AND BUDGET

Mr. ORSZAG. Thank you very much. Senator Lieberman, Senator Collins, and Members of the Committee, I am honored to come before you as President-Elect Obama's nominee for Director of the Office of Management and Budget.

I would also like to thank Mr. Spratt and Mr. Ryan for their introductions. As Director of the Congressional Budget Office, I worked to establish good relationships with members of both parties, and I hope to continue that spirit of bipartisanship if I am confirmed as Director of OMB.

It is a momentous time to be holding this hearing. In the short-run, we face the worst economic crisis since the Great Depression, with job losses of more than 2.5 million over the last year and projected job losses of 3 to 4 million more over the coming year unless we act and act aggressively. Over the medium- to long-run, we face the prospect of daunting fiscal deficits that reflect an unsustainable course that the Federal budget is on.

But what I want to spend most of my time with you on this morning is government performance. I am particularly pleased to be before this Committee because I believe that government performance and budget must be one. Government performance must be reflected in our budgetary priorities, and then the results of improved performance will yield benefits to the budget. So if I am confirmed, I would seek an OMB Version 2.0 where those two arms of the agency are better integrated and you see a more unified whole between performance and budgeting.

Most of the performance issues the government faces today have developed over decades and will take time to address, but there is an urgency to begin now. We need to be open to new ideas and new ways of doing things. Improving performance overall requires not only sustained focus, but also a better set of metrics. After all, it is hard to change what you can't see or measure. Significant improvements to the existing performance management system are both possible and necessary.

Let me touch briefly on several areas in which we can do better, many of which have already been discussed.

¹The prepared statement of Mr. Orszag appears in the Appendix on page 46.

First, procurement and contracting. The dollar value of Federal contracts has more than doubled over the past 8 years to more than \$400 billion in 2007, but the number of qualified contract officers has remained flat at about 28,000. Given that disjuncture, it is not surprising that problems have arisen, especially at the Department of Defense. In addition to reviewing the use of no-bid, cost-plus, and interagency contract vehicles, we must improve the quality and quantity of the Federal acquisition workforce, and I am pleased that OMB is already working with the Federal Acquisition Institute to do this.

We also need to use technology to create more transparency around procurement and contracting. Current vehicles, such as USAspending.gov, suffer from a lack of timely and accurate data and a presentation that is not seen as engaging enough to attract widespread visits. Technology can be a great way to create transparency that will spur competition and help identify problems.

We also need to clarify what is and what is not an inherently governmental function, a line that has become too blurred in recent years. The use of contractors has grown dramatically, and the result is often that we are depleting the core skills of government agencies.

That leads me to the second topic of human capital. Central to any effort to improve the performance of Federal programs has to be a strategy to restore the prestige to and increase the capacity of our Federal workforce. Over the next decade, roughly 60 percent of the Federal Government's 1.6 million white-collar employees and 90 percent of the 6,000 Federal executives will be eligible to retire. To mitigate and offset these expected retirements, we need to take a number of actions, including perhaps most importantly, as President-Elect Obama has said, making government cool again. We need to dramatically improve the Federal hiring process, and we need to provide more opportunities for civil servants to rise to policy-level offices so that they can aspire to seeing the results of their hard work in promotions.

A third key topic is information technology (IT). The government currently spends \$70 billion in non-classified information technology and perhaps another \$20 to \$30 billion in the intelligence community on information technology. On the one hand, IT investments can provide much better transparency and provide a platform for more extensive interaction with the American public. On the other hand, historically, IT investments have not been well integrated into the budget process and have often not been aligned with agency missions. They also need stronger management and auditing. Major IT projects have a poor track record in government.

We also need to promote better cyber security. The number of threats continues to grow and represents risk to both key financial and other infrastructure, as well as data. If confirmed, I look forward to renewing OMB's commitment to cyber security through the comprehensive National Cyber Security Initiative and other efforts.

A fourth key topic is financial management. Improper payments in programs such as Medicare, disability, and the tax code amount to perhaps \$70 billion a year. These significant opportunities should be pursued vigorously. I have already heard about the results that have resulted from recovery auditing and other steps,

and I think those are promising measures that we should be exploring more aggressively. In addition to paying more attention to the problem and recovery auditing, we can create stronger incentives for enforcement in the first place.

We also must improve the management of the Federal Government's real property holdings. The Federal Government owns 1.2 billion structures valued at more than \$1.5 trillion. Ten percent of these facilities are either under-used or empty. That is unacceptable. We need to more aggressively pursue opportunities for disposition and terminating inefficient leases so that we can better manage the Federal Government's own portfolio of real properties.

Finally, we need to reexamine how we can best protect public health, the environment, and public safety through the regulatory process. I am pleased that the President-Elect has announced his intention to nominate Cass Sunstein, one of the Nation's leading law professors and thinkers and a specialist on regulation, to run the office within OMB responsible for coordinating regulatory policy.

With that, Mr. Chairman, let me just reaffirm my commitment to working in a bipartisan manner with all of you, if I am confirmed, to tackle the very important challenges that we as a Nation face. Thank you very much.

Chairman LIEBERMAN. Thanks, Mr. Orszag. That was a very thoughtful and practical opening statement. In all the years I have been on this Committee, we always say that the "M" in OMB is often not given enough attention. That is the management part of the job. Some Administrations do better, some not so good. I appreciate your focus on it right from the beginning. Maybe it is time to change it to the Office of Performance and Budgeting.

Mr. ORSZAG. That would be OK by me. We can talk more about that.

Chairman LIEBERMAN. Let me start my questioning with—

Mr. ORSZAG. OPM. There already is one. [Laughter.]

Chairman LIEBERMAN [continuing]. The standard questions we ask of all nominees. First, is there anything you are aware of in your background that might present a conflict of interest with the duties of the office to which you have been nominated?

Mr. ORSZAG. No.

Chairman LIEBERMAN. Do you know of anything, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

Mr. ORSZAG. No.

Chairman LIEBERMAN. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted Committee of Congress if you are confirmed?

Mr. ORSZAG. Yes.

Chairman LIEBERMAN. Thank you. We are going to start with a first round of 7 minutes for questions. I appreciate the number of Members of the Committee here, which speaks to the interest, of course, in your nomination.

Let me ask you a couple of questions that relate to the immediate challenge we face, and that is the condition of our economy and the recommended Economic Recovery and Reinvestment Act.

We have heard a lot of back-and-forth debate about whether the proposed Obama Administration stimulus package is big enough or whether it is too big. I wanted to ask you to comment on that and also, in your role as an economist, help us to reach an informed judgment about how we can reach a reasonable conclusion about what size stimulus is the right size to help us out of our current economic crisis.

Mr. ORSZAG. Well, let me just begin by noting that in the current economic environment, which is highly unusual, the key impediment to economic growth—and this is not normal, normally other conditions apply—is how much demand for goods and services that firms and other entities could produce. That is the key issue. The gap between how much the economy could produce and how much it is currently producing is estimated to be about \$1 trillion now per year. That is lost income of about \$12,000 a year for a family of four, on average. So it is that huge GDP gap that is at the heart of why we need to act, and it is reflected in lost jobs and lost income.

Now, that perspective may suggest a very large number for an economic recovery plan, and in fact, there are academic economists who are suggesting numbers that are much larger than what is under discussion in the policy process because they look at numbers like \$1 trillion a year over 2 years or so and you get very large numbers. That is one perspective.

The second perspective is let us look at all of the specific policy proposals that you can put together that immediately add to aggregate demand in an effective way, that have relatively high bang for the buck, and you add those all up together. And there is some tension because you cannot get a collection of policies that add up to anything close to numbers that are commensurate to the GDP gap. So you then have a judgment call. Where do you cut off the package, balancing the macro-economic risk against the fiscal condition that we are in and the declining bang for the buck that comes as you go down the list of possible initiatives or interventions.

Chairman LIEBERMAN. The macro-economic risk of the growing long-term debt, you mean?

Mr. ORSZAG. No, let us say that you only came up with \$150 billion of economic recovery spending.

Chairman LIEBERMAN. OK.

Mr. ORSZAG. You are then leaving a GDP gap that could be \$800 or \$900 billion, a very large gap. You are assuming a very significant gap.

Chairman LIEBERMAN. Right. That gap.

Mr. ORSZAG. It is the judgment of the economic policy team that the incoming Administration has put together that it is worth tolerating some slippage, that is some things that might not spend out immediately over the next 3 or 6 months, given the severity of the economic downturn and the projected length of the economic downturn, especially if those things then lead to investments that will improve long-term economic performance.

So there is this balancing act between getting money out the door quickly and addressing the macro-economic risk, and when you start to loosen up on that a little bit in terms of things that

may not fully spend out over 6 months, are you at least getting something that you sort of wanted anyway?

Chairman LIEBERMAN. That is a helpful beginning.

Just as a point of clarification, when we are talking about the total size of the stimulus or Economic Recovery and Reinvestment Act, \$750 billion, \$800 billion, are we talking about a 2-year period of time for spending it out?

Mr. ORSZAG. That is correct.

Chairman LIEBERMAN. So that if you go with that \$1 trillion deficit in demand, reaching the potential in the economy, we are talking about \$2 trillion over 2 years.

Mr. ORSZAG. Correct.

Chairman LIEBERMAN. But we are trying to figure out also what the multiplier effects are of every dollar we spend.

Mr. ORSZAG. That is correct, also.

Chairman LIEBERMAN. This is another point of discussion here on the Hill, as you know, which is the balance in the economic stimulus package between spending and tax cuts, in simplistic terms. There are obviously some people who feel that tax cuts do not bring much of a return. Spending is the way to go. The Obama Administration is clearly moving in a different direction, a more balanced package. Give us your justification for that.

Mr. ORSZAG. Well, if you just look at bang for the buck, so in terms of immediately adding to aggregate demand, I think there is widespread agreement among economists that the highest bang for the buck is direct Federal Government spending on infrastructure or on real goods and services.

One layer below that is assistance to States because that avoids laying off of teachers and other steps that State and local governments would take in the absence of assistance.

And then in general, one layer below that are tax provisions, and the reason tax provisions are somewhat less effective, at least from a short-term stimulus perspective, is that part of the money is saved rather than spent. So you provide a dollar in tax relief. Part of that is saved rather than consumed, and the result then is that you do not get a full dollar added to aggregate demand.

However, and the reason there is some balance is if you look down the individual items of Federal Government spending that you could get out the door quickly, there is a limit to that. So again, if you face a GDP gap of \$2 trillion over 2 years, you are either going to stop at things that have the maximum bang for the buck and then assume a very substantial macro-economic risk, or you are going to include in the package things like State fiscal relief and tax relief that provide some macro-economic benefit but might have slightly lower bang for the buck.

Chairman LIEBERMAN. Let me ask you a final question in this round. The President-Elect has spoken about the need for and promised the American people that there would be oversight of this money. This is a lot of money to spend quickly—

Mr. ORSZAG. It is a lot of money.

Chairman LIEBERMAN [continuing]. And the risk of waste or even fraud becomes higher. Are there specific mechanisms that you have in mind for doing this, or is it just going to be put through the regular OMB process?

Mr. ORSZAG. No. We are thinking of special oversight and auditing processes for this. So I will give you two examples.

Chairman LIEBERMAN. OK.

Mr. ORSZAG. We plan to create a website that will contain information about the contracts and include PDFs or contracts themselves and also financial information about the contracts—

Chairman LIEBERMAN. Define PDFs.

Mr. ORSZAG. Sorry, an electronic document that is posted on the Internet so the public can see the contract—

Chairman LIEBERMAN. Right.

Mr. ORSZAG [continuing]. On the web. One of the difficulties in existing Federal financial management payment flows is that the time between when a contract is signed and when the information shows up on Federal Government websites is so long that we didn't want to allow that time lapse to occur. So we would propose that the contract officer, when you sign the contract, would be required to go to a simple web-based portal and fill out a simple template basically to create a faster flow of information, at least at an aggregate level, on specific contracts, post the contract so you see that information, too.

In addition to those kinds of steps, we would favor creating a special board, an oversight board composed of the Inspectors General of the relevant departments and chaired by the Chief Performance Officer that would review problems and that would conduct regular meetings to examine specific problems that might be identified, for example, by folks who are looking at that website and saying, wait a minute. That doesn't look right.

Chairman LIEBERMAN. That is great, very reassuring. Thank you. Senator COLLINS.

Senator COLLINS. Thank you.

Dr. Orszag, I mentioned in my opening statement my concern not only about our current economic crisis, but the long-term spiraling, troubling increase in the public debt. The Peterson Foundation headed by the former Comptroller General, David Walker, recently noted that America now owes more than its citizens are worth, a startling way of focusing our attention on the growth in the Federal debt.

Many people have proposed a bipartisan commission that would tackle the issue of entitlement reform. All of us know in Washington and throughout the country that the current structure of Social Security and Medicare is simply not sustainable in the long term.

Do you agree that entitlement reform is an issue that the new Administration must tackle, and do you support the creation of an outside commission to come back to Congress with specific reforms?

Mr. ORSZAG. Let me answer it very directly. First, the Federal budget is on an unsustainable course, and the course that we are on needs to be rectified as we emerge from the current downturn or we will face a fiscal crisis at a time that is difficult to predict. That fiscal imbalance is driven mostly by rising health care costs, and I think there are huge opportunities to improve the efficiency of the health care system to reduce cost without harming health outcomes reflected in the fact that we have huge variations across parts of the United States in costs per beneficiary that are not cor-

related with and that do not reflect better outcomes in the higher-cost areas.

With regard to the process, I will also say I think our existing system does not deal well with gradual long-term problems, and you can look across a variety of areas. Our system seems to respond to crises and not to gradual long-term problems like rising health care costs, like a gradually growing fiscal gap, like climate change and other gradual problems. That opens up the possibility of changes in the process, and there are a variety that have been discussed. One, Senators Conrad and Gregg have a proposal—

Senator COLLINS. Yes.

Mr. ORSZAG [continuing]. For a long-term fiscal commission. Senator Baucus has a proposal that focuses more on how health care decisions are made. And I think those process changes are things that we are carefully examining, and I just come back again to the conclusion that the existing system is not working very well and therefore some changes would seem warranted.

Senator COLLINS. I recognize that the new Administration needs to get past the current fiscal crisis, but I assume from your comments that you do recognize the long-term budget imbalance and the threat to our long-term economy and that the Administration is committed to tackling those budget issues, as well.

Mr. ORSZAG. And let me be more specific. If I am confirmed, I will be part of the process that puts together the fiscal year 2010 budget, which will be released in mid- to late-February, and perhaps, actually, Mr. Chairman, if I could just say a general caveat, “if I am confirmed” for all questions so that I do not have to keep repeating that and just assume it is implicit in my answers.

Chairman LIEBERMAN. Without objection.

Mr. ORSZAG. Thank you.

Senator COLLINS. We will assume that appropriate caveat.

Turning now to the economic stimulus package, you mentioned in response to Senator Lieberman your intention to have some sort of State fiscal relief included in the package. As you know from our conversations, I support that, as well. There are some who have suggested, however, that while helping States in order to prevent layoffs and budget cuts that might exacerbate the recession is appropriate now, that should be structured in terms of loans rather than grants. What is your opinion on that?

Mr. ORSZAG. I think there are two issues that need to be examined with regard to that thought. The first is that for many States, such loans would face the same sorts of constraints as debt issuance and other borrowing that they undertake, and so for many States, it is actually not that easy to engage in such credit transactions.

The second point, though, is we have to be clear about what we are trying to accomplish through that State fiscal relief. If it is to avoid layoffs and to help the macro economy, which is what I believe is the case, rather than just pure benevolence—it is not just benevolence, there is a macro-economic imperative—that would also in my mind, at least, raise questions about the loan approach as opposed to a grant approach.

So I understand the theory, the case behind the idea, but I guess there are both practical and then a sort of philosophical question

that arises with regard to whether it would impede the macro-economic impact that you are trying to achieve through that assistance.

Senator COLLINS. I think the concern is while we recognize the need to help States, you do not want to be creating a situation where States in good times are spending too much money growing their programs too much with the knowledge that Uncle Sam will come along and bail them out in the bad times, and thus they are reaching unsustainable levels of spending.

Mr. ORSZAG. Yes, and I think that is a legitimate concern. I appreciate the concern.

Senator COLLINS. Many of us have also advocated a significant portion of the stimulus package be devoted to infrastructure spending. There is a backlog in the State of Maine and virtually every State of shovel-ready transportation projects, and the reason I am for that kind of spending is it not only creates good jobs, but it leaves communities with lasting assets that they really need.

I think, however, we need to look beyond just the transportation sector. There are other kinds of investments that are needed, and of particular interest to this Committee are the land ports of entry. The U.S. Customs and Border Protection faces significant infrastructure challenges. Some of the land ports of entry are over 70 years old. There has been increased traffic volume, security requirements. In my State, there are three ports of entry that are on the list but have been waiting for funding for quite some time. Are you looking beyond the transportation infrastructure at such needs as the land ports of entry, military construction? There are a lot of projects in the queue.

Mr. ORSZAG. Yes, and with respect to the ports of entry question in particular, I have had discussions with Governor Janet Napolitano on precisely that topic and explored the possibility of funding as part of an economic recovery plan to speed investments in the land ports of entry.

Senator COLLINS. Thank you.

Chairman LIEBERMAN. Thanks very much, Senator Collins.

We will go to the other Members of the Committee, as is our rule, in order of arrival. Just for the information of Members, the order I have as kept by the Clerk is Senators Levin, Tester, Akaka, Coburn, Voinovich, Carper, Landrieu, and Pryor.

Senator Levin.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you, Mr. Chairman, and we welcome Peter Orszag. You are going to make a great OMB Director. We welcome your family and particularly your son, who has been trying to look interested during this last hour and has done very well.

I want to pick up this idea about TARP and the conditions and the assurances that are going to be provided as part of the second half of the program, which were not there for the first half. The failure to do that on the first half has created a real credibility problem about the use of \$350 billion of taxpayers' money. So I want to ask you what is reasonable for us to expect in terms of assurances on the second half before we vote on it. I will be writing

a letter to Larry Summers about this and hoping to get an answer on this by the morning before we vote.

Is it reasonable for us to expect that TARP recipients are going to be required by the Treasury to track and report their use of TARP funds?

Mr. ORSZAG. I know that the incoming Administration is committed to a heightened transparency and accountability. I can't commit, given that is more of a Treasury responsibility.

Senator LEVIN. Should we not be able to expect that we will be told by recipients how they spent those funds and that will be reported publicly, just the way the contract is going to be on the web? And by the way, I commend you for that. It has taken the threat of a subpoena to get the current Treasury Department to produce the documents, which should be made public, are public documents, and involve public funds. Senator Collins and I have been involved in that go-around with them, and hopefully these documents are coming in today. We do that as the Permanent Subcommittee on Investigations, not on behalf of the full Committee, which, of course, would involve the good offices of our Chairman.

So should we not reasonably expect that the recipients of TARP funds would be required to report on their use of TARP funds?

Mr. ORSZAG. It seems to me like that is the kind of change that the incoming Administration will be looking at and examining. It seems reasonable to me, but again, I am not—

Senator LEVIN. I understand.

Mr. ORSZAG [continuing]. The official responsible for that program.

Senator LEVIN. Would it be reasonable for you, in your judgment, for us to expect a requirement that TARP recipients provide agreed-to benchmarks which need to be met relative to the use of those funds?

Mr. ORSZAG. I think I am going to be repeating my answer—

Senator LEVIN. That is fair enough. That is a good enough answer.

Mr. ORSZAG. OK.

Senator LEVIN. If you think that is reasonable, that is good enough. We will use that argument.

Mr. ORSZAG. Again, I want to respect the work that the Treasury and Mr. Summers and others are doing. It seems to me like those are questions that are better directed to them than me.

Senator LEVIN. Well, they will be directed.

Mr. ORSZAG. OK.

Senator LEVIN. It is also appropriate that we ask you whether you think this would be a reasonable requirement.

Mr. ORSZAG. It does not seem unreasonable to me, but again, I am not the official responsible.

Senator LEVIN. Would the same answer be forthcoming as to whether or not it is reasonable that Congress be assured that banks receiving these funds would extend credit with those funds to a reasonable extent?

Mr. ORSZAG. That again seems reasonable to me with the caveats that we have already discussed.

Senator LEVIN. All right. Would that answer also be accurate relative to the use of a reasonable portion of those funds for mitigating foreclosures on residential mortgages?

Mr. ORSZAG. Yes, and I know that is something specifically that the incoming Administration would like to explore.

Senator LEVIN. All right. Finally, what about a written viability plan? We required the auto manufacturers to give us those plans, and that was proper. Should we not require at least the major recipients of these funds, the TARP funds, the other recipients, such as the banks that receive significant funds, to provide those same kind of viability plans?

Mr. ORSZAG. Again, with the caveat that especially in the financial sector, things may sometimes move very rapidly, and with the caveat about timeliness and also that it is not really my jurisdiction, it doesn't seem unreasonable to me.

Senator LEVIN. All right. Thank you. As you know, Dr. Orszag, the Permanent Subcommittee on Investigations, which I chair, has spent a lot of time looking at offshore tax havens.

Mr. ORSZAG. Yes.

Senator LEVIN. These secrecy havens whose use has denied our Treasury the funds that could be as much perhaps as \$100 billion. That was one estimate, which we have been using at the Permanent Subcommittee on Investigations. When we met last week, I shared with you a copy of a bill, which had been cosponsored by then-Senator Obama and Senator Coleman, so it is a bipartisan bill, but even more significantly has the imprimatur of the President-Elect.

Mr. ORSZAG. Yes.

Senator LEVIN. The purpose of the bill is to shut down the offshore tax abuses. Have you had a chance to review the bill, and whether you have had that chance or not, what do you think about our cracking down on the use of those tax havens? We can't stop them from existing, but we sure as heck ought to do what we can to stop taxpayers who owe the Treasury money from using those tax havens. Could you give us your thoughts on that issue?

Mr. ORSZAG. There is no question in my mind that increased enforcement and better enforcement of the tax code is a beneficial thing that we need to be more aggressively pursuing, including international transactions.

Senator LEVIN. Does that include specifically going after these secrecy jurisdictions that American citizens, including individuals and corporations, have been utilizing to avoid paying their taxes?

Mr. ORSZAG. Again, that is aligned with the overall objective of improving the enforcement of the tax code. I do not want to comment specifically on exactly which provisions are most auspicious given that, again, that is not my jurisdiction.

Senator LEVIN. All right. Relative to that question, and this goes to the issue of scoring, we take initiatives, or try to around here, to enforce our tax laws, and you very properly have gone in very accurately and, I think, thoroughly and effectively have gone through the measures that are going to be before us to try to get this economy going again. That testimony is very helpful.

But one of the things that is overlooked because it will take a little more time than doing this in the next couple of weeks is tax enforcement.

Mr. ORSZAG. Yes.

Senator LEVIN. We talk about tax cuts as a stimulus, direct expenditures as a stimulus, but in terms of reducing the impact on our deficits, which is a concern of all of us, one of the things that has to be considered is surely enforcing the tax laws which exist.

When we try to put money in for collection, and the payback is about \$4 to every \$1 that we put in there, roughly, it is scored as an expenditure instead of a revenue. You have personal experience with that from CBO. Is there some way where you have that kind of investment in increasing revenue through tax enforcement that instead of having a cost, which makes it more difficult for us to get that adopted because it is scored, we could change that in some way, at least relative to the direct revenue raising which would result from an expenditure?

Mr. ORSZAG. Let me first again say, I think improved enforcement of the tax code is not only an important fiscal issue, but it is just important as a civic question, that American citizens should expect that their fellow citizens are paying their fair share and complying with and that there is full enforcement of the tax code.

That having been said, you have identified one of the possible reasons we do not have as much enforcement as might be optimal. Those scoring rules have developed over a long period of time. They exist for technical reasons. I do see them in some cases as an impediment to effective enforcement, so I would like to explore ways in which they possibly could be changed, working with the Budget Committees and other budgeters, and cognizant of the fact that they have developed for a reason, but nonetheless do seem to me to be an impediment to enforcement not only in this area, but in Medicare and other areas. And given that we should improve enforcement, I think we should be looking at incentives for the agencies to do better and incentives for you all to provide more resources to that activity.

Senator LEVIN. Well, we thank you and congratulate you. I think you will make a terrific OMB Director.

Mr. ORSZAG. Thank you.

Senator LEVIN. Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thanks, Senator Levin. One of the great mental exercises for witnesses before this Committee is to handle Senator Levin's questions. You did pretty well.

Mr. ORSZAG. Did I succeed?

Chairman LIEBERMAN. You did pretty well.

Senator LEVIN. Too well on the first set. [Laughter.]

Chairman LIEBERMAN. Senator Akaka is next. Senator Akaka, I want to say, along with Senator Voinovich, as you probably know, Dr. Orszag, going to something you mentioned in your opening statement, have done truly extraordinary, largely unsung work on behalf of human capital improvement and management of our Federal Government. So with that, I am happy to call on Senator Akaka.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you. Thank you very much, Mr. Chairman. I want to thank you for your leadership of this Committee. I have really enjoyed my work with Senator Voinovich over the years. We have worked together so well trying to bring about some good changes.

Let me welcome you, Dr. Orszag, and also Joshua, your son.

Mr. ORSZAG. Could I just point out, he used to call the CBO the Congressional Boring Office? [Laughter.]

We need to come up with a new name for OMB.

Senator AKAKA. Well, thank you very much for being here.

In my role as Chairman of the Oversight of Government Management Subcommittee, I am very concerned about the management challenges facing the incoming Administration. It is more important than ever for the Office of Management and Budget to focus on better management and not only budgetary issues. I have taken your statement of providing better government performance as a step ahead, past management, and I am thinking that government performance means that there is management and there is accountability that brings on better performance.

The Government Accountability Office has identified about 27 issues and programs that are high risk for waste, fraud, or abuse due to poor management. OMB will be critical to addressing these management issues as well as several other issues throughout the government. I have been especially worried about contracting management at agencies and human capital planning.

Mr. ORSZAG. Yes.

Senator AKAKA. I have also been very focused on ensuring that the Federal Government protects Americans' personal privacy, where OMB must play a critical role.

So I look forward to working with you and your team on this in the future.

But before I move on to my questions, Mr. Chairman, I ask that my full statement be placed in and made a part of the record.

Senator LIEBERMAN. Without objection, so ordered.

[The opening prepared statement of Senator Akaka follows:]

OPENING PREPARED STATEMENT OF SENATOR AKAKA

I would like to welcome Dr. Peter Orszag to this hearing. With the fiscal and management challenges facing our nation, finding capable and strong individuals to lead the Office of Management and Budget (OMB) in the next Administration is critical. I am very pleased that the President-elect has recognized this and announced this nomination so early.

With a budget deficit predicted to be over one trillion dollars next year adding to the already trillions of dollars in debt, it is only natural that the Office of Management and Budget focus on the "B" in OMB. While budget and management are closely linked, it is important that OMB also keep a close focus on the unique management challenges currently facing agencies throughout the Federal Government.

The Government Accountability Office has placed 27 programs and management issues on its High Risk List, which identifies areas at risk for waste, fraud, or abuse. Better management practices would significantly aid in addressing almost every one of these cases.

As Chairman of the Subcommittee on Oversight of Government Management, over the past several years I have witnessed how poor management has compromised taxpayer dollars and harmed government missions. I will continue to closely work with the incoming OMB leadership to address weaknesses in government management.

I believe that it is time that the Federal Government reexamine the Privacy Act and make needed updates to reflect the changing times. Stronger and more consistent protection of personally identifiable information is needed at agencies. OMB can play a vital role in that by providing for strong centralized leadership in setting privacy policy for all agencies.

The Federal Government also faces a looming workforce crisis as many Federal employees prepare for retirement in the coming years. If we do not begin to form strategies to recruit, train, and retain an outstanding Federal workforce, agencies face a brain drain and will be forced to rely even more heavily on Federal contractors to perform vital agency functions.

I am especially concerned about contract management. Procurement and contracting management have been lacking for years, yet the money spent on contracting has exploded. Stronger oversight by Federal agencies and better training of contract specialists and project managers are needed, especially in the civilian agencies. Again, OMB can play a strong role in demanding better outcomes by all agencies.

Finally, I want to say a word about security clearance reform, which has been one of my Subcommittee's most important oversight projects since 2004. Senator Voinovich and I have worked with OMB, and now the Department of Defense and the Director of National Intelligence, to press for modernization of this outdated clearance framework. Much progress has been made, and as I indicated to the outgoing OMB leadership, I will continue to press for the needed reforms in the upcoming administration.

I want to again thank the nominees for appearing here today and taking our questions. I am eager to start working with the new Office of Management and Budget to improve the performance and management of the Federal Government. In these unprecedented and difficult economic times, it is important to assure the American people that their government is using wise management to spend their dollars effectively while avoiding waste, fraud, and abuse.

Thank you, Mr. Chairman.

Senator AKAKA. Dr. Orszag, several large acquisition projects at the Department of Homeland Security, including SBInet and the Coast Guard's Deepwater project, have experienced significant contracting problems and cost overruns. Despite repeated problems with contract management at agencies in recent years, OMB has not played an active role in most large contracting decisions or policy. Instead, contracting problems have been handled at the agency level.

What are your plans to enhance OMB's role in contracting decisions and oversight at agencies?

Mr. ORSZAG. Again, coming back to the basic issue, which is that acquisition procurement has doubled since 2000, the number of acquisition officers has stayed flat, it is not surprising to me that agencies are struggling in overseeing their procurement budgets.

In addition to that, there is not sufficient scoping out of procurement tasking ahead of time, and then there is not sufficient auditing and oversight as the project proceeds. Again, not surprising that you run into trouble in the middle of even long-term procurement projects.

It is absolutely OMB's responsibility to provide oversight and guidance on procurement issues. We have a statutory office, as you know, that is dedicated to that topic. I know that it has already started to work actively to increase the number of acquisition officers because I do think that is one of the key steps that is required in fixing this problem, and without that, you are going to be tilting at windmills. That is necessary, but not sufficient. If we had more acquisition officers, we would have more ability to mitigate some of these problems, but you need to do more than that.

We need, again, to address better scoping out of projects and then monitor them as they go along, and OMB plays a key role in

that process, in part through the budget process, which is to say we can use the budget process to make sure that we are providing leverage when there are problems to fix them.

Senator AKAKA. Is one of the problems staffing?

Mr. ORSZAG. At OMB or out in the agencies?

Senator AKAKA. Well, anywhere—

Mr. ORSZAG. I think in acquisition, if you double the procurement budget and the number of procurement officers stays flat, then unless you think the productivity of those officers has doubled over the same period of time somehow magically, it is not surprising that things get sloppy and problems arise. So absolutely, staffing is one of the key steps, and this is an area, coming back to enforcement—I mean, you might not think of it exactly as enforcement—where some increased costs will actually save money. By constraining acquisition officers, we are being penny-wise and pound-foolish because you might save a little bit on human capital costs, but you are losing a lot in terms of cost overruns and other problems in the procurement budget.

Senator AKAKA. Dr. Orszag, as you are aware, I am very concerned about protecting the privacy of Americans' personally identifiable information. In particular, I have been a strong advocate of enforcing current privacy laws at agencies and strengthening areas that may be weak. Currently, different agencies have widely differing programs in place to protect privacy.

At the Department of Homeland Security, this Committee ensured that a robust privacy office was established, and I have been impressed by the work that they do. However, many agencies do not provide such comprehensive and focused attention to privacy.

Do you believe that OMB should serve as a strong government-wide advocate to ensure that all agencies are implementing the Privacy Act correctly, and if so, how do you anticipate OMB fulfilling that mission?

Mr. ORSZAG. First, yes, privacy is absolutely crucial, especially as information technology advances. Protecting the information that is contained in various Federal databases and other IT structures is crucially important to all of us.

Questions have arisen—for example, when IT investments are made, the agencies are supposed to conduct privacy impact assessments. Those are done, and my understanding is they are not as rigorous and they are not as rigorously applied as could be the case, so we could improve there. Questions have arisen with regard to OMB's structure and whether we should have a Chief Privacy Officer internally at OMB like occurred during the 1990s, and that would be something that I would want to look at very carefully.

But I can tell you that the importance of the privacy issue, whether it is lodged with the e-Government administrator or the head of OIRA or a Chief Privacy Officer, has to be at the top of our thinking as information technology evolves.

Senator AKAKA. Thank you very much, Mr. Chairman.

Chairman LIEBERMAN. Thanks very much, Senator Akaka.

Senator Tester, you are next, and then Senator Voinovich.

OPENING STATEMENT OF SENATOR TESTER

Senator TESTER. Thank you, Mr. Chairman. I appreciate that.

First of all, thanks for being here, Mr. Orszag. I particularly appreciate your boots.

Mr. ORSZAG. Thank you.

Senator TESTER. Is that regular attire for you?

Mr. ORSZAG. It is a subtle act of rebellion, yes.

Senator TESTER. OK, good.

Chairman LIEBERMAN. They didn't wear them on Hawthorne Street in Stamford.

Mr. ORSZAG. Exactly. [Laughter.]

Senator TESTER. I wear them every day, so maybe I rebel every day.

Could you talk about some of the methods that you plan on using to gauge Federal programs' effectiveness?

Mr. ORSZAG. Yes, and let me talk to the performance metric system in particular. There currently is a system, the Program Assessment Rating Tool (PART) system, that had been designed and is in use. It is not particularly effective for two reasons. One is, frankly, most Federal officials do not even know about it. I just read a study that something under a quarter of senior Federal Government officials have even heard of PART, and then of those who are knowledgeable about it, most do not use it—there is a lot of going through the motions of filling out forms without as much impact as it could have, and I think that is for two reasons. First, it was developed without consultation with the Congress and with the agencies, and second, it is too focused on process rather than outcomes.

So let me give you a specific example. We were talking about tax enforcement before. The PART process for tax enforcement measures the number of audits. That is great, but it is not what we really care about. What we really care about is the tax gap or the error rate or the compliance rate.

So my view is we should be focusing our metric system on that ultimate outcome and not what we are doing to get there, and then let the agencies focus on how to get there. I would like to see a performance metric system that tells the Treasury Department and the IRS, hit this compliance rate for the tax code. You are going to have lots of internal measures that you need to use from a process, whether it is audit rates, risk, this, that, and other things, to hit it, but do not just tell me what your audit rate is because I do not really care about that. I care about what the tax compliance rate is.

As I said earlier, it is really hard to do anything if you do not measure it because you do not know what you are trying to change and where you are going. I think it is crucially important, again, if I am confirmed, that we revamp and revise. The PART system is something that could be built upon, but it needs to be revamped in consultation with you all and with the agencies to be something that they have bought into and they will actually use and that is more outcome measured.

Senator TESTER. You have a number of years of experience. Do you have any programs in mind for termination?

Mr. ORSZAG. The President-Elect will be releasing a budget and economic overview in mid- to late-February, and that will contain some program eliminations, yes.

Senator TESTER. Are you willing to——

Mr. ORSZAG. No.

Senator TESTER. No. [Laughter.]

You have to ask.

Mr. ORSZAG. Yes.

Senator TESTER. On expiring tax cuts, President-Elect Obama has talked about them a lot during the campaign. Can you tell us which ones he is going to keep, which ones he is going to let expire?

Mr. ORSZAG. The President-Elect, during the campaign, made a series of specific statements about tax provisions under \$250,000, and I, at this point, see no reason that has changed in any way, and I haven't heard any discussion of any change in that.

Senator TESTER. Do you want to talk about TARP funds any more or just Department of Treasury——

Mr. ORSZAG. No, thank you.

Senator TESTER. You do not want to?

Mr. ORSZAG. Not really, but I will. [Laughter.]

Senator TESTER. Well, we will see.

Mr. ORSZAG. OK. [Laughter.]

Senator TESTER. Can you give me any additional details—and you have seen the Summers letter—beyond the Summers letter on how the funds will be spent differently in this batch than it was in the first \$350 billion, even though I am not sure anybody can tell us how the first \$350 billion was spent to begin with?

Mr. ORSZAG. No. Again, I think that is a question for Mr. Summers——

Senator TESTER. OK.

Mr. ORSZAG [continuing]. And the Treasury Secretary Designate.

Senator TESTER. OK. Debt limit.

Mr. ORSZAG. Yes.

Senator TESTER. Big issue, something that I am very concerned about, and not for me but far more for my kids and grandkids. Where does the debt fall into our choices in critical areas, like health care, for example? I mean, what are your recommendations going to be when we are talking about trying to tackle a problem as complex and as costly as health care in this country, weighing in the issues of the debt?

Mr. ORSZAG. Let me talk specifically about health care because it really is the key to our fiscal future. For example, on our current path, if health care costs grow at the same rate over the next four decades as they did over the past four decades, Medicare and Medicaid are going to go from 5 percent of GDP to 20 percent by 2050. Twenty percent of GDP is the entire size of the Federal Government today. That is basically the whole ballgame.

I think there are huge opportunities to reduce costs because if you look across parts of the United States—for example, if you look at the last 6 months of life at the UCLA Medical Center versus the Mayo Clinic, at the UCLA Medical Center, Medicare beneficiaries on average cost \$50,000 a year, at the Mayo Clinic, \$25,000 a year, twice as much at the UCLA Medical Center. There is no improved quality at the UCLA Medical Center. In fact, quality indicators suggest that the Mayo Clinic does better. All that happens is you have more tests, you see more specialists, you spend more days in the hospital at the UCLA Medical Center. Across regions in the

United States, across hospitals within a region, across doctors within a hospital, we see those kinds of variations with the higher cost not correlating with better outcomes.

To tackle it, we need dramatically expanded health information technology to get the data on what works and what doesn't. We need to examine through comparative effectiveness research what works and what doesn't. We have to provide financial incentives for better care rather than more care. Currently, we have incentives for more care. Guess what we get? And then we need prevention and healthy living. And I think all of those components will lead to a new health care system that will be much more efficient and that will be key not only to addressing our long-term fiscal problem, but also helping State governments and, frankly, helping workers because workers' take-home pay is now being reduced to a degree that is under-appreciated and unnecessarily large because of the high costs of health care to their employers.

Senator TESTER. So what you are saying is, in health care as long as we are talking about it, the policy decisions that you would advocate would actually reduce the debt?

Mr. ORSZAG. Over time, what would happen is instead of going to 20 percent of GDP in Medicare and Medicaid, you would be bending that curve. The key to our fiscal future is bending that health care curve. It wouldn't necessarily reduce the debt relative to where it is today, but it would avoid an unsustainable explosion in that debt.

Senator TESTER. I have to let you go because I am down to 15 seconds, but the other side of that coin is that when you are advising us on what decisions we should be making, what impact is that debt going to have on your recommendations? None?

Mr. ORSZAG. Oh, no. The reason that I would suggest we need to tackle the medium-term budget problem and health care costs over the long term is precisely that debt is—the growth in debt that would ensue would be unsustainable and a huge problem, and let me actually comment on that for a second.

In the current environment, in the current economic crisis, we are in a highly unusual position in which we can issue substantial amounts of Federal debt at very low interest rates because investors have full confidence in Treasury securities, as they should. If we do not act, however, over the medium- to long-term to bend the curve on health care costs, if we allow deficits to grow and grow and grow and debt to increase exponentially, at some point, investors will no longer have that confidence. And if we were ever to face an economic crisis like we do today without that full confidence of investors, we would have much less maneuvering room to do various steps because we wouldn't be able to issue huge amounts of debt on an emergency basis.

That is only one of many reasons, in addition to our kids and grandkids, that we need to avoid this fiscal path that we are on over the medium- to long-term.

Senator TESTER. Just one thing, and this is a very easy question to ask. When do we need to start addressing the health care issues? Six months? A year? Three months?

Mr. ORSZAG. Five years ago.

Senator TESTER. Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thank you, Senator Tester. Very good round of questions.

Senator Voinovich is next. Senator Voinovich, when you were out of the room, I thanked you and Senator Akaka for the extraordinary work you have done on human capital management, which reminds me that somebody told me long ago that people are always praising one another in Washington, but you know somebody really means it when you are praised when you are not in the room. [Laughter.]

In your case, I really do mean it—

Senator VOINOVICH. Thank you.

Chairman LIEBERMAN [continuing]. And I say that because you have announced your decision to retire in 2 years. We are going to miss you, but you made a great contribution, but you have 2 years to make even greater contributions, so with that, I am happy to call on you.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Thank you very much. Thanks for your nice words. Senator Akaka and I have worked together as a great team over a long period of time.

Mr. Orszag, I am glad that you are willing to take this job. As you know, over the last 5 or 6 years, I have tried to get elected officials to enact tax reform and entitlement reform. The Bush Administration said they would work with Senator Max Baucus on tax reform. Nothing happened. Then Congressman Frank Wolf and I put together the Saving America's Future Economy Act, or SAFE Act. Then we came up with the Bipartisan Task Force Responsible Fiscal Action Act.

Last year, I was trying to get everyone to agree on the language of the 16-member commission so that the new Administration could get going on it.

Now, what I would like to know is this. Is this Administration going to do something about tax reform and entitlement reform because when I approached the issue of the commission with Kent Conrad, he said, "I am getting push-back from the Administration." When I talk with the House members, they say they are getting push-back from the Administration.

Is the Administration going to go forward and do something about tax and entitlement reform? And I want you to know this. Most of us believe that if you do not have this type of commission with fast track procedures, I do not think it will ever happen. And a lot of people will not participate because they will think, why should I bother with this when I know I am not going to get a vote after all the hard work that I have done? What is this Administration going to do?

Mr. ORSZAG. The President-Elect has stated that it is his intention that we will address entitlement reform. I spoke earlier about the fact that the existing process doesn't seem to work so well either on the long-term budget process or on health care specifically. I think working with you and exploring the best way of adopting a process change, whether it is the Conrad-Gregg Commission or other commissions or whether it is the Baucus Health Board idea, is something that you should expect from me if I am confirmed.

Senator VOINOVICH. Good. That is great to hear. The other thing is, and this is a pet peeve with me and I am going on the Appropriations Committee, I asked the other Administration to make a case of why it is important for Congress to pass appropriations on time, and I hope you agree that it is a wonderful thing. That would be the greatest gift that we could probably give the Obama Administration, is to get our appropriations done on time and not have what we are going through with the continuing resolutions. How do you feel about that?

Mr. ORSZAG. That would be a wonderful gift, yes.

Senator VOINOVICH. Good. Now I'd like to discuss the GAO High-Risk List. Senator Collins and I and all of us have been working on the High-Risk List. We got a lot of cooperation from Clay Johnson, who worked with GAO and agencies to put together strategic plans on how to get the stuff off the list. Are you familiar with those plans?

Mr. ORSZAG. Yes, and I have them in my book.

Senator VOINOVICH. And you are going to make that kind of a strategic plan part of their budget submission to try to make sure that this happens?

Mr. ORSZAG. That is one approach that I think can be effective. The Chief Performance Officer that the President-Elect has identified is going to be very focused on—let me step back. One of the key things I think we need to do, and the High-Risk List is an example of that, is not just diffuse our focus across a whole variety of things but to the extent we can focus on the biggest problems, just on a risk-based assessment, and the High-Risk List does that. Focusing on those areas makes a lot of sense to me.

Senator VOINOVICH. There are two areas that Senator Akaka and I have been working on really hard. One is security clearance reform. Are you familiar with it?

Mr. ORSZAG. Yes, and still my understanding is only, if memory serves, something like half of the relevant workforce has gone through that process.

Senator VOINOVICH. Well, it improved it a bit—

Mr. ORSZAG. Yes.

Senator VOINOVICH [continuing]. But they have come up with a new proposal, and I would really appreciate your looking at what they put together.

Mr. ORSZAG. Yes.

Senator VOINOVICH. The other one that we have been working on is supply chain management.

Mr. ORSZAG. Yes.

Senator VOINOVICH. And Ken Krieg was working on it over in the Defense Department. I would like you to look at where they are to just see if we can continue to complete reform of our supply chain processes. Former Secretary Donald Rumsfeld said we could save \$27 billion a year. So I would really like you to look at it.

The other thing is that we provided a Deputy Secretary for Management, or Chief Management Officer, for the Department of Homeland Security (DHS). I do not know if you know Paul Schneider or not. We think that there ought to maybe be a term. We tried to get it done over in the Defense Department, but we have more work to do. It seems to me that places like Defense, where you

have real management problems, and Homeland Security—Secretary Janet Napolitano, we talked with her, and she seems good, but it is still screwed up.

The point is, have you thought about transformation and how to make sure that it gets done because people get tied up with other things. It takes their mind off of it, and they do not get it done.

Mr. ORSZAG. Yes, and in fact, that is a broader theme, which is on many of these performance issues, it requires sustained focus, even when the cameras are not here, day after day, to get it done because this is not just a snap-your-fingers kind of thing.

And let me just return for a second to the background issue. All agencies now, my understanding is, do have in place a procedure for issuing personal identity verification credentials, and 52 percent of Federal employees have gone through the required background checks.

Senator VOINOVICH. Right, but I am just talking about new security clearances and the many backlogs.

Mr. ORSZAG. Oh, and the time involved. Yes.

Senator VOINOVICH. When Gordon England was confirmed, he had to go through another security clearance process.

Mr. ORSZAG. As someone who has just recently gone through multiple security clearances, I am very sympathetic to that thought.

Senator VOINOVICH. Well, I would really like you to look at it because I think we have made some progress, and I think if you would stay on top of that reform, we might be able to take that off the list.

Mr. ORSZAG. OK.

Senator VOINOVICH. Thank you.

Mr. ORSZAG. Thank you.

Chairman LIEBERMAN. Thank you, Senator Voinovich. Senator Carper.

Senator CARPER. Thank you, Mr. Chairman.

Is it Mr. Orszag or Dr. Orszag? Which do you prefer?

Mr. ORSZAG. Whatever you would like. It has been pointed out to me that when people call me “Doctor,” I am not the right kind of doctor and that I do not have the authority to issue prescriptions.

Senator LANDRIEU. And his son told him he was boring.

Mr. ORSZAG. Yes, so I am having a rough day. [Laughter.]

Chairman LIEBERMAN. How about Dr. O?

Mr. ORSZAG. Dr. O. [Laughter.]

Yesterday, I was told to become Dr. No.

Senator CARPER. We already have one of those.

Mr. ORSZAG. There you go.

Senator CARPER. I do not know if we can handle two. [Laughter.]

Senator CARPER. Well, Dr. O, whoever you are, we are glad you are here. Thank you for taking this on.

Mr. ORSZAG. Thank you.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. You were good enough to come by and spend some time with me yesterday, and I appreciate that very much. One of the issues I raised with you was when Governor Voinovich

was governor, I suspect he had line-item veto power. I had line-item veto power as governor, as well. I think line-item veto power, frankly, is a little bit oversold in terms of its utility to make big differences in budget deficits, like when we are looking at the ones we have right now. Having said that, I think it can be a helpful tool to have in one's toolbox.

During the Clinton Administration, the Congress passed and President Clinton signed legislation, it was not a constitutional amendment, it was a statutory change that provided for enhanced rescission powers for the President, as you may recall, and it was not just for spending, but I think it also dealt with revenues. I think it may have dealt with entitlements, too. And the Supreme Court knocked it down. They said it wasn't constitutional, and I am embarrassed to say I cannot tell you exactly why. But it required, in this case, the President to sign an appropriations bill, send a rescission, if you wanted to send a rescission, to the Congress, and the Congress needed, I think, a two-thirds vote in both the House and Senate in order to defeat the rescission. Otherwise, it took effect. But they had to vote. That was knocked down as unconstitutional by the Court.

When I was in my last term in the House, we authored legislation and said, let us take a little different approach. What it called for was what I describe as a 2-year test drive that would say the President could sign an appropriations bill and then send a rescission message to the Congress, House and Senate, but we would have to vote on it. We could vote it down, and a simple majority in either the House or Senate would defeat it. We restricted somewhat the ability of the President to rescind spending. If programs were fully authorized, he could rescind them more than 25 percent of the authorized spending, and if the programs were not authorized, there was no restriction. He could rescind up to 100 percent of those.

And after 2 years, the bill we passed in the House by a 3-1 margin, the power went away unless it was renewed. It sunsetted. And that was in case it served to create an imbalance between the authority of the Congress, Legislative versus the Executive Branch, in terms of spending. It passed 3-1, came over to the Senate. It died in the Senate, and it did not become law. And then subsequently, in the Clinton Administration several years later, they passed the legislation that I described. It was deemed unconstitutional.

We have reintroduced the legislation. Senator Collins, who is not here, is a cosponsor, and I think Senator Bayh, Senator Snowe, and others joined us in the last Congress. We are going to brush it off, dust it off, and reintroduce it this time. Do you have any advice for us as we attempt to put something like this in place, again, as a tool. I am not going to suggest it is going to turn a \$1 trillion deficit into half of that, but it can be one of the tools in the President's tool box. Any advice for us as we try to cobble together something that is responsible and maybe constitutional?

Mr. ORSZAG. Well, this is a topic that I know the President-Elect had spoken about during the campaign. I am also aware of concern among some of your colleagues about the balance between the Legislative and Executive Branches.

Senator CARPER. And they should have that concern.

Mr. ORSZAG. And again, if I am confirmed, I would look forward to discussing it with you further and providing perhaps technical advice that we might be able to provide.

Senator CARPER. Do you recall why the legislation that President Clinton signed was deemed unconstitutional?

Mr. ORSZAG. I think it reflects the balance between the Executive and the Legislative Branches and the respective roles of the two that are defined in the Constitution.

Senator CARPER. What we did in the last Congress in reintroducing the legislation, we made it not a 2-year test drive, but a 4-year test drive, and if it were abused, we have an opportunity not to restore that authority.

If you get confirmed, and I hear you might, then we will hopefully have the opportunity to talk about this further and you can give us some advice, technical assistance, if you will.

Mr. ORSZAG. Terrific.

Senator CARPER. Talk just a little bit about improper payments, and we talked about it the other day and you have mentioned it, I think, today. One of the things that Senator Coburn and I have focused on a bit is improper payments and updating the Federal law and trying to make sure, first of all, that agencies simply fess up when they have made improper payments and tell us what they have done, and for the most part, most agencies now do that. The government-wide improper payments total has gone to about \$70 billion as of last year.

Mr. ORSZAG. Yes.

Senator CARPER. I think Medicare Part D is not reported. I think maybe parts of Homeland Security do not report. But for the most part, agencies are reporting.

It is good that they are reporting. Most of those improper payments are, as you know, overpayments, and I am not sure that we do a very good job of going after the money and doing what are called post-audit recoveries. Although in Medicare, now for 3 years, I think, we have done post-audit recoveries for Medicare in three States, and we have gotten almost nothing back the first year, a little bit back the second year, and I think about \$600 million back in the third year, just with three States. So there is real money there to be recovered.

But what are your thoughts on improper payments, especially post-audit recoveries and how we might use them going forward.

Mr. ORSZAG. Well, again, as I mentioned in my opening statement, I think those are a promising tool. You are right that implicit in your question is that while additional reporting might be beneficial, we need to start focusing on actually getting at the money that has been reported and reducing that \$70 billion figure. The step that you mentioned is one possibility and should be explored. Again, more enforcement resources is also part of the solution here.

Senator CARPER. All right.

Mr. ORSZAG. But a core principle that the right amount should go to the right person at the right time should be a bedrock principle that we apply throughout the Federal Government.

Senator CARPER. A sort of related issue is surplus property. As you know, we have a lot of Federal property that we do not use. We pay utilities on it. We insure it. We have to do all kinds of things to maintain it, heat it, cool it, utilities and so forth. We spend a lot of money for it. We do not do a very good job identifying those surplus properties and retiring them, allowing agencies to dispose of them.

One of the reasons, I am convinced, is that we do not allow agencies to participate in the proceeds—

Mr. ORSZAG. Yes.

Senator CARPER. If you have a building and you get \$100 for it, agencies get nothing for it, for the most part—there are some exceptions to that.

With respect to improper payments and post-audit recovery, I wonder if one of the reasons why we do not do a very good job of going after and getting that money is there is not a real financial incentive for the agencies to go after the money, to allow them to keep it for some good purpose.

Would you talk about both of those in the context of the incentives, please? Thanks.

Mr. ORSZAG. Well, first, with regard to real property, yes, a few agencies have retention authority. They can basically keep the proceeds, but many agencies do not, and that impedes their incentives to dispose of or efficiently manage the property that they are using.

More broadly, there is evidence from other examples. For example, there is evidence that when local law enforcement agencies were able to keep some of the proceeds from captured stolen goods or what have you, there was improved enforcement that resulted. I think it is just a natural observation that if people do not have adequate incentives to do the right thing, they often do not do it. So it is at least worth exploring, returning to the earlier discussion that occurred, the incentives on both the Legislative side and on the Executive side for improved enforcement.

Let me go broader again. Improved enforcement is going to require the sustained focus that we were talking about before. It is also going to require resources. I think it is also going to require thinking creatively about the incentives that we are creating and whether we can improve them and strengthen them because this is a problem that has always existed and the thought that we are going to get rid of it immediately is unrealistic. But surely we can do better, and examining why we haven't done better in the past is part of the solution.

Senator CARPER. Mr. Chairman, do you think I have used enough time?

Chairman LIEBERMAN. You used it, and you used it well.

Senator CARPER. Thank you, sir.

Chairman LIEBERMAN. Did I give the right answer?

Senator CARPER. That was great.

Chairman LIEBERMAN. Thanks, Senator Carper. Senator Landrieu.

OPENING STATEMENT OF SENATOR LANDRIEU

Senator LANDRIEU. Thank you. Mr. Orszag, I think you are truly an excellent nominee for this position. You come with all the aca-

demographic essentials, but more than that, you come with the right kind of set of experiences to do this job, which is, I think, going to be one of the toughest jobs in any Administration, but particularly for this new President. I know that he is going to come to rely on your expertise, as we are, to help us through this very difficult time and to set a course for fiscal responsibility.

I have just three specific questions. One, I want to start by agreeing with your assessment that one of the first things that we should do to get a handle on our long-range fiscal situation is to focus on health care. I read an article the other day that said we do not have a health care system. We have a disease management system that is badly broken and flawed, and we need to quickly get to a health care system in America, an efficient one, in order not only to do what our citizens are expecting us to do, but to basically get a handle on the finances that are wholly unsustainable.

So we have worked very closely together on some various approaches, and Ron Wyden and others have a bipartisan group, so I think you are right on and just want to encourage you and look forward to working with you on that.

Mr. ORSZAG. Senator, if I could just note—

Senator LANDRIEU. Go ahead.

Mr. ORSZAG. If you think we have a health care system, that may be right until you try to change it, and then all of a sudden we have a system that cannot be changed. It is absolutely crucial, and I do not want to eat up any time, but I do want to emphasize one of the primary reasons that I was interested in this job is to help Tom Daschle and the rest of the Administration tackle health care costs.

Senator LANDRIEU. And I want to say I think you are exactly right. It is a little unusual for an OMB Director, but you are going to be an unusual OMB Director because you actually understand what is running up the cost in the government and where you have to focus your time and resources, and that is an area that we have to get right. So I just want to say how pleased I am.

But specifically, two things that are right before us. On the stimulus package, and it goes with your idea, which I just want to quote from your own document, you say, "I am looking forward to, or we will launch a pilot program with individual agencies to serve as demonstration projects through which we can test our approaches to improve effectiveness, efficiency, share best practices, and further improve performance."

We can do that actually right now in the stimulus package with approximately \$3.5 billion of money that has already been appropriated, which if we could shake loose from a bureaucracy that is not functioning could actually do two things at once: Create hundreds, if not thousands, of jobs in an area that has been devastated by natural disaster and save the Federal Government money by not requiring additional funding.

So on the stimulus package, I want to know if you would be open to this idea if we could present to you some real evidence as to why there are billions of dollars that are tied up and how just some language change would free that money up and create jobs. Would you be open to receive this, and do you understand what I am pointing

to relative to the billions of dollars that are caught in this pipeline between Washington and the Gulf Coast area?

Mr. ORSZAG. I am absolutely open. Again, if I am confirmed, I am going to be open to receiving all of your ideas because I think we need to be reexamining what we are doing.

Senator LANDRIEU. And just for the interest of the press, I am going to give this to them in more detail, but it is specifically Circular A-87 that states a cost is reasonable if in its nature and amount it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made. That is very reasonable.

The Federal Emergency Management Agency (FEMA) right now is not operating under this circular that is mandated by this government. I will not go into the details, but just let me give you one example. FEMA today refuses to reimburse communities if they fail to traverse floodwaters in an insecure communication dead zone to turn on a humidifier the day after the hurricane. If you did not traverse through four feet of water to turn on a humidifier in your house underwater, they are claiming that you did not do everything you reasonably could, so they will not reimburse you.

I could give you a list of things. We are looking for a person like you with common sense that will simply apply the current law, free up this money, and get people back to work.

I have only another minute, so let me bring your attention to this chart.¹ This is a chart, Mr. Chairman and Members, that we really have to focus on. It is a chart from 1929 to the present time of the level of spending relative to Corps of Engineers investments in this country relative to the gross national product. When you get to 2007, way down at the end, the last dot, or 2005, Mr. Chairman, that is when the levees broke in New Orleans because that is what starts happening when you under-invest significantly over time in a dangerous way in core infrastructure.

Now, we hear a lot about highways. We hear about land ports. We hear a little bit about water ports. But if you ask Senator Murray and Senator Cantwell about this last weekend when they went home, what they heard about was dikes and levees because all over this country these levees do not exist or they are breaking, or the dikes are nonexistent or they are flooding—issues extraordinaire of which we, of course, are in ground zero.

While health care is truly a need, could you comment just briefly on your understanding of the current status of Corps of Engineers infrastructure spending relative to the GDP and maybe perhaps some creative ways that we can begin to reverse this obviously dangerous trend for the United States of America?

Mr. ORSZAG. Senator, I know this is an issue that has arisen with regard to the Economic Recovery Act and whether there are specific projects through the Corps of Engineers that could be accelerated as one tangible example of the attention or concern that surrounds this area of activity.

Senator LANDRIEU. I would appreciate your continued focus on this and this Committee because we have an obligation to try to

¹The chart submitted by Senator Landrieu appears in the Appendix on page 169.

prevent disasters when we can. Now, we can't always predict terrorist attacks, although we are trying to do a better job.

But we must certainly, Mr. Chairman, even though we are not an appropriations committee, ring the alarm bell. I think this graph is an alarm bell about the gross and dangerous under-investment and how we can reverse it.

I have some suggestions, but I think we need to be attentive to the \$120 billion that it cost this government because we failed to put up a few billion dollars to get the levees straight in the first place. It broke and basically cost the government \$120 billion. So when we think about saving money, this would be a good place to start. Thank you.

Chairman LIEBERMAN. Thanks very much, Senator Landrieu. I appreciate what you said. I agree with it, and I thank you for your advocacy, not only for the Gulf Coast, but for learning the lessons from Hurricane Katrina so that we can protect other parts of America from anything like that.

Senator McCaskill, thanks for being here.

OPENING STATEMENT OF SENATOR MCCASKILL

Senator MCCASKILL. Thank you very much.

I first want to thank you and your family for your willingness to embark on this endeavor. There is no question with your background that you are not in this for the money, and there is no question, given the position you have taken, that you are not in it for the glory. So if it isn't money or glory, it is something much more noble, and I congratulate you and your family for your willingness to do it.

I know that you and the Chairman visited a little bit about contracting reform, and you and I have talked about contracting reform. It is an area that I think we have some real ground to plow in terms of money savings.

I want to spend just a couple of minutes on the Inspector General (IG) community overall. The Chairman and the Ranking Member and others on this Committee have helped. We did a bill that I think strengthens the independence of the IG community in terms of allowing their budgets to be transparent, that is, we can see how much they are requesting and whether or not the agency is working with them, and allowing them their own legal counsel.

I first want to ask about the IG community, about the report that was prepared concerning all the recommendations that have been allowed to languish and what kind of sense of urgency do you see within OMB about looking at this low-hanging fruit, documented with good factual basis for the recommendations, ways that we can begin to at least make a downpayment to the American people that we are worried about the way we are spending their money.

Mr. ORSZAG. I am personally aware of that list of IG recommendations, and again, if confirmed, we are going to make sure that the Cabinet Secretary-designees, or hopefully at that point the Cabinet Secretaries, are also aware of the IG recommendations in their areas and that they are attentive to those recommendations because at least from a cursory look, there does seem to be issues that need to be addressed, and OMB plays a crucial role, as you

know, in chairing an interagency group of IGs, so we are a natural place for a lot of that activity to occur.

Senator MCCASKILL. The council that was codified in the bill and that your Deputy Director serves on is a great place for you guys to push from the inside because, frankly, we haven't had a lot of help from the inside. In fact, in many agencies, the IGs have been ostracized with no support. In fact, in some agencies, we have received reports, whistleblower reports, after we have said that they have to do their own budget, they have lost the administrative support of their agency in preparing their budget, which, of course, was not the idea behind the bill.

Mr. ORSZAG. Right.

Senator MCCASKILL. It was not that they were supposed to become self-sufficient in terms of administrative support. As we look at the stimulus, has there been any thought given to the resources of the oversight committee because of the enormous amount of money that is going to be expended? It is unrealistic that we are going to grow spending so exponentially in some of these agencies and expect the GAO and the IG community to do the job they really need to do because the scary part about spending a lot of money at once is that is usually when things get sloppy because it does not feel like the money is quite as precious. I am curious if you all have thought about putting in the stimulus package additional resources for the IG community and GAO.

Mr. ORSZAG. There has been significant thought given to program integrity funding and also, as was mentioned before, a special oversight board comprising the IGs and chaired by the Chief Performance Officer specifically on this topic that will hold regular meetings to identify and examine problems, in addition to a special website that will have information about the contracts so that we would be transparent about what is happening and information through whistleblower and other mechanisms could be fed back into the IG community and that oversight board.

Senator MCCASKILL. I think that is great. I would stress that I think that the best whistleblowers are the employees of GAO and the IG, especially if you look at the responsibilities of GAO and the amount of money they generate. Some IGs are better than others in terms of how much money they generate for every dollar we spend. But all of them make money for us. They are all money makers. It seems to me that we are needing some money makers around this place right now, so I am hoping that you all look at actually staff levels within GAO and these IG departments as you look at the stimulus.

Earmarking, obviously, it is something that has become a lightning rod in many ways. Has there been discussion about the Bush Executive Order and how you all are going to handle the Executive Order as it relates to earmarking?

Mr. ORSZAG. Two things. First, we are reviewing all Executive Orders for their appropriateness for a new Administration.

Second, with regard to earmarks, the President-Elect has stated that he is quite concerned about the issue and would like earmarks reduced. My understanding is that the Chairmen of the House Appropriations Committee and the Senate Appropriations Committee have reached an agreement that has been publicly released on re-

ducing earmarks to 50 percent of their level from 2006, if I remember correctly, and that is certainly a step in the right direction.

Senator MCCASKILL. One other piece of legislation that has not been introduced yet but that I will be introducing is looking at whether or not at this juncture in our government we can afford any earmarking to private or not-for-profit entities. Can we really afford at this point to be earmarking to private endeavors when we have so much that needs to be done in the public sector? I would just ask that you all, as you are considering your earmark policy going forward, look at the amount of money that is being spent by the Federal Government in the private sector through earmarking as opposed to some process that involves competitive grants.

And finally, on competitive grants, as someone who has not done earmarking and who has spent a lot of time encouraging people into competitive grants and talking to my constituents about the competitive grant process, imagine my horror when I learned that a program in my State that had competed for a grant and had gotten one of the highest scores for the grant was not considered for the grant because the agency that was doing the competitive grants decided they were going to pick someone that had not even applied. In other words, it was not a competitive grant. It was bureaucracy earmarking under the guise of a competitive grant. And by the way, the amount of time and resources that agencies take to prepare grants is a significant expenditure of public dollars.

So I wanted to put on your radar this notion of, from your position, talking about the process of competitive grants and how there is nothing, frankly, that is more susceptible to undermining this idea that we pay attention to how we spend our money than calling something a competitive grant that is just a good-old-boy or good-old-girl system.

So I wanted to put that on your radar. I know you have hardly anything on your radar right now, but I thought I would add another small thing to it because I think it is something that is very important. We have had a lot of growth in competitive grants. We have to make sure that the process is rigorous.

Thank you very much, and welcome.

Mr. ORSZAG. Thank you.

Chairman LIEBERMAN. Thanks very much, Senator McCaskill.

I think Senator Collins and I will each ask one question, and then I will let you go. We want to get to Mr. Nabors. Chairman Obey is here. Like Elvis, he is in the building. He is actually in the room, I believe. I compared Chairman Obey to Elvis because you can never say too many positive things about the Chairman of the Appropriations Committee here in Congress. We welcome Dave Obey.

Very briefly, if I can, and if you want to take this under advisement, this sort of combines the tax cut with the TARP functions. I had a suggestion from someone that it might be constructive to allow investors who buy deeply discounted mortgage-backed securities to treat income, return of principal on these investments, as capital gain rather than ordinary income. Obviously, that would make it a lower tax. The argument is that would encourage investment. Private investment in those mortgage-backed securities would help shore up mortgage values and reduce the pressure on

the Federal Government to buy the assets directly through TARP or the Federal Reserve.

I wonder if you have heard that idea and whether or not you have an impression of whether it makes sense.

Mr. ORSZAG. I would again refer to the Treasury folks, and I am sure they could follow up with you. I guess the only thing I would say is the tax code generally treats debt instruments, like mortgage-backed securities, in a particular way—

Chairman LIEBERMAN. Right.

Mr. ORSZAG [continuing]. And equity investments are what get capital gains treatment—

Chairman LIEBERMAN. Correct.

Mr. ORSZAG [continuing]. So that would be an unusual—

Chairman LIEBERMAN. It would be a change.

Mr. ORSZAG. It would be a change that may be difficult to limit with creative financial engineering to the instrument that you think you are targeting.

Chairman LIEBERMAN. Thank you. Senator Collins.

Senator COLLINS. Thank you. The Federal Government will spend more than \$70 billion in this fiscal year on information technology projects. OMB consistently identifies more than \$1 billion worth of these IT projects as poorly planned and/or poorly performing, usually both. The number of investments that the Federal Government is making each year in IT continues to grow, yet the problems continue to grow, as well. We have had enormous failures in IT projects at the FBI, at the Census Bureau. The list goes on and on. And OMB is responsible under the Cohen-Clinger Act for overseeing the major IT investments.

How do you propose that OMB exercise better oversight to get these IT contracts back on track?

Mr. ORSZAG. I think there are several steps, and one of the issues that I am examining is whether the e-Government administrator is a sufficient staffing internal resource or whether we also could use a Chief Information Officer internally at OMB.

As you noted, we have a variety of statutory responsibilities, not only in the Clinger-Cohen Act, but under the e-Government Act, etc. I would identify a few things.

First, I think the IT investments need to be better aligned with agency budgets. Currently, the Exhibit 300s, which are the way that IT budgeting occurs, are sort of in their own world, agency by agency, not aligned with the non-IT part of the budget process. Those need to come together to ensure better alignment of IT and what you are trying to accomplish with the IT.

And then we come back to this general theme, which we have discussed previously, that there is simply not enough oversight and auditing of performance throughout not just IT investments, but throughout many other areas of what we are doing, and that requires sustained focus. So coming back to a theme that we touched upon before, and if I am confirmed, this will require regular work with this Committee and the Chief Performance Officer on an ongoing basis in order to get real results because it is not going to happen overnight and it is not going to happen by snapping our fingers.

Senator COLLINS. That is true, and this Committee approved at the end of the last session some very important legislation that would provide additional reporting to the appropriate committees of Congress as well as to OMB that I encourage you to take a look at.

I have been very impressed with your answers today. I do want to tell you the Chairman at the beginning asked three routine questions that we ask every nominee. I would be remiss in my capacity as the Ranking Minority Member if I did not tell you that the Minority Members of this Committee also expect that you will be responsive to our requests for information as well.

Mr. ORSZAG. Absolutely.

Senator COLLINS. Ninety-nine percent of the time, fortunately, on this Committee, those requests are going to be joint, but thank you, and thank you, Mr. Chairman.

Mr. ORSZAG. It makes it even easier.

Chairman LIEBERMAN. Amen. Thanks very much, Mr. Orszag. To use Senator Collins' words, just to show how bipartisan we are, your testimony has been quite impressive. We look forward to working with you.

I would actually like to explore the possibility that we might get together informally on a regular basis without a public hearing context but just to talk about projects that we are working on that overlap, and I hope you will be willing to do that.

Mr. ORSZAG. I would look forward to it.

Chairman LIEBERMAN. Thank you very much.

Without objection, the record will be kept open until 12 noon tomorrow for the submission of any written questions or statements for the record. We are doing it on that short of time frame because we want very much to have this critical nomination and that of your deputy be ready for Senate action, hopefully unanimously by consent, as soon after President Obama takes office next Tuesday as is possible.

Mr. ORSZAG. Thank you.

Chairman LIEBERMAN. Thank you very much, and with that, we will adjourn this hearing and immediately reconvene for Mr. Nabors.

[Whereupon, at 3:56 p.m., the Committee was adjourned.]

A P P E N D I X

**Testimony of U.S. Rep. John M. Spratt, Jr.
Chairman, House Budget Committee**

Confirmation of Peter Orszag as Director of OMB

Chairman Lieberman, Ranking Member Collins, members of the Committee, thank you for inviting me across the Capitol to testify on behalf of Peter Orszag for Director of OMB. Had the choice been mine, Peter is exactly the person I would have chosen; and indeed, Mr. Chairman, two years ago, when the nomination for Director of CBO was ours, we selected Peter Orszag, and he fulfilled our expectations in every respect.

Our country faces massive problems: a recession that is deepening; unemployment that is soaring; and business failures and foreclosures that are occurring at a rate not seen since the thirties. As a result, the federal government is racking up deficits and accumulating debt that will take a generation of sustained effort to overcome.

During a time when we are plagued with problems, we can at least be thankful that the Obama Administration will have Peter Orszag, a steady hand at the helm of OMB. Although Peter is young, he has experience beyond his years, a keen intelligence, and a breadth of knowledge about public policy. Over the last several years, he has trained his focus on two of the most vexing issues that overhang our future: fixing health care and securing retirement.

While at CBO, Peter expanded its capacity for health care policy analysis. He beefed up the health care staff and created a new panel of health advisers to bring together some of the nation's leading policy experts to inform CBO's work. The investments he made have paid off. CBO's efforts have improved our understanding of health care and the myriad proposals for reform. CBO's work has helped illuminate why health care spending is growing faster than the overall economy, and why it may be possible to reduce that growth without harming outcomes by spotlighting medical spending that is of limited or no health benefit.

Before his work in the economics of health care, Peter authored what may be the best treatise yet on Social Security. He analyzed its long-term problems, and then laid out a path to solvency that included better benefits for those needing them most.

Beyond his mastery of economic issues, Dr. Orszag has a great gift for explaining complex matters simply and succinctly. This talent has made him an invaluable resource on Capitol Hill and will stand him in good stead at OMB.

Because of his clarity and insight, long before he became Director of CBO, Dr. Orszag was a frequent witness at our committee. As director of the Hamilton Project, he was searching for innovative ways to promote economic growth. These dwelt on ways to strengthen education, ways to help families cope with economic change, and ways to make government more effective – all useful pursuits if we are to build a stronger economy for the future.

In the last two years, when Peter was Director of CBO, we have called on him to testify before the House Budget Committee thirteen times. His testimony ranged from such topics as the outlook for the economy, the cost of the war in Iraq, how we can derive more value out of health care spending, and the impact of controlling carbon emissions. No matter the economic issue, Dr. Orszag's testimony has been informed, incisive, and eminently understandable.

In the 1990s, Peter Orszag worked for President Clinton's National Economic Council and the Council of Economic Advisors. Armed with knowledge, commitment, and copious quantities of Diet Coke, Peter helped the Clinton Administration and the Congress fashion good fiscal policy.

Peter Orszag has worked in government, in the private sector, and in academia and the think tank sector. A summa cum laude graduate of Princeton, he won a Marshall Scholarship and completed two graduate degrees at the London School of Economics. He has published six

books on retirement and homeland security and papers too numerous to cite. He has successfully managed a large staff at CBO. All of the above, in addition to his integrity and work ethic, make him a superlative choice for Director of OMB.

Our economy is in recession, but this is not your typical business cycle recession, and there are no off-the-shelf solutions to turn to. In times like these, we need our best and brightest. Peter Orszag fills that bill. He has the skills, temperament, intelligence, and experience needed at OMB. I urge his confirmation.

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**Testimony of Peter R. Orszag
Nominee To Serve As
Director of the Office of Management and Budget**

**Before the Committee on Homeland Security and Governmental Affairs
United States Senate
January 14, 2009**

Mr. Chairman, Ranking Member Collins, members of the Committee, I am honored by the opportunity to come before you as President-elect Obama's nominee for Director of the Office of Management and Budget. I am also particularly pleased that the President-elect has announced his selection of Rob Nabors as Deputy Director of OMB. If confirmed, we will be working closely together, and I look forward to that.

Thank you to Chairman Spratt and Congressman Ryan for introducing me at this hearing. For the past two years, I have had the privilege of serving as Director of the Congressional Budget Office. In that capacity, I worked closely with members of both parties, including Mr. Spratt and Mr. Ryan. I hope to continue that spirit of bipartisanship if I am confirmed as OMB Director, since we will need to work together to tackle both the short-term and long-term challenges we face.

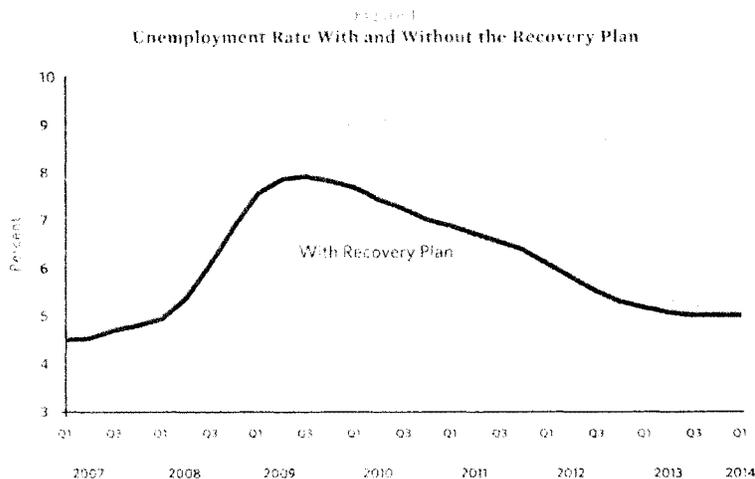
I am also delighted this morning to be joined by my daughter, Leila, and my son, Joshua. My children have already informed me that they find much of what I spend my days doing to be terribly boring. So if they depart early, please know it is only an indication of their views regarding their father's occupation.

Mr. Chairman, this hearing is being held at a momentous time. In the short run, the most pressing challenge is to jump-start the economy out of the worst economic crisis since the Great Depression. Over the longer run, a key challenge is putting the budget on a more sustainable course. If the Senate confirms me as OMB Director, I look forward to working with each of you in the months and years ahead to address the twin challenges of economic recovery and fiscal responsibility. To meet both challenges, we need to make government work better and smarter than it has in the past.

Short-Term Challenges

The short-term economic outlook we are inheriting at the beginning of 2009 is bleak, and dramatic action is necessary to address it. The economy lost more than 2.5 million jobs in 2008, and, without policy interventions to bolster aggregate demand, it could lose another three to four million jobs over the coming year. The President-elect's economic advisers expect that, unless we take action, unemployment will rise to over nine percent and will return only very gradually to its normal pre-recession level. As Figure 1 shows, the unemployment rate in the final quarter of 2010, though still elevated, would be much lower if we act than if we fail to do so. (Figure 1 is taken from a recent analysis by Christina Romer and Jared Bernstein, available at www.change.gov.) In the absence of

action, the gap between how much the economy could produce each year and how much is actually being produced amounts to roughly \$1 trillion a year – which amounts to an average of about \$12,000 a year for a family of four.



The economic downturn originated in the bursting of the housing bubble, but it has now spread much more widely than the housing market. Financial markets remain under stress, confidence has eroded, and economic activity in the rest of the world is slowing.

We need to act. In particular, during periods like the current one, the key impediment to growth is aggregate demand: with existing capacity, the economy could produce substantially more goods and services if there were more demand for them. (By contrast, over the medium to long term, the key factor driving economic growth is the capacity of the economy to produce goods and services rather than the demand for them.) President-elect Obama's economic recovery plan is aimed at promoting economic activity by helping to fill the gap between aggregate demand and existing capacity, and doing so in a way that will also help to expand capacity in the future.

As we act to address the economic crisis, we must be also responsible stewards of the public fisc. As the President-elect has already discussed, the plan should include significant transparency, accountability, and oversight. The goal is to set a new standard for how we spend taxpayer dollars.

Such heightened transparency and oversight is particularly important given that we are inheriting a daunting fiscal position. Even without steps to mitigate the economic downturn, the deficit we are inheriting for the current fiscal year, which began last

October, is likely to exceed \$1 trillion – more than eight percent of Gross Domestic Product (GDP), and the largest in our history with the exception of the Civil War and the two World Wars. Even with the prospect of such large deficits, however, nearly every leading economist agrees we have no choice but to act aggressively to expand aggregate demand and address the macroeconomic crisis. That will necessarily imply even larger deficits in the near term.

Longer-Term Challenges

The combination of the economic recovery package, interventions to stabilize the financial and housing markets, and the normal dynamic of the economy over the business cycle should help to bring back a period of economic growth. And once the economy recovers sufficiently, we must shift our attention to our medium- and long-term fiscal challenges. The simple fact is that, over the long term, the federal budget is on an unsustainable path. Even after the economy recovers from the current downturn and under current policies, the nation faces the prospect of budget deficits that, we believe, will measure about five percent of GDP over the next five to 10 years. Over the longer term, the situation is expected to grow even worse as health care costs continue to rise and the baby boomers retire. Today we enjoy significant maneuvering room in responding to crises because our debt is viewed as the safest investment in the world. Unless we change policy, however, over the long term that perception could shift – which could not only trigger a fiscal crisis, but also severely limit our ability to respond flexibly to any future economic difficulties.

The principal driver of our long-term deficits is rising health care costs. If confirmed, I look forward to working closely with Tom Daschle, the President-elect's nominee to serve as Secretary of Health and Human Services and to run the new White House Office of Health Reform. I share his passion for getting more value from our health care system.

Let me provide just one telling fact: If costs per enrollee in our two main federal health care programs, Medicare and Medicaid, grow at the same rate as they have for the past 40 years, those two programs will increase from about five percent of GDP to 20 percent by 2050. That's roughly the entire size of the federal government today. (As the Congressional Budget Office and others have noted, there are reasons to expect cost growth to slow in the future relative to the past even in the absence of policy changes. But the point remains that slowing health care cost growth is key to our fiscal future.)

Rising costs for Medicare and Medicaid, in turn, reflect rising health care costs across the public and private sectors. Therefore, we need to be thinking about ways to slow overall health care cost growth, rather than just reducing the rate of growth in Medicare and Medicaid. Indeed, were we to try to slow Medicare and Medicaid spending alone without slowing the rate of growth in health care costs system-wide, we would simply create massive access problems for Medicare and Medicaid beneficiaries, since providers would be increasingly unwilling to serve those populations relative to others. Medicare and Medicaid policy changes can help to lead the way. But those changes will not be

sustainable over time unless they also help to drive down cost growth in the rest of the system.

Improving the efficiency of the health system, however, has benefits that extend well beyond the budget. Health care costs are already imposing severe burdens on state governments – on average, health care absorbs about a third of state budgets, even more than is taken up by education. Moreover, health care costs are reducing workers' take-home pay to a degree that is both unnecessarily large and perhaps under-appreciated.

There is a ray of hope. We appear to have massive opportunities to reduce health care costs without harming health outcomes. Significant evidence suggests that higher cost does not always mean higher-quality care. As I have noted before, perhaps the most compelling evidence of this fact is that per-capita health care spending varies widely across the United States, but the very substantial variation in cost per beneficiary is not correlated with overall health outcomes. Thus, embedded in the country's fiscal challenge and the current burdens on state governments and workers are opportunities to reduce costs without impairing health outcomes overall.

Some of the many steps that would help to improve the efficiency of the health system include the following:

- expanding the use of health information technology (IT) and electronic medical records, which is a necessary, but not sufficient, measure to improving the quality and efficiency of the health care system;

- expanding research on “comparative effectiveness” of different options for treating a given medical condition, which could provide information on both medical benefits as well as costs;

- providing financial incentives for better care rather than more care (currently, financial incentives for providers and patients encourage or facilitate expensive treatment and procedures, even when there is little evidence that they are more effective than existing therapies); and

- providing incentives for prevention (such as immunizations and screening tests) and healthy living (such as avoiding obesity and smoking) so that people have fewer health care problems throughout their lives.

If I am confirmed, I look forward to working with Senator Daschle and with all of you to make these ideas a reality.

Better Performance

President-elect Obama has vowed to improve the performance of the federal government. We plan to build a government that not only performs better, but also provides a historic

level of transparency to both Congress and the public about the information it holds. I would like to take a moment to provide some of our initial thinking about priorities.

First, as you know, President-elect Obama has chosen Nancy Killefer to serve as Chief Performance Officer and Deputy Director for Management at OMB. Under her leadership, we will create a set of performance metrics that are outcome-oriented and in line with public expectations, as well as a central repository of performance data that will be available to departments and agencies, Congress, and the general public. We view these data as an important source of information for improving performance across the federal government. We also plan to build a team of management experts within OMB who will work with individual agencies to improve the skills of their workforce. We will launch pilot programs with individual agencies to serve as demonstration projects through which we can test our approaches to improve program effectiveness and efficiency, share best practices, and further improve performance.

Second, we will strengthen the federal government's use of information technology. That will not only help us deliver services more effectively, it will enable us to gain efficiencies in federal contracting and acquisition. The OMB officials with responsibility for information technology will work closely with the President-elect's choice for Chief Technology Officer, so that we can better use technology to deliver services.

Third, in the area of human capital, we will work to restore the prestige and build the capability of the federal workforce and improve the management of federal contractors, who are our partners in the private sector. With half of the federal workforce expected to retire over the next 10 years, our government will lose unprecedented amounts of experience and expertise. We want to broaden the appeal of public service, and we believe we can do so. In his campaign, President-elect Obama inspired millions of Americans of all ages. We want to do our part to make government a career of choice for more Americans.

Finally, we need to re-examine how we can best protect public health, the environment, and public safety. We need a fundamental transformation of national regulation, one that rejects old-style remedies in favor of flexible, creative, user-friendly responses that increase benefits, reduce costs, and are suitable to the distinctive challenges of the modern era. I am pleased that the President-elect has announced his intention to nominate Cass Sunstein, one of the nation's leading law professors and a specialist on regulation, to run the office within OMB responsible for coordinating regulatory policy.

Conclusion

Mr. Chairman and members of the Committee, that concludes my prepared remarks. I want to reiterate my commitment to working across party lines to address both the immediate and long-term challenges we face. I would be pleased to address any questions you may have.

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES

A. BIOGRAPHICAL INFORMATION

1. **Name:** (Include any former names used.)

Peter Richard Orszag

2. **Position to which nominated**

Director, Office of Management and Budget

3. **Date of nomination:**

January 20, 2009

4. **Address:**

REDACTED

5. **Date and place of birth**

*December 16, 1968
Boston, Massachusetts*

6. **Marital status:** (Include maiden name of wife or husband's name.)

Divorced

7. **Names and ages of children:**

REDACTED

8. **Education:** List secondary and higher education institutions, dates attended, degree received and date degree granted

*London School of Economics
Attended 10/1994 to 06/1995 and 11/1996 to 01/1997
Ph.D. in economics awarded March 1997*

*London School of Economics
Attended 08/1991-06/1992
M.Sc. in economics awarded June 1992*

*Princeton University
Attended 08/1987 – 06/1991
A.B. in economics awarded June 1991*

*Phillips Exeter Academy
Attended 12/1985 – 07/1987
High School Diploma awarded July 1987*

9. **Employment record:** List all jobs held since college, and any relevant or significant jobs held prior to that time, including the title or description of job, name of employer, location of work, and dates of employment. (Please use separate attachment, if necessary.)

See separate attachment

10. **Government experience:** List any advisory, consultative, honorary or other part-time service or positions with federal, State, or local governments, other than those listed above.

*Intern, Senator Thomas Daschle
317 Hart Senate Office Building, 20510
Employed from 03/1987 – 05/1987*

11. **Business relationships:** List all positions currently or formerly held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.

*Competition Policy Associates, Director, 2003-2007
Sebago Associates, Director, 2002-2007
Orszag Association Limited Partnership, limited partner 1988-2006*

12. **Memberships:** List all memberships, affiliations, or offices currently or formerly held in professional, business, fraternal, scholarly, civic, public, charitable or other organizations.

*National Academy of Social Insurance (current member)
Institute of Medicine, National Academies of Sciences (current member)
Council of Foreign Relations (previously held term membership)
American Economic Association (former member)
Pension Rights Center (previous member of board)
Center for American Progress (previous member of academic advisory board)*

13. **Political affiliations and activities:**

- (a) List all offices with a political party which you have held or any public office for which you have been a candidate.

None

- (b) List all memberships and offices held in and services rendered to any political party or election committee during the last 10 years.

None

- (c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more during the past 5 years.

05/09/2006 - \$1,000

Judy Feder for Congress

5/09/2006 - \$1000

Actblue

9/24/2002 - \$250

Wofford for Congress

14. **Honors and awards:** List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognitions for outstanding service or achievements.

Awarded London School of Economics M.Sc. Economics Prize, June 1992

Awarded Marshall Scholarship, 1991-1992

Awarded John Glover Wilson Memorial Prize in Economics, June 1991

Inducted into Phi Beta Kappa, June 1991

Received an A.B summa cum laude in economics, Princeton University, June 1991

15. **Published writings:** Provide the Committee with two copies of any books, articles, reports, or other published materials which you have written.

Please enclosed disc

16. **Speeches:**

- (a) Provide the Committee with two copies of any formal speeches you have delivered during the last 5 years which you have copies of and are on topics

relevant to the position for which you have been nominated. Provide copies of any testimony to Congress, or to any other legislative or administrative body.

Please see enclosed disc

- (b) Provide a list of all speeches and testimony you have delivered in the past 10 years, except for those the text of which you are providing to the Committee. Please provide a short description of the speech or testimony, its date of delivery, and the audience to whom you delivered it.

Please see attachment

17. Selection:

- (a) Do you know why you were chosen for this nomination by the President?

As President-Elect Obama mentioned, I have been one of the nation's leading voices on budgetary issues, and have made significant contributions to the understanding of many areas of the economy, including social security, health care and climate change. Further, I share the President-Elect's desire to restore discipline to our budget.

- (b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

I have extensive expertise in budget and economic matters. I have researched, written and spoken on these issues extensively while Director of the Congressional Budget Office and a Senior Fellow at the Brookings Institution.

B. EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

Yes. I have a custodial account which contains funds from the sale of my former employer, Competition Policy Associates to FTI Consulting. In the future, funds will be released into this account, but I no longer have any connection or employment with FTI Consulting or Competition Policy Associates. Details of the account have been disclosed on the SF 278 form.

2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

No

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization, or to start employment with any other entity?

No

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

Yes

6. Have you ever been asked by an employer to leave a job or otherwise left a job on a non-voluntary basis? If so, please explain.

No

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None. In connection with the nomination process, I have consulted with the Office of Government Ethics and the Office of Management and Budget's designated agency ethics official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement with the Office's designated agency ethics official.

2. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration or execution of law or public policy, other than while in a federal government capacity.

I filed a brief with Joseph Stiglitz explaining the economic and policy rationales for allowing foreigners harmed by global cartels to file suits in the United States:

"Brief of Amici Curiae Economists" (with Joseph E. Stiglitz), F. Hoffman-LaRoche Ltd., et al., v. Empagran S. A., et al., Supreme Court of the United States, March 15, 2004

Additional activities directly or indirectly seeking to influence legislation include:

- *"The Impact of Asbestos Liabilities on Workers in Bankrupt Firms," with Joseph E. Stiglitz and Jonathan M. Orszag, Journal of Bankruptcy Law and Practice, Volume 12, Issue No. 1, February 2003. (Paper was originally commissioned by the American Insurance Association)*
 - *"An Economic Assessment of the Exclusive Contract Prohibition Between Vertically Integrated Cable Operators and Programmers," with Jonathan M. Orszag and John M. Gale, Filed in Conjunction With Reply Comments Submitted to the Federal Communications Commission (CS Docket No. 01-290), Commissioned by EchoStar Satellite Corporation and DIRECTV, Inc., January 7, 2002*
 - *"Quantifying the Benefits of More Stringent Aircraft Noise Regulations," with Jonathan M. Orszag, Northwest Airlines and Sebago Associates, Inc., October 2000.*
 - *"The Economics of the U.S.-China Air Services Decision," with Jonathan M. Orszag, and Diane M. Whitmore, United Parcel Service and Sebago Associates, Inc., March 2000.*
3. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No

2. Have you ever been investigated, arrested, charged or convicted (including pleas of guilty or nolo contendere) by any federal, State, or other law enforcement authority for violation of any federal, State, county or municipal law, other than a minor traffic offense? If so, provide details.

No

3. Have you or any business of which you are or were an officer, director or owner ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

-Uncontested divorce in 2006

- One motion filed against former spouse for the appointment of a parenting coordinator for our children

-One motion by former spouse for financial payment filed and quickly withdrawn in early 2008

4. For responses to question 3, please identify and provide details for any proceedings or civil litigation that involve actions taken or omitted by you, or alleged to have been taken or omitted by you, while serving in your official capacity.

None

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

E. FINANCIAL DATA

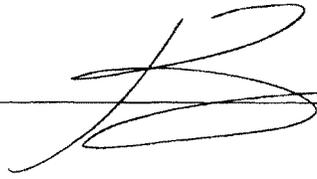
All information requested under this heading must be provided for yourself, your spouse, and your dependents. (This information will not be published in the record of the hearing on your nomination, but it will be retained in the Committee's files and will be available for public inspection.)

REDACTED

AFFIDAVIT


_____ being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.

Subscribed and sworn before me this 17th day of December,
2008



Notary Public

Kim B. Westray
Notary Public, District of Columbia
My Commission Expires 7-31-2011

Attachment 1 – Question 9, Employment History – Peter Orszag

- Director, Congressional Budget Office, January 2007– . The Director of CBO oversees the agency’s work in providing objective, nonpartisan, and timely analyses of economic and budgetary issues—supervising the numerous analytical papers and cost estimates that the agency produces and, to present the results, frequently testifying before the Congress. In managing the agency, the Director is responsible for a staff of 235 people and an annual budget of roughly \$40 million. Since Dr. Orszag began his term as the seventh Director of CBO on January 18, 2007, the agency has significantly expanded its focus on areas such as health care and climate change. The Director is appointed by the Speaker of the House and the President pro tempore of the Senate after considering recommendations from the budget committees, without regard to political affiliation and solely on the basis of his fitness to perform his duties. The term of office is four years.
- Senior Fellow in Economic Studies, Brookings Institution (Washington, DC), August 2001–January 2007; Joseph A. Pechman Fellow in Tax and Fiscal Policy, October 2001–January 2007; Codirector, Tax Policy Center, February 2003–January 2007; Deputy Director of Economic Studies, July 2006–January 2007. Areas of expertise included pensions, Social Security, budget policy and politics, higher education policy, homeland security, macroeconomics, and tax policy.
- Director, The Hamilton Project, February 2005–January 2007. The Hamilton Project aims to promote a framework that will foster strong, sustained, and broad-based economic growth. It provides a platform for outstanding academic thinkers to contribute to the national policy debate by generating innovative solutions that are independent and pragmatic. Its strategy for broad-based economic growth involves smarter approaches for strengthening the education and training system; helping families to navigate the economic risks they face; encouraging basic research, innovation and infrastructure; and making government more effective, through realigning the government’s activities with the nation’s most pressing needs.
- Director, Retirement Security Project, January 2004–January 2007; Research Professor, Georgetown University, January 2005–January 2007. Relying on independent research and evidence-based results, the Retirement Security Project promotes retirement security among moderate- and lower- income families. A joint venture between Georgetown University and the Brookings Institution, it is funded by a multimillion, multiyear grant from the Pew Charitable Trusts.
- Director, Competition Policy Associates, Inc. (Washington, DC); May 2003–January 2007; Senior Director, Sebago Associates, Inc. (Washington, DC), March 2002–January 2007; President, August 1998–February 2002. Clients included the World Bank, Nordic Council of Ministers, Governor of California, Central Bank of Iceland, Government of Trinidad and Tobago, National Collegiate Athletic Association, and businesses ranging from small companies to the Fortune 500 corporations.

- Lecturer, University of California, Berkeley (Berkeley, CA), January 1999–December 2000. Taught the intermediate macroeconomics course to 300–350 undergraduates. Supervised six to eight teaching assistants.
- Consultant, McKinsey & Company (San Francisco, CA), June 1998–August 1998. Advised one of the nation's largest HMOs on developing its 1999 budget and redesigning its budget process.
- Special Assistant to the President for Economic Policy, National Economic Council (The White House), November 1997–May 1998; Senior Economic Adviser, January 1997–October 1997. Served as top economic adviser to the Council's Director. Portfolio included Social Security, climate change, macroeconomic analysis, electricity restructuring, personal bankruptcy reform, privatization of the U.S. Enrichment Corporation, and a variety of other economic issues.
- Senior Adviser to the Council, Council of Economic Advisers (Executive Office of the President), May 1996–November 1996; Senior Economist, July 1995–May 1996. As the senior staff member of the Council, wrote the 1996 *APEC [Asia-Pacific Economic Cooperation] Economic Outlook*; wrote and edited sections of the *Weekly Economic Briefing of the President* and the *Economic Report of the President*; and represented the United States at international meetings, including ones of APEC and the Organisation for Economic Co-operation and Development.
- Professional Research Staff, Centre for Economic Performance (London School of Economics), October 1994–June 1995. Member of International Finance, Capital Markets, and Macroeconomic research groups.
- Staff Economist, Council of Economic Advisers, August 1993–July 1994. Areas of concentration included international macroeconomics, international trade, and the reform process in the former Soviet Union.
- Economic Adviser, Macroeconomic and Fiscal Unit (Ministry of Finance, Russian Government), January 1993–August 1993. Assisted the Russian Government in its negotiations with the International Monetary Fund.
- Research Officer, Centre for Economic Performance, September 1992–August 1993. Wrote *Russian Economic Trends*, the quarterly report of the Russian Government.

Attachment 2 – Question 15 – Peter Orszag Published Writings

BOOKS

- *Protecting the Homeland 2006/7* (Brookings Institution Press: 2006), with Michael D'Arcy, Michael O'Hanlon, Jeremy Shapiro, and James Steinberg
- *Aging Gracefully: Ideas to Improve Retirement Security in America* (Century Foundation Press: 2006), with William G. Gale and J. Mark Iwry
- *Saving Social Security: A Balanced Approach* (Brookings Institution Press: 2004), with Peter A. Diamond. Revised paperback edition, 2005.
- *Protecting the American Homeland: One Year On* (Brookings Institution Press: 2003), with Michael O'Hanlon, Ivo Daalder, Mac Destler, David Gunter, James M. Lindsay, Robert Litan, and James Steinberg
- *Protecting the American Homeland: A Preliminary Analysis* (Brookings Institution Press: 2002), with Michael O'Hanlon, Ivo Daalder, Mac Destler, David Gunter, Robert Litan, and James Steinberg
- *American Economic Policy in the 1990s* (MIT Press: 2002), coedited with Jeffrey Frankel

ACADEMIC AND POLICY PAPERS

- "It's About Timing" (with Terry Dinan), *The Environmental Forum*, November/December 2008.
- "Preparing for Our Common Future: Policy Choices and the Economics of Climate Change," *Goldman Lecture in Economics, Wellesley College*, October 27, 2008
- "New Ideas About Human Behavior in Economics and Medicine," *Marshall J. Seidman Lecture, Harvard Medical School*, October 16, 2008
- "The High Price of the Lack of Evidence," *Evidence-Based Medicine and the Changing Nature of Health Care: 2007 IOM Annual Meeting Summary*, 2008 (National Academies Press)
- "Comment on *Of Montreal and Kyoto: A Tale of Two Protocols*" (with Terry M. Dinan), *Environmental Law Reporter*, August 2008
- "Time to Act on Health Care Costs," *Issues in Science and Technology*, Spring 2008
- "Addressing Rising Health Care Costs—A View from the Congressional Budget Office" (with Philip Ellis), *New England Journal of Medicine*, November 8, 2007

- “The Challenge of Rising Health Care Costs—A View from the Congressional Budget Office” (with Philip Ellis), *New England Journal of Medicine*, November 1, 2007
- “Reforming Tax Incentives into Uniform Refundable Credits” (with Lily L. Batchelder and Fred T. Goldberg, Jr.), Brookings Institution Policy Brief No. 156, August 2006
- “Growth, Opportunity, and Prosperity in a Globalizing Economy” (with Michael Deich), The Hamilton Project, Brookings Institution, July 2006
- “Barriers to Saving: The Dilemma for Low-Income Families” (with Robert Greenstein and Zoe Neuberger), *Communities and Banking*, Federal Reserve Bank of Boston, Summer 2006
- “Reforming the Tax Code to Increase Retirement Saving,” *Tax Notes*, May 8, 2006
- “Efficiency and Tax Incentives: The Case for Refundable Tax Credits” (with Lily L. Batchelder and Fred Goldberg), *Stanford Law Review*, vol. 59, no. 23, 2006
- “New Estimates of the Budget Outlook: Plus Ça Change, Plus C’est la Même Chose” (with Alan J. Auerbach and William G. Gale), *Tax Notes*, April 17, 2006
- “Barriers to Saving: The Dilemma for Low-Income Families” (with Robert Greenstein and Zoe Neuberger), *Communities and Banking*, Federal Reserve Bank of Boston, Summer 2006
- “An Economic Strategy to Advance Opportunity, Prosperity, and Growth” (with Roger C. Altman, Jason E. Bordoff, and Robert E. Rubin), The Hamilton Project, Brookings Institution, April 2006
- “Improving Opportunities and Incentives for Saving by Middle- and Low-Income Households” (with Jonathan Gruber and William G. Gale), The Hamilton Project, Brookings Institution, April 2006
- “The Political Economy of Government Issued Longevity Bonds” (with Jeffrey R. Brown), Prepared for the Second International Longevity Risk and Capital Market Solutions Conference, April 2006
- “Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block” (with Esther Duflo, William Gale, Jeffrey Liebman, and Emmanuel Saez), *Quarterly Journal of Economics*, vol. 121, no. 4. Also National Bureau of Economic Research Working Paper 11680, September 2005, and Retirement Security Project Policy Brief No. 2005–5, May 2005.

- “Deficits, Interest Rates, and the User Cost of Capital: A Reconsideration of the Effects of Tax Policy on Investment” (with William G. Gale), *National Tax Journal*, vol. 58, no. 3, September 2005
- “Penalties on IRAs and 401(k)s,” *Tax Notes*, August 15, 2005
- “Retirement Security for Latinos: Bolstering Coverage, Savings and Adequacy” (with National Council of La Raza), Retirement Security Project Policy Brief No. 2005–7, July 2005
- “Individual Accounts: Lessons from International Experience” (with J. Michael Orszag), *Science*, vol. 309, July 8, 2005
- “Improving Tax Incentives for Low-Income Savers: The Saver’s Credit” (with William G. Gale and J. Mark Iwry), Urban–Brookings Tax Policy Center Discussion Paper No.22, June 2005
- “The Effect of Asset Tests on Saving” (with Gordon McDonald and Gina Russell), Retirement Security Project, *Economic Literature Review*, June 2005
- “Why We Can Afford Social Security” (with Peter A. Diamond), *Generations Journal of the American Society on Aging*, vol. 29, no. 1, Spring 2005
- “Higher Education Appropriations and Public University Quality: The Role of Medicaid and the Business Cycle” (with Thomas J. Kane and Emil Apostolov), in Gary Burtless and Janet Rothenberg, eds., *Brookings–Wharton Papers on Urban Affairs* (Brookings Institution Press: 2005)
- “Saving Social Security” (with Peter A. Diamond), *Journal of Economic Perspectives*, vol. 19, no. 2, Spring 2005
- “Economic Effects of Making the 2001 and 2003 Tax Cuts Permanent” (with William G. Gale), *International Tax and Public Finance*, vol. 12, no. 1, 2005
- “Why It Doesn’t. [Saving Social Security Without Destroying It]” (with Peter A. Diamond), *The Milken Institute Review*, second quarter 2005
- “Saving Social Security: The Diamond–Orszag Plan” (with Peter A. Diamond), *The Economists’ Voice*, vol. 2, no. 1, April 2005
- “Social Security” (with John Shoven), in A. Rivlin and I. Sawhill, eds., *Restoring Fiscal Sanity 2005: Meeting the Long-Run Challenge* (Brookings Institution Press: 2005)

- “The Automatic 401(k): A Simple Way to Strengthen Retirement Savings” (with J. Mark Iwry and William G. Gale), *Tax Notes*, March 7, 2005. Also Retirement Security Project Policy Brief No. 2005–1, March 2005
- “The Saver’s Credit: Expanding Retirement Savings for Middle- and Lower-Income Americans” (with J. Mark Iwry and William G. Gale), Retirement Security Project Policy Brief No. 2005–2, March 2005
- “Budget Deficits, National Saving, and Interest Rates” (with William G. Gale), *Brookings Papers on Economic Activity*, 2005
- “The Outlook for Fiscal Policy” (with William G. Gale), *Tax Notes*, February 14, 2005
- “Individual Income Tax Refunds,” *Tax Notes*, January 31, 2005
- “Wage or Price Indexing for Initial Social Security Benefits?” (with Peter A. Diamond), *Tax Notes*, January 24, 2005
- “Should the Budget Exclude the Cost of Individual Accounts?” (with Jason Furman and William G. Gale), *Tax Notes*, January 24, 2005
- “Should the Budget Rules Be Changed So That Large-Scale Borrowing to Fund Individual Accounts Is Left Out of the Budget?” (with Jason Furman and William G. Gale), Center on Budget and Policy Priorities, December 13, 2004
- “Would Borrowing \$2 Trillion for Individual Accounts Eliminate \$10 Trillion in Social Security Liabilities?” (with Jason Furman and William G. Gale), Center on Budget and Policy Priorities, December 13, 2004
- “Exempting Dividends, Interest, and Capital Gains from Taxation,” *Tax Notes*, December 6, 2004
- “The U.S. Budget Deficit: On an Unstable Path” (with William G. Gale), *New Economy*, December 2004
- “Tax Policy in the Bush Administration: Summary and Outlook” (with William G. Gale), *Tax Notes*, November 29, 2004
- “Bush Administration Tax Policy: Starving the Beast?” (with William G. Gale), *Tax Notes*, November 15, 2004
- “Bush Administration Tax Policy: Down Payment on Tax Reform?” (with William G. Gale), *Tax Notes*, November 8, 2004

- “Bush Administration Tax Policy: Short-Term Stimulus” (with William G. Gale), *Tax Notes*, November 1, 2004
- “The Budget Outlook: Projects and Implications” (with William G. Gale), *The Economist’s Voice*, vol. 1, no. 2, 2004
- “Bush Administration Tax Policy: Effects on Long-Term Growth” (with William G. Gale), *Tax Notes*, October 18, 2004
- “Bush Administration Tax Policy: Revenue and Budget Effects” (with William G. Gale), *Tax Notes*, October 4, 2004
- “An Economic Assessment of Tax Policy in the Bush Administration, 2001–2004” (with William G. Gale), *Boston College Law Review*, vol. 45, no. 5, September 2004
- “Bush Administration Tax Policy: Distributional Effects” (with William G. Gale), *Tax Notes*, September 27, 2004
- “Retirement Security and Long-Term Care Needs: An Overview” (with William G. Gale, Mark Iwry, Alexis Ahlstrom, Emily Clements, Jeanne Lambrew, and Anne Tumilson), *The Retirement Security Project*, September 2004
- “Distributional Effects of the Defined Contribution Plans and Individual Retirement Arrangements” (with Leonard E. Burman, William G. Gale, and Matthew Hall), Urban–Brookings Tax Policy Center Discussion Paper #16, July 2004. Also *National Tax Journal*, September 2004)
- “Bush Administration Tax Policy: Introduction and Background” (with William G. Gale), *Tax Notes*, September 13, 2004
- “The 2001 and 2003 Tax Cuts: A Response to Jenn and Marron” (with Alan J. Auerbach and William G. Gale), *Tax Notes*, September 6, 2004
- “Current Government Receipts,” *Tax Notes*, September 6, 2004
- “Economic Effects of Making the 2001 and 2003 Tax Cuts Permanent” (with William G. Gale), Urban–Brookings Tax Policy Center Discussion Paper, August 2004
- “Financing Public Higher Education: Short-Term and Long-Term Challenges” (with Thomas J. Kane), *Ford Policy Forum*, 2004
- “Improving the Saver’s Credit” (with William G. Gale and J. Mark Iwry), Brookings Institution Policy Brief No. 135, July 2004
- “The U.S. Fiscal Gap and Retirement Saving” (with Alan J. Auerbach and William G. Gale), *OECD Economic Studies*, no. 39, 2004/2

- “The Fiscal Gap and Retirement Savings Revisited” (with Alan J. Auerbach and William G. Gale), *Tax Notes*, July 26, 2004
- “The Budget Deficit: Does It Matter?” Speech presented at City Club of Cleveland, July 16, 2004
- “State Fiscal Constraints and Higher Education Spending: The Role of Medicaid and the Business Cycle” (with Thomas Kane), in Maureen Devlin, ed., *Forum Futures 2004: Exploring the Future of Higher Education*. Report based on Aspen Institute Symposium.
- “Distribution of the 2001 and 2003 Tax Cuts and Their Financing” (with William G. Gale and Isaac Shapiro), *Tax Notes*, June 21, 2004
- “Net National Saving,” *Tax Notes*, June 21, 2004
- “The Implications of the Social Security Projections Issued by the Congressional Budget Office” (with Robert Greenstein and Richard Kogan), Center on Budget and Policy Priorities, June 14, 2004
- “An Unwise Deal: Why Eliminating the Income Limit on Roth IRA’s Is Too Steep a Price to Pay for a Refundable Saver’s Credit” (with William G. Gale), Center on Budget and Policy Priorities, June 2004
- “The Ultimate Burden of the Tax Cuts” (with William G. Gale and Isaac Shapiro), Center on Budget and Policy Priorities, June 2004
- “Sources of the Long-Term Fiscal Gap” (with Alan J. Auerbach and William G. Gale), *Tax Notes*, May 24, 2004
- “A Summary of Saving Social Security: A Balanced Approach” (with Peter A. Diamond), Brookings Institution, April 30, 2004
- “Legacy of U.S. Fiscal Policy” Ibrahim M. Oweiss Lecture, 3rd Annual Carroll Round, Georgetown University, April 16, 2004
- “Small Business and Flow Through Entities” *Tax Notes*, April 12, 2004
- “The Savers Credit: Issues and Options” (with William G. Gale and J. Mark Iwry), Brookings Institution, April 2004
- “Understanding the Social Security and Medicare Projections” (with Robert Greenstein), Center on Budget and Policy Priorities, March 22, 2004

- “Brief of *Amici Curiae* Economists” (with Joseph E. Stiglitz), F. Hoffman–LaRoche Ltd., et al., v. Empagran S. A., et al., Supreme Court of the United States, March 15, 2004
- “Should the President’s Tax Cuts Be Made Permanent?” (with William G. Gale), *Tax Notes*, March 8, 2004
- “College Savings Plans: A Platform for Inclusive Saving Policy?” (with Margaret Clancy and Michael Sherraden), Center for Social Development, February 2004
- “The President’s FY 2005 Budget: First Impressions” (with William G. Gale), *Tax Notes*, February 23, 2004
- “The Budget Outlook: Updates and Implications” (with William G. Gale), *Tax Notes*, February 16, 2004
- “Balances in Defined Contribution Plans and IRAs” *Tax Notes*, February 2, 2004
- “Federal Fiscal Policy: What’s Gone Wrong and How to Fix It” (with Robert Greenstein), in M. Green, ed., *What We Stand For: A Practical Progressive Program for America*, 2004
- “The Impact of an Aging Population” (with Henry J. Aaron), in A. Rivlin and I. Sawhill, eds., *Restoring Fiscal Sanity: How to Balance the Budget* (Brookings Institution Press: 2004)
- “Meeting the Revenue Challenge” (with Henry J. Aaron and William G. Gale), in A. Rivlin and I. Sawhill, eds., *Restoring Fiscal Sanity: How to Balance the Budget* (Brookings Institution Press: 2004)
- “Effects of Fiscal Policy on Aggregate Consumption and Saving: A Re-Evaluation of Ricardian Equivalence” (with William G. Gale), presented at the Allied Social Sciences Associations Annual Meetings, January 2004
- “Sustained Budget Deficits: Longer-Run U.S. Economic Performance and the Risk of Financial and Fiscal Disarray” (with Robert E. Rubin and Allen Sinai), presented at the AEA–NAEFA Joint Session, Allied Social Sciences Associations Annual Meetings, The Andrew Brimmer Policy Forum, “National Economic and Financial Policies for Growth and Stability,” January 2004
- “Reforming Social Security: A Balanced Plan” (with Peter A. Diamond), Brookings Institution Policy Brief No. 126, December 2003
- “Does the Social Security Earnings Test Affect Labor Supply and Benefits Receipt?” (with Jonathan Gruber), *National Tax Journal*, December 2003. Also National

Bureau of Economic Research Working Paper 7923, September 2000. Winner of the Richard Musgrave Prize, 2004

- “Comment: Accrual Accounting for Social Security” (with Peter A. Diamond), *Harvard Journal on Legislation*, vol. 41, no. 1, 2003
- “Taxes and Income Volatility,” *Tax Notes*, November 24, 2003
- “Reforming the GPO and WEP in Social Security” (with Peter A. Diamond), *Tax Notes*, November 3, 2003
- “Progressivity and Government Incentives to Save” (with Robert Greenstein), Conference on “Building Assets, Building Credit,” Kennedy School of Government, Harvard University, November 2003
- “Fiscal Follies: The Real Budget Problem and How to Fix It” (with William G. Gale), *Brookings Review*, Fall 2003
- “The Budget Outlook: Analysis and Implications” (with William G. Gale), *Tax Notes*, October 6, 2003
- “The Budget Outlook: Baseline and Adjusted Projections” (with William G. Gale), *Tax Notes*, September 22, 2003
- “Funding Restrictions at Public Universities: Effects and Policy Implications” (with Thomas J. Kane), Brookings Institution, September 10, 2003
- “Higher Education Spending: The Role of Medicaid and the Business Cycle” (with Thomas J. Kane), Brookings Institution Policy Brief No. 124, September 2003
- “The State Fiscal Crisis: Why It Happened and What to Do About It,” *The Milken Institute Review*, third quarter 2003
- “Economic Effects of Sustained Budget Deficits” (with William G. Gale), *National Tax Journal*, September 2003
- “Non-Filers and Filers with Modest Income Tax Liabilities” (with Matthew G. Hall), *Tax Notes*, August 4, 2003
- “Reassessing the Fiscal Gap: The Role of Tax-Deferred Saving” (with Alan J. Auerbach and William G. Gale), *Tax Notes*, July 28, 2003
- “The Ways and Means Committee Pension Tax-Cut Legislation: Unsound Policy That Digs the Nation’s Fiscal Hole Deeper” (with Robert Greenstein), Center on Budget and Policy Priorities, July 21, 2003

- “Learning and Earning: Working in College” (with Jonathan M. Orszag and Diane M. Whitmore), *Journal of Student Employment*, vol. 9, no. 1, June 2003
- “The Saver’s Credit” (with Matthew G. Hall), *Tax Notes*, June 9, 2003
- “Sunsets in the Tax Code” (with William G. Gale), *Tax Notes*, June 9, 2003
- “State Fiscal Constraints and Higher Education Spending” (with Thomas Kane and David Gunter), Urban–Brookings Tax Policy Center Discussion Paper No. 12, May 2003
- “Thinking Through the Tax Options” (with Leonard E. Burman and William G. Gale), *Tax Notes*, May 19, 2003
- “Sizing up Democratic Systems,” *Science*, vol. 300, no. 5622, May 16, 2003
- “New Joint Committee on Taxation Study Finds Negative Long-Term Economic Effects from House Tax Bill,” Center on Budget and Policy Priorities, May 14, 2003.
- “Taxable Payroll and Payroll Tax Rates Under Social Security and Medicare,” *Tax Notes*, May 5, 2003
- “Whither Pensions? A Brief Analysis of Portman–Cardin III” (with William Gale), *Tax Notes*, April 28, 2003
- “Examining the New Portman–Cardin Legislation: Are Further Pension Tax Subsidies for High-Income Households Affordable or Sound as Pension Policy?” Center on Budget and Policy Priorities, April 21, 2003
- “The Real Fiscal Danger” (with William Gale), *Tax Notes*, April 21, 2003
- “Budget Blues: The Fiscal Outlook and Options for Reform” (with Alan J. Auerbach, William G. Gale, and Samara R. Potter), Urban–Brookings Tax Policy Center Discussion Paper No. 11, April 2003; and in H. Aaron et al., eds., *Agenda for the Nation* (Brookings Institution Press: 2003)
- “Private Pensions: Issues and Options” (with William G. Gale), Urban–Brookings Tax Policy Center Discussion Paper No. 9, April 2003, and in H. Aaron et al., eds., *Agenda for the Nation* (Brookings Institution Press: 2003)
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Attachment 3 – Question 16b Congressional Testimony – Peter Orszag

- “The Effects of Recent Market Turmoil in Financial Markets on Retirement Security,” Testimony before the Committee on Education and Labor, U.S. House of Representatives, October 7, 2008
- “Federal Responses to Market Turmoil,” Testimony before the Committee on the Budget, U.S. House of Representatives, September 24, 2008
- “Issues in Designing a Cap-and-Trade Program for Carbon Dioxide Emissions,” Testimony before the Committee on Ways and Means, U.S. House of Representatives, September 18, 2008
- “Evidence on the Costs and Benefits of Health Information Technology,” Testimony before the Subcommittee on Health, Committee on Ways and Means, U.S. House of Representatives, July 24, 2008
- “The Overuse, Underuse, and Misuse of Health Care,” Testimony before the Committee on Finance, United States Senate, July 17, 2008
- “Increasing the Value of Federal Spending on Health Care,” Testimony before the Committee on the Budget, U.S. House of Representatives, July 16, 2008
- “Investing in Infrastructure,” Testimony before the Committee on Finance, United States Senate, July 10, 2008
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- “Covering Uninsured Children in the State Children’s Health Insurance Program,” Testimony before the Subcommittee on Health, Committee on Energy and Commerce, U.S. House of Representatives, May 15, 2008
- “Current and Future Investments in Infrastructure,” Testimony before the Committee on Budget and the Committee on Transportation and Infrastructure, U.S. House of Representatives, May 8, 2008
- “Implications of a Cap-and-Trade Program for Carbon Emissions,” Testimony before the Committee on Finance, United States Senate, April 24, 2008

- “Covering Uninsured Children in the State Children’s Health Insurance Program,” Testimony before the Subcommittee on Health Care, Committee on Finance, United States Senate, April 9, 2008
- “CBO’s Appropriation Request for Fiscal Year 2009,” Testimony before the Subcommittee on Legislative Branch, Committee on Appropriations, U.S. House of Representatives, March 12, 2008
- “Growth in Health Care Costs,” Testimony before the Committee on the Budget, United States Senate, January 31, 2008
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- “Approaches to Reducing Carbon Dioxide Emissions,” Testimony before the Committee on the Budget, U.S. House of Representatives, November 1, 2007
- “Estimated Costs of U.S. Operations in Iraq and Afghanistan and of Other Activities Related to the War on Terrorism,” Testimony before the Committee on the Budget, U.S. House of Representatives, October 24, 2007
- “Performance Budgeting: Applications to Health Insurance Programs and Tax Policy,” Testimony before the Committee on the Budget, U.S. House of Representatives, September 20, 2007
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- “The Taxation of Carried Interest,” Testimony before the Committee on Ways and Means, U.S. House of Representatives, September 6, 2007

- “Issues in Reinstating a Statutory Pay-As-You-Go Requirement,” Testimony before the Committee on the Budget, U.S. House of Representatives, July 25, 2007
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- “The Medicare Advantage Program,” Testimony before the Committee on the Budget, U.S. House of Representatives, June 28, 2007
- “Foreign Holdings of U.S. Government Securities and the U.S. Current Account,” Testimony before the Committee on the Budget, U.S. House of Representatives, June 26, 2007
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- “Social Security Reform,” Testimony before the Democratic Policy Committee, May 13, 2005
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- “Budget Deficits, Social Security, and Younger Generations,” Testimony before the House Budget Committee Democratic Forum, September 13, 2004
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- “Strengthening Retirement Security,” Testimony before the Joint Economic Committee, U.S. Congress, March 10, 2004
- “Progressivity and Saving: Fixing the Nation’s Upside-Down Incentives for Saving,” Testimony before the Committee on Education and the Workforce, U.S. House of Representatives, February 25, 2004
- “The Federal Budget Outlook,” Testimony before the Committee on the Budget, U.S. House of Representatives, February 3, 2004

- “Homeland Security and the Private Sector,” Testimony before the National Commission on Terrorist Attacks Upon the United States, November 19, 2003
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- “The Implications of the Tax Bill for Social Security Reform: The Challenges Facing the Bush Social Security Commission.” Testimony before the Budget Committee, United States Senate, August 2, 2001
- “Voluntary Individual Accounts: The Lessons from the U.K. Experience.” Testimony before the Ways and Means Subcommittee on Social Security, U.S. House of Representatives, July 31, 2001

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**U.S. Senate Committee on Homeland Security and Governmental Affairs
Pre-hearing questionnaire for the nomination of
Peter R. Orszag to be
Director, Office of Management and Budget**

I. Nomination Process and Conflicts of Interest

1. Why do you believe the President nominated you to serve as Director of the Office of Management and Budget (OMB)?

When announcing his intention to nominate me as Director of OMB, President-elect Obama stated that I have been one of the nation's leading voices on budgetary issues, and have made significant contributions to the understanding of many areas of the economy, including social security, health care and climate change. I believe that is why he nominated me for this position.

2. Were any conditions, express or implied, attached to your nomination? If so, please explain.

No.

3. What specific background and experience affirmatively qualifies you to be OMB Director?

I have extensive expertise in budget and economic matters. I have researched, written and spoken on these issues extensively while serving as Director of the Congressional Budget Office and as a Senior Fellow at the Brookings Institution.

4. Have you made any commitments with respect to the policies and principles you will attempt to implement as OMB Director? If so, what are they and to whom have the commitments been made?

No.

5. If confirmed, are there any issues from which you may have to recuse or disqualify yourself because of a conflict of interest or the appearance of a conflict of interest? If so, please explain what procedures you will use to carry out such a recusal or disqualification.

No.

II. Role of the Director of OMB

6. What do you anticipate will be your greatest challenges as OMB Director, and what will be your top priorities?

My greatest challenges will involve the need to jumpstart the economy in the short run (which will necessarily involve some further increase in the budget deficit), restore fiscal discipline over the medium term, and bend the curve on health care cost growth over the long term. In addressing these challenges, we will also need to make government work better and improve performance, both through the management of government resources and through the regulatory process.

7. How do you intend to allocate and delegate responsibility among the OMB Deputy Director, the Deputy Director for Management, and yourself as OMB Director? Have you and Deputy Director-designate Nabors discussed what his role will be?

I see the three of us working as a team, with defined areas of interest depending both on the demands of the moment and the skills and background that each of us brings to our positions. Rob Nabors, for example, will bring substantial experience in the appropriations process to OMB, and I would expect to draw on that experience on budget policy and process matters. As Deputy Director, he will also play a key role in the internal management operations of OMB.

The law creating the DDM position, the Chief Financial Officers Act of 1990, assigns some very specific functions to that office including "...organizational studies, long-range planning, program evaluation, productivity improvement, and experimentation and demonstration programs." Those functions range far beyond the charters of the four statutory management offices (OFPP, OIRA, OFFM, and EGov/IT), and success requires extensive involvement by the Resource Management Offices.

Dealing with the current economic and fiscal crisis will require that we take an integrated approach both to allocating resources to jumpstart the economy and to putting in place the oversight mechanisms to assure that the money is spent wisely.

8. In your most recent role as Director of the Congressional Budget Office (CBO), you were responsible for overseeing a staff of 235 people and managing an annual budget of about \$40 million. If confirmed as the Director of the Office of Management and Budget, you will be responsible for managing about 500 employees with an annual budget of over \$70 million.

- a. How do you plan to tailor your management style to effectively operate an organization that is double the size, both in staff and in budget, of your last employer?

I have been a manager in many different settings: from multiple multi-million-dollar projects at the Brookings Institution, to a private-sector consulting firm, and CBO. In each case, I have adapted my management style as appropriate to the culture and mission of the entity I was managing, while also trying to exert some influence on that culture and mission.

Although OMB and CBO are similar in some ways, they differ in many others. The difference in size is only one of several crucial differences between the two organizations. For example, the mix between analytical and operational responsibilities is significantly different.

To manage OMB well, I would choose exceptional people for my direct reports (including the Deputy Director and Deputy Director for Management), put an emphasis on our recruiting effort, bolster morale by having regular interaction with the career staff and making it clear that I value their work by reading it and relying upon it, and balance delegation with oversight in our internal operations.

- b. What different challenges do you envision at OMB, as compared to those you experienced at CBO?

I see three different challenges. First, OMB has a large role to play in management and government performance; CBO did not have such a prominent role in that area. Second, CBO was more of an analytical institution without responsibility for formulating and implementing policy; OMB has a crucial policymaking role. In the current environment, in which we face severe short-term economic difficulties but also a grim medium-term fiscal outlook, formulating and implementing sound budget policy is particularly challenging. Finally, unlike at CBO, my role at OMB includes serving as part of the President-elect's economic team. Directing CBO was a different undertaking, since I was not part of a formal team outside my immediate organization.

III. Policy Questions

Government Management

9. What do you see as the most important management challenges facing the federal government, and, if confirmed as OMB Director, what would you do to address those challenges?

President-elect Obama has vowed to improve the performance of the Federal government. We plan to build a government that not only performs better, but also provides a historic level of transparency to both Congress and the public about the information that it holds. Specifically:

First, we will soon announce the President-elect's choice for Chief Performance Officer. That person also will serve as Deputy Director for Management at OMB. Under the leadership of the Chief Performance Officer, we will create a set of performance metrics that are outcome-oriented and in line with public expectations and a central repository of performance data that will be available to departments and agencies, Congress, and the general public. We view these data as an important source of information for improving performance across the Federal government. We also plan to build a team of management experts within OMB who will work with individual agencies to improve the skills of their workforce. We will launch pilot programs with individual agencies to serve as demonstration projects through which we can test our approaches to improve program effectiveness and efficiency, share best practices, and further improve performance.

Second, we will strengthen the Federal government's use of information technology – IT. That will not only help us deliver services more effectively, it will enable us to gain efficiencies in Federal contracting and acquisition. The officials within OMB responsible for IT policy will work closely with the President-elect's choice for Chief Technology Officer, so that we can better use technology to deliver services.

Third, in the area of human capital, we will work to restore the prestige and build the capability of the Federal workforce and improve the management of Federal contractors, who are our partners in the private sector. Roughly half of the Federal workforce is expected to retire over the next 10 years. The result will be a substantial loss of experience and expertise, creating an imperative to renew the attractiveness of Federal service. We want to broaden the appeal of public service, and we believe we can do so. In his campaign, President-elect Obama inspired millions of Americans of all ages. We want to do our part to make government a career of choice for more Americans.

Fourth, we will reform government contracting and streamline government procurement. This can be accomplished through the collective efforts of the OMB statutory offices, particularly the Office of Federal Procurement Policy and the Office of Federal Financial Management, as we work to strengthen financial management and procurement policies and regulations.

10. Since 2002, OMB has used the Program Assessment Rating Tool (PART) to evaluate the management and performance of individual programs. How do you believe the government-wide process for measuring program performance should be improved?

The President-elect is firmly committed to a government that produces results. Providing meaningful performance information to agency leadership, oversight agencies, Congress, and the American people is critical to a government that is more performance driven.

An effective performance measurement system would include:

- Involving the public and Congressional oversight and appropriations committees in the design of an assessment framework for government programs. An effective performance measurement process must involve real transparency and civic engagement.
 - Linking strategic, long-term, and annual plans to the execution and implementation of government programs. Performance measures need to link operating activities – specifically, those that program managers have control over – to the agency mission outcomes to ensure accountability.
 - Relying on a more risk-based approach. OMB and agencies need to focus their attention on programs that are of high interest or where independent reviews, such as those conducted by the Government Accountability Office, show that special attention is warranted.
 - Coordinating across multiple agencies and programs. A revised assessment framework could help identify gaps or overlaps in coverage as well as inconsistencies in policy and operations, and it could lead to a more cohesive approach in which major public concerns are addressed across traditional organizational or programmatic boundaries.
11. The PART initiative focuses on individual programs, which aligns with OMB’s agency-by-agency budget reviews, but has been used infrequently to address crosscutting issues or to look at broad program areas in which several programs or program types address a common goal. If confirmed as Director, how would you see your role in helping to enhance the integration of agency strategic and annual planning with OMB’s budget reviews?

The most significant challenges the country faces require coordination of multiple agencies and programs, and OMB can play a critical role in examining program areas that address common goals. OMB has a tradition of carrying out crosscutting budget reviews that are useful for looking at broad program areas in which several programs address a common goal, but if confirmed as Director, I would seek to expand upon that tradition and better integrate cross-cutting issues into the government’s performance management system. I would work closely with and rely substantially upon the Deputy Director for Management in this effort.

12. OMB is required under the Government Performance and Results Act (GPRA) to annually develop a government-wide performance plan; this plan is expected to provide a comprehensive picture of government performance and could be used to provide a more strategic, crosscutting focus on policy and budget decisions to address goals that cut across conventional agency and program boundaries. OMB has never developed a government-wide performance plan.
- a. Do you intend to comply with the requirement to produce a government-wide performance plan?

To comply with this requirement, the Administration, working with Congress, would need to gradually make progress in improving the management and performance of crosscutting, multi-agency government functions. Ideally, a GPRA performance plan would organize and present the Federal budget by themes, programs/functions, and outcomes, including national indicators. Under GPRA, the government-wide performance plan is supposed to reflect policy and resource allocation decisions to accomplish specific outcomes that are articulated to Congress, agencies, and citizens.

- b. Do you agree that a government-wide performance plan can help focus decisions on crosscutting issues and programs and reduce overlap across agencies?

Yes, developing a systematic approach for producing a government-wide plan— that is, using a government-wide approach to planning, budgeting, and managing multi-agency programs and activities – would help improve decision-making. Going forward, we need to put in place risk-based mechanisms to promote crosscutting planning, management, and reporting across programs with similar purposes and goals. If confirmed, I would work closely with the Deputy Director for Management to promote such mechanisms.

13. For years the Government Accountability Office (GAO) has recommended that OMB augment a government-wide performance plan with a long-term strategic plan for the federal government. GAO has stated that a government-wide strategic plan could provide an additional tool for government-wide reexamination of existing programs, as well as proposals for new programs and, if fully developed, provide a much needed basis for fully integrating, rather than merely coordinating, a wide array of federal activities.

- a. Do you see the need for a government-wide strategic plan in making long-term budgetary decisions?

The government would greatly benefit from producing more expansive, systematic, and coordinated cross-agency strategic analyses and strategic plans. Producing a single, comprehensive, and executable government-wide strategic plan, however, is a significant undertaking that would involve the entire Federal government and would need to specify both high level and detailed priorities through a revised policy and resource allocation decision-making process. It will take time and Congressional engagement to produce such a plan. In the meanwhile, we plan to focus on a few high priority areas (such as energy and health care). In addition, given the variety of strategy documents that the Federal government produces today, we could rationalize them and then produce an integrated set of strategic plans whose coverage of both the budget and Federal programs increases over time.

- b. If you do not think a government-wide strategic plan is necessary, how do you propose achieving a cohesive perspective on the long-term goals of the federal government?

We should set the long-term direction of the government by guiding the allocation of the government's budget and resources as effectively as possible given the limited time and planning capabilities available. A government-wide strategic plan is one means toward this end, though as noted above it will take time and effort to produce.

14. Since 2002, OMB has used PART to evaluate the management and performance of individual programs. GPRA was created to involve both the executive and legislative branches in the performance planning process. One of the criticisms of PART is that it does not involve Congress in setting priorities for program performance review. Without developing an effective strategy for obtaining and acting on congressional views on what to measure, how to measure it, and how to best present this information to a congressional audience, it is more likely that performance information would largely be ignored in the authorization, appropriations, and oversight processes.

- a. How would you obtain Congress's views on these matters?

As noted above, an effective performance measurement system for the government must involve significant consultation with the Congress (and the public). If confirmed, I will actively solicit Congressional input on how the Executive Branch can provide useful performance information to inform authorization, appropriation, and oversight processes. I have a record of engaging constructively with members of Congress from both parties, and I would apply the same approach to obtaining Congressional views on performance management: I would reach out early and often – and would strongly encourage the Deputy Director for Management and other parts of OMB to do so also – to appropriate oversight, authorizing, and appropriations committees as well as other stakeholders to receive feedback on performance information that is useful to Congress.

OMB and agencies should also work more closely with GAO and other stakeholders to lay out a regular process for engaging Congress on high risk or timely agency- or program-specific performance issues. Through more regular dialogue, OMB and agencies could identify targeted opportunities for broad engagement on performance issues such as in advance of programs coming up for reauthorization.

- b. What steps would you take to ensure that your agency's performance measures and reporting meet congressional as well as executive branch needs?

OMB will work to obtain greater Congressional, agency, and stakeholder buy-in to assessment and performance measurement frameworks. Regular meetings between governmental affairs and

oversight committees and interagency councils such as the President's Management Council (comprised of agency Deputy Secretaries) and the Performance Improvement Council is a critical step to ensure better communication. Specifically, in addition to my personal involvement, I would direct OMB and agencies to brief appropriators and authorizers regularly on performance challenges and trends as they are developing budget justifications, annual performance plans, annual performance reports, and 5-year strategic plans so that they can incorporate Congressional feedback into them.

15. Last year, the Bush administration created a Performance Improvement Council, which is comprised of Performance Improvement Officers appointed to the position by the agency head. The Performance Improvement Officers are responsible for coordinating the performance management activities of the agency and are held accountable for effectively helping the agency head perform the performance improvement responsibilities called for, whether they are program, budget, or personnel. The Performance Improvement Council has established program performance standards and evaluation criteria, facilitated exchange information among agencies, and coordinated and monitored performance assessments.

- a. Do you plan to continue this Council and the Officer positions?

Yes. I expect that our nominee for Deputy Director for Management (DDM) will work closely with the Performance Improvement Council (PIC) on government-wide challenges. Just as the President-elect has called for the establishment of a Chief Performance Officer for the Executive Branch, I believe that having an official in each agency responsible for improving performance makes sense.

- b. If so, what do you expect this Council and Officers to achieve?

One of the PIC's first tasks should be to help define its agenda. That could range from looking at process issues, such as enhancing the linkage to the budget process, to working on specific performance challenges that cut across agency lines. Experience with interagency councils suggests that they are most effective when they work on issues that are immediately relevant to their agencies.

- c. If not, how do you plan to ensure that the government maintains a focus on performance management activities both within each agency and across the government?

While I fully expect that we will continue to have performance improvement officers and an interagency council in some form, the focus on performance comes first from a Chief Executive who holds his appointees accountable for delivering results and then from a Chief Performance

Officer overseeing teams of top performing and highly trained individuals. I am confident that we will have that framework in place.

16. The Bush administration undertook an effort to focus agencies' attention on GAO's High Risk List by requiring that all agencies develop corrective action plans to address challenges identified on the list.

a. If confirmed as Director, how will you continue to require agencies to tackle issues on GAO's High Risk List?

Yes. The GAO High Risk List is one of several instruments that help us identify things that do not work as well as they should.

b. What types of actions will you require agencies to take to address High Risk List issues?

We have a number of instruments that can promote attention to High Risk List issues:

- Asking agencies to include their corrective action plans in their strategic plans and submit them as part of the annual budget process;
- Asking agencies to publish those plans on their websites so the public can know what agencies are doing to improve their program results;
- Conducting periodic reviews with GAO, especially on issues that involve multiple agencies.

c. How will you ensure that agencies incorporate capacity, resource, and staff needs into corrective action plans?

OMB can require that corrective action plans contain performance measures and targets and indicate the resources necessary to carry out those actions, and then ensure that agency budgets allocate sufficient resources to address these items.

17. Greater collaboration on performance measurement and evaluation among agencies is necessary to achieve common outcomes across the government. OMB is the focal point for overall management in the executive branch agencies, so it plays a key role in providing leadership and direction to federal agencies' collaborative efforts.

a. If confirmed as Director, how will you ensure that OMB focuses attention on additional areas in need of greater collaboration?

Most of the nation's most pressing problems – from the need to jumpstart the economy to climate change and health care – do not obey traditional bureaucratic barriers and will require collaboration. With a broad range of staff expertise, OMB is uniquely positioned to facilitate this collaboration. On the management side, I plan to work closely with our Chief Performance Office to promote greater interagency collaboration.

- b. What types of key practices would you adopt to enhance and sustain collaboration across agencies?

Federal interagency councils in the areas of financial management, human capital, acquisition, performance, budget, and IT are a promising way to provide opportunities for sustained collaboration with agencies. For example, the recently formed Performance Improvement Council has established several working groups on issues such as reporting and transparency of performance information and program evaluations, and it has partnered with human capital officers on aligning organizational performance with individual performance. Significant opportunities exist to further break down traditional agency-focused management efforts.

- c. How do you plan to reinforce agency and individual accountability for collaborative efforts, particularly using strategic and annual performance plans, as well as performance management systems?

I expect that all agencies will soon undergo a thorough review of their strategic plans, in part to realign them with Administration goals. New performance goals representing collaborative efforts on crosscutting issues such as energy, health care, etc. will likely be developed. OMB and OPM can also work with agencies so that the new performance goals become part of relevant individuals' SES performance plans and then cascade down throughout the organization.

18. What do you believe can be done systematically to improve the performance of government agencies and programs? For example, should a high-level official be tasked with the government-wide responsibility of setting performance goals and holding managers and agencies accountable? How should any such efforts be integrated with the budget process and coordinated with congressional authorizing and appropriating committees?

Several key steps need to occur to systematically improve the performance of government agencies. The first step is to signal that improving government performance is important. The President-elect has committed to meeting regularly with Cabinet officers to review the progress that agencies are making toward their targets. He will name a Chief Performance Officer (CPO), who will also serve as the Deputy Director for Management at OMB and lead efforts to work with agencies and stakeholders to set tough performance targets and hold managers responsible for progress. This position will be critical to the Administration's systematic and coordinated

improvement efforts across all agencies.

Second, we need to revise our performance measurement system. OMB and agencies need to come together, working with Congress, to set clear goals with specific outcome measures that address key problems facing the public. This will often require inter-agency collaboration, making the leadership of the CPO and OMB staff even more important.

Third, agency capacity to implement their plans will be critical to success. Regular OMB, agency, and Congressional reviews of progress (including rigorous evaluations) are essential to assessing under- and over-performers. The systematic progress review is also important for holding managers accountable for results. A team of experts from within OMB will be formed and headed by the CPO; this team can help conduct these progress reviews and performance assessments.

Fourth, information must be transparent to Congress, the public, and program partners. Data must be organized in a way that is clear and actionable for front line managers. The Obama Administration is committed to making government information more accessible and transparent.

19. How do you believe OMB can strike an appropriate balance by achieving improved performance and results within the government, but without micro-managing or unduly intruding upon the authority of individual agencies and programs to define their own missions and goals under applicable statutes?

The key is to expand agency capacity to use performance information to manage their agencies and programs. As a recent GAO study indicated, there is significant room for improvement in this area. Agency performance offices are currently undergoing a transformation from a primary focus on producing plans and reports to actively managing performance using timely data.

The recently formed Performance Improvement Council offers an opportunity for OMB's performance management efforts to be more collaborative with (rather than "to") agencies. OMB will work with agencies to develop and share effective performance management practices capable of identifying and remedying poor performers and replicating best practices.

20. Management of federal personnel resources has emerged as a high profile issue in recent years. GAO has identified human capital management as a government-wide high-risk area ever since 2001, explaining that agencies must do a better job of marshaling personnel management efforts to serve agency and program missions and goals.
 - a. What is your assessment of human resources management in the federal government, and what kinds of changes do you believe are desirable?

As GAO stated when it put strategic human capital management on the government-wide high-risk list, inattentiveness to strategic human capital management has put at risk the Federal government's ability to effectively serve the American people. In most private sector organizations, human capital is considered a means to achieve business results. We do not seem to have this same focus in the public sector.

GAO highlights areas that are necessary to transform the Federal workforce: improving leadership; improving strategic human capital planning; improving the government's ability to acquire, develop, and retain talent; and building a results-oriented organizational culture.

To improve operations across government, we need to do a better job of linking human capital planning to budget and performance outcomes. The Federal workforce needs to continue to become more results-oriented, customer-focused, and collaborative.

There is a critical need and opportunity to transform Federal recruiting and hiring efforts. OPM estimates that, by 2016, approximately 60 percent of the government's current 1.6 million white-collar employees and 90 percent of about 6,000 career Federal executives will be eligible for retirement. OPM predicted that retirements would peak in 2009-2010 (though the recent economic crisis may reduce these retirements somewhat). The result would be a substantial loss of experience and expertise, creating an imperative to renew the attractiveness of Federal service. We want to broaden the appeal of public service, and we believe we can do so. In his campaign, President-elect Obama inspired millions of Americans of all ages. We want to do our part to make government a career of choice for more Americans.

As part of that effort, OMB will work closely with the Chief Human Capital Officers Council and the Office of Personnel Management and groups like the Partnership for Public Service, the Council for Excellence in Government, and the National Academy of Public Administration, who understand that an effective workforce with the right talent and strong leadership are critical to improving organizational performance.

b. What role do you foresee for OMB in working to improve federal human resources management?

One way to improve human resources management is to ensure that each agency's Chief Human Capital Office works in close partnership with the agency's CFO and Performance Improvement Officer (PIO). We need to better align each individual's performance appraisal with the organization's performance results. OMB can work with OPM to break down stove-pipes and share promising human resources practices across agencies. OMB is also in a good position to review crosscutting human capital data (such as skills gaps and time-to-hire statistics) and link human capital outcomes to organizational outcomes. And as noted above, OMB will work closely with the Office of Personnel Management and groups like the Partnership for Public Service, the Council for Excellence in Government, and the National Academy of Public Administration to promote effective federal human resources management.

- c. What would be the functions and responsibilities respectively of OMB and of the Office of Personnel Management in this area?

OPM is the government's "personnel officer" and has leadership responsibility, among other things, for setting human resources policies, marshalling lessons learned from agency best practices, and operating certain core systems, like civilian retirement and the Federal Employee Health Benefits programs.

OMB can help link human capital strategies to program performance and outcomes through its resource allocation process and its review of agency SES performance plans. Perhaps equally importantly, OMB can promote better integration of core business processes. For example, a key challenge facing the acquisition community is the need for trained contracting officers and staff to oversee contractors.

21. Certain agencies currently have the authority to waive a number of provisions in the government-wide civil service law, in the areas of pay, and performance management to create a human capital management system. Some have been successfully implemented, while others have failed. What has been your experience with working with pay-for-performance personnel systems in government agencies, and what has been your experience with systems under which pay is less flexibly tied to performance? What conclusions have you drawn from these experiences?

Pay for performance is intended to tie agency goals and achievements to staff performance ratings, but it is not a panacea and requires careful implementation. My experience at CBO suggests that the use of performance bonuses and pay linked to performance is a valuable tool in motivating workers and encouraging productivity. While pay for performance can be useful for improving individual and organizational performance, however, it cannot be successful without meaningful program performance standards, effective performance appraisal systems, and effective, well-trained managers already in place. And that personnel performance management system must focus on employee satisfaction and buy-in if pay-for-performance and performance appraisal systems are to work.

22. GAO has designated federal real property management as a high risk area because of long-standing problems with excess and underutilized property, deteriorating facilities, unreliable data, and over-reliance on costly leasing. (GAO Report GAO-07-310, pages 41-42). What do you believe are the principal obstacles to improved management of federal real property, and what strategies do you believe should be applied to overcome those obstacles?

I agree that Federal real property should be a management priority and that improvements are likely to yield efficiencies and savings. Indeed, I have been personally interested in this topic for many years and would make it one of my top priorities if confirmed as OMB Director.

One key issue in the current legislative framework is whether agencies can retain the proceeds from the sale of unneeded assets to invest in other real property needs. Retention of proceeds has long been seen as a necessary incentive for agencies to place properties into an unneeded status and move it off their books. Several agencies currently have retention authority (such as the State and Veterans Affairs Departments), but most do not. Under the current legislative framework, agencies are also required to offer up unneeded properties as part of a program to better allocate Federal lands for public benefit. Potential beneficiaries include state and local government and the homeless. This process serves important policy purposes but can slow agency efforts to sell or demolish properties.

23. The President issued Executive Order 13434 on National Security Professional Development (NSPD) in May 2007, and issued a strategy and implementation plan pursuant to the Executive Order which establish a roadmap for strengthening the national security workforce. The Project on National Security Reform and the Commission on the Prevention of WMD both issued reports in December 2008 highlighting the importance of building a 21st national security workforce by investing in training and education programs and by establishing joint duty programs. The Deputy Director of OMB for Management has overseen the NSPD initiative.
 - a. What is your assessment of Executive Order 13434 and the successive strategy and implementation plan?
 - b. What steps will you take as OMB Director to continue to strengthen the national security workforce?

Executive Order 13434 directs the development of a cadre of National Security Professionals (NSPs) across the Federal government to lead and execute coordinated, effective national security operations. The executive order specifically mandates the creation of a robust and integrated national security professional development program, comprised of education, training, and professional experiences to facilitate interagency coordination and processes.

This is important work and needs to continue. I will ask the Deputy Director for Management, in collaboration with the Director of OPM and the President's National Security Advisor, to evaluate the effectiveness of efforts to date to create a strong cadre of national security professionals.

Procurement Policy

24. The federal government spent over \$400 billion last year through contracts for goods and services. Across the government, a number of trends have led to wasteful spending, including an over-reliance on noncompetitive contracts, misuse of inter-agency contract vehicles, inappropriate use of "cost-plus" contracts, poor requirements planning, and insufficient oversight of contractors. GAO's "high risk" list of government functions at risk for waste, fraud, and abuse includes contract management at the Department of Defense, the Department of Energy, and the National Aeronautics Space Administration, as well as inter-agency contracting. What do you believe should be done to achieve greater efficiencies in federal contracting and to improve contract management? If confirmed, what would you do to help make this happen?

If confirmed, I will look to the Administrator of OMB's Office of Federal Procurement Policy to improve our acquisition processes, beginning with a strengthened acquisition workforce armed with the skills and capacity to meet the ever-increasing challenges facing government. Agency Chief Acquisition Officers must ensure their agencies can effectively define the government's needs, take full advantage of competition and the government's purchasing power to lower costs and increase quality, and insist, through sound management practices, that payment is tied to successful performance. We must also continue to improve our use of technology, both to facilitate greater transparency into our acquisition activities and to take advantage of the efficiencies and cost-savings that are made possible by paperless transactions.

25. Interagency acquisition is the term used to describe the procedure by which an agency needing supplies or services obtains them using another agency's contract. Because of its benefits to federal agencies, including economies of scale, efficiencies, and the ability to leverage resources, the federal government's dependency on interagency acquisitions has been growing rapidly. OMB is responsible for ensuring that this important acquisition vehicle is used properly while maximizing its benefits. According to the Acquisition Advisory Panel (established by Congress in the Services Acquisition Reform Act of 2003), about \$142 billion or 40% of the government's contract spending in FY2004 was done under interagency contracts. While interagency contracts provide benefits if used correctly, GAO designated the management of interagency contracting a high-risk area in 2005 due, in part, to a lack of reliable data on its use and of clarity regarding contract management responsibilities. GAO found that agencies involved in interagency contracting have not always conducted required competitions, evaluated contracting alternatives, or conducted adequate oversight.
- a. What would be your approach to reviewing and assessing the overall trend in the government's dependency on interagency acquisition and, in particular, the problem of split responsibilities between agencies in the management of interagency contracting?

As the world's largest buyer, the Federal government has significant opportunities to leverage its purchasing power. When managed properly, interagency contracts can help Federal agencies

achieve significant economies of scale. As noted, however, problems have arisen in implementation.

I understand several steps have been taken to address a number of GAO's concerns. For example, OFPP developed a model interagency agreement and a checklist so that agencies have a clear understanding of their respective responsibilities under interagency contracts. If confirmed, I will look to OFPP to monitor compliance with that guidance. I will also look to OFPP to ensure the timely implementation of section 865 of the FY 2009 National Defense Authorization Act, which requires training guidance, regulatory changes, and reporting on interagency acquisitions, as well as section 874, which calls for improvements in the reliability of information on interagency contract activity in the Federal Procurement Data System. Better data and transparency on interagency acquisition activity will give Federal officials and the acquisition community a clearer understanding of how these vehicles are used and where further improvements may be needed.

If confirmed, I will also ask OFPP to develop a strategic framework for better managing interagency contracts.

- b. The Acquisition Advisory Panel recommended that Multi-Agency Contracts (MAC) and certain large dollar single agency Indefinite Delivery, Indefinite Quantity Contracts, referred to as "enterprise-wide contracts" be centrally coordinated by OMB to avoid unnecessary duplication. Examples of enterprise-wide contracts include Navy's SeaPort-e which has \$209 billion aggregate ceiling for 15-year period and DHS' Enterprise Acquisition Gateway for Leading Edge Solutions (EAGLE) which has \$45 billion over 7-years. The Panel also observed that while proliferation of contract vehicles dampens the potential benefits of interagency contracts, some competition among interagency contract vehicles is desirable and even fundamental to maintaining the health of government contracting. Do you have thoughts on the Panel's conclusions? How would you address the problem of unnecessary duplication of similar contracts in various federal agencies?

I have not read the Panel's report, but I would agree, in principle, that a healthy level of competition among contract vehicles can allow for necessary differentiation to fulfill the vast and varied needs of the Federal government. I would also agree that unnecessary duplication of similar contracts dilutes buying power and does not take advantage of economies of scale. And as noted above, if confirmed, I will ask the Office of Federal Procurement Policy to develop a strategic framework for managing interagency contracts to ensure that they deliver what taxpayers expect – namely, efficient and cost-effective purchasing solutions.

- 26. Cost, schedule and performance problems often arise because agencies do a poor job of setting requirements before negotiating contracts, or because agencies change

requirements after entering contracts. How do you think the process of setting requirements for contracts, especially for complex acquisitions, and of developing more realistic cost estimates can be improved?

Improvements in this area require more collaboration between program managers and contracting officers, and increased management discipline and transparency in all phases of the program. Agency managers must be held accountable for appropriately defining the scope of their agency's needs, setting meaningful cost, schedule, and performance standards, and managing to those standards. Additionally, I understand that civilian and defense agencies now have certification programs for program managers and contracting officers; such officers must meet certain core training, development, and experience requirements. I will look to assess these efforts and develop strategies for improvement as needed.

27. DHS has established an investment review process which calls for executive decision making at key points in an investment's life cycle, including program authorization. However, GAO reported in November 2008 that the process has not provided the oversight needed to identify and address cost, schedule, and performance problems in its major investments. Specifically, GAO reported that the process has been poorly implemented and, in fact, 45 of DHS's 48 major investments requiring milestone and annual reviews did not adhere to the Department's investment review policy. Billions of dollars have been invested in these major programs, which, according to GAO, lack appropriate oversight. The Department's Under Secretary for Management recently issued an interim management directive to try to enhance the investment review process.

- a. In your view, what role does a formal investment review process have in making major agency investment decisions and what should agencies do to ensure effective implementation of such a policy?

An effective investment review process helps an agency identify and mitigate cost overruns, schedule delays, and performance shortfalls throughout an investment's life cycle, increasing the chances for successful program outcomes. The investment review process enables agencies to ensure investment spending is tied to mission. Effective implementation requires involvement of senior management officials, appropriate tracking of ongoing investments, and integration of results with budget decisions.

- b. Poor acquisition planning, and in particular, poor definition of requirements for procurements, can lead to a number of problems during the acquisition cycle. How do you plan to ensure that DHS and other agencies have an appropriate requirements development process in place so that agencies have a clear understanding of what they need to buy before they embark on major procurements?

Our program and project officials, who have the best knowledge of the government's requirements, must understand the acquisition process so that they may partner more effectively with contracting personnel in the development of clear contract requirements. I understand that OMB's OFPP established a certification program to standardize training and experience requirements for program managers, and I will look to OFPP to work with agencies to implement this certification program effectively. To the extent that problems continue, I will also look to the Deputy Director for Management to develop a strategy for addressing them.

28. Total spending on government contracts has roughly doubled since 2000, yet the number of federal acquisition specialists who help plan, write, and oversee these contracts has remained fairly constant, following a downsizing of approximately 50% in the 1990's. The shortage in this area of expertise will become even more acute over the next few years, when roughly half of the acquisition workforce is eligible to retire.
 - a. What steps should be taken to address this shortage?
 - b. The FY2008 Defense Authorization Act created a new Associate Administrator for Acquisition Workforce Programs, an SES-level position, within the Office of Federal Procurement Policy (OFPP), to coordinate and develop a strategic human capital plan for the acquisition workforce of the entire Federal Government and to serve as a focal point in designing the solution to acquisition workforce problem. Over a year later, this position has not been filled. The FY2009 National Defense Authorization Act required OFPP and Federal Acquisition Institute (FAI) to prepare an Acquisition Workforce Development Strategic Plan including a specific and actionable five-year implementation plan to increase the size of the acquisition workforce and to operate a government-wide acquisition intern program. How do you plan to ensure that OFPP is provided with adequate staff and resources to fulfill its Congressional mandate?

A qualified and appropriately staffed Federal acquisition workforce is critical to delivering value for taxpayer dollars and accomplishing agency missions. Increased spending requires increased oversight, management, and transparency, and this stewardship responsibility must be supported by an increase in trained acquisition professionals.

I understand that the Office of Federal Procurement Policy and the Federal Acquisition Institute have taken affirmative steps to improve the government's recruitment and development efforts, and are undertaking the development of a human capital plan to better quantify the hiring, training, and development needs of the civilian agencies' acquisition workforce. The Department of Defense is also assessing its workforce needs, and both of these efforts will improve the government's ability to address acquisition workforce shortages.

29. What changes do you believe should be made in the procedures and criteria used in determining whether government work will be performed by federal employees or by

contractors? For example, should the process under OMB Circular A-76, which requires a public-private competition before federal jobs may be converted to contractor performance, be modified? Do you believe there should be a better process than now exists for deciding whether work currently performed by contractors should be insourced, or whether new work should be performed by federal employees or by contractors?

Yes: The use of government outsourcing for services needs to be revisited. The Federal government has long relied on private contractors for various commercial services, such as for transportation, food, and maintenance. The premise behind OMB Circular A-76 is that inherently governmental activities should be performed by government employees, but that taxpayers receive more value for their dollars if government activities that can better be provided commercially are subject to the forces of competition.

In recent years, the division between inherently governmental activities (which are not appropriate for outsourcing) and commercial activities (which are properly subject to private sector competition) has become confusing and blurred. Too many inherently governmental functions are being outsourced. Clarification of OMB Circular A-76 seems warranted.

30. A number of recent GAO reports, including the ones on DHS and DoD, noted concerns about the government's increasing reliance on contractors and raised serious questions about how to ensure that the government retains the core capabilities needed to perform its mission, that contractors do not perform functions that properly should be performed only by government employees, and that contractors are used in a cost-effective way. While contracting out can be an effective means of fulfilling some responsibilities of government, it is critical that the federal agencies have sufficient staff on board with the necessary skills to establish policy, maintain a strong institutional memory and effectively manage acquisitions and contract oversight in order to ensure quality, economy, and timeliness of performance. What do you believe should be done to ensure that the agencies maintain a career workforce sufficient to achieve these objectives?

Recent reports, including several by the GAO, suggest that agencies do not consistently consider the impact of contract performance on their capability and capacity to manage the agency. Federal policies addressing the management of the multi-sector workforce, including the rules of A-76, must be reviewed to ensure they are working in tandem with human capital planning and do not result in decisions to use contractors where doing so would supplant the internal expertise and capacity that the government requires to effectively manage its affairs. At the same time, our policies should not inhibit agencies' ability to take full advantage of the marketplace to supplement the skills and competencies of our workforce in carrying out their missions.

31. Contractors are prohibited by law from performing so-called inherently governmental functions. However various sources define inherently governmental differently and in any event, it is not unusual for government contractors to provide services that, even if

they do not technically meet the definition, closely support inherently governmental functions.

- a. What will you do to strengthen the government's own ability to perform those tasks at the core of its operations, whether inherently governmental or closely supportive of inherently governmental functions?

The first step is to focus attention on government performance, including by adopting a more effective performance measurement system. We then need to bolster training to address identified weaknesses. Where insufficient internal expertise or capacity is identified as a cause for performance shortfall, the government needs to expand its recruitment efforts.

- b. Given the government's extensive reliance on contractors, what would you suggest are the key considerations in determining the appropriate role for contractors in supporting government operations (particularly, in the areas that border on inherently governmental functions, such as rulemaking and awarding contracts)?

As I noted above, the use of government outsourcing for services needs to be revisited. The Federal government has long relied on private contractors for various commercial services, such as for transportation, food, and maintenance. The premise behind OMB Circular A-76 is that inherently governmental activities should be performed by government employees, but that taxpayers receive more value for their dollars if government activities that can better be provided commercially are subject to the forces of competition. In recent years, however, the division between inherently governmental activities (which are not appropriate for outsourcing) and commercial activities (which are properly subject to private sector competition) has become confusing and blurred. Too many inherently governmental functions are being outsourced. Clarification of OMB Circular A-76 seems warranted.

- c. Government contractor employees often work side-by-side with federal employees, and also perform the same or similar functions as their federal employee counterparts. Please discuss any experiences that you have had managing such augmented workforce and what are your views on ensuring that government agencies establish appropriate safeguards to prevent conflicts of interest by contractor employees?

At CBO, I managed outside contractors when they were necessary to supplement our internal resources, including in providing IT security support and in providing a "surge capacity" on evaluating technical aspects of the TARP program. In both cases, we were extremely attentive to any potential conflicts of interest, either real or perceived. In the case of the TARP contractors, for example, we insisted on a set of "firewalls" to insulate the team working with us from any other employees or partner of their firms.

Contractor employees, like their government employee counterparts, must operate with the highest standards of integrity and ethics when performing work for the government. If confirmed, I will look to the Office of Federal Procurement Policy to work closely with procurement regulatory agencies to help mitigate the risk of contractor conflicts.

- d. Do you believe that contracting out of work, even if not “inherently governmental,” can reduce essential staff expertise or otherwise diminish the institutional strength of agencies? If so, how should such considerations be taken into account in determining whether work should be contracted out or done in-house?

Yes. As I noted above, recent reports, including several by the GAO, suggest that agencies do not consistently consider the impact of contract performance, such as for new work, on their capability and capacity to manage the agency. Federal policies addressing the management of the multi-sector workforce, including OMB Circular A-76, must be reviewed to ensure they are working in tandem with human capital planning and do not result in decisions to use contractors where doing so would supplant the internal expertise and capacity that the government requires to effectively manage its affairs. At the same time, our policies should not inhibit agencies’ ability to take full advantage of the marketplace to supplement the skills and competencies of our workforce in carrying out their missions.

Homeland Security

- 32. The nation faces a wide range of potential threats, from both terrorist attacks and natural disasters, and the federal government has finite resources to address them.
 - a. What principles will guide your decision making regarding the use of risk-analysis and risk-based resource allocation to set priorities to address these threats?

Comprehensive risk-based analysis is critical to maximizing the benefit of our finite homeland security resources. For example, we must award Homeland Security state and local grants through a sound, risk-based methodology and not as a form of general revenue sharing.

- b. The threats facing the nation vary from higher consequence/lower probability events to lower consequence/higher probability events. How will you prioritize within this range of threats and balance the investment in protecting against and responding to them? How will you determine if some threats or events require enhanced emphasis and investment or have already received sufficient focus?

Achieving the appropriate prioritization of our investments will require the involvement and partnership of our nation’s homeland security leaders, intelligence experts, and state, local and private sector stakeholders. I intend to work with these other policymakers and experts to

examine existing programs and determine whether we need enhancements to improve Federal efforts at prevention, preparedness, mitigation, or response or whether these programs no longer serve a useful purpose.

33. State and local first responders are on the front lines of our national effort to prevent, prepare for, respond to, and recover from acts of terrorism and natural disasters. For this reason, Congress has restored some or all of the funding that the Bush Administration proposed to be cut from the budget for DHS's state and local homeland security grants each of the last five years. Do you believe that federal homeland security funding for states and localities should be kept the same, increased, or decreased?

The Obama Administration wants to work with Congress to ensure that the appropriate level of homeland security funding for states and localities is allocated primarily based on risk, and that prior instances of inefficiencies are eliminated. The Administration's priorities would include increasing Federal resources and logistic support to local emergency planning efforts by further improving coordination between all levels of government, creating better evacuation plan guidelines, ensuring prompt Federal assistance to emergency zones, and increasing medical surge capacity. The level of funding should not be the measure of success in protecting the homeland.

34. The RAND Corporation noted in a 2004 report, "When Terrorism Hits Home: How Prepared are State and Local Law Enforcement," that "[h]omeland-security experts and first-responders have cautioned against an overemphasis on improving the preparedness of large cities to the exclusion of smaller communities or rural areas, noting that much of our critical infrastructure and some potential high value targets (nuclear power plants, military installations, agriculture facilities, etc.) are located in less-populated areas." Moreover, we know that al Qaeda attackers lived, trained, transited, hid, and otherwise used smaller communities and rural areas as a staging ground for the September 11, 2001 attacks. What steps will you take to ensure that smaller communities and rural states and localities receive adequate federal assistance to prevent, prepare for, respond to, and recover from terrorist attacks?

The Obama Administration supports continued funding for first responders and ensuring that limited homeland security grant funds are targeted based primarily on risk and not awarded as a form of general revenue sharing. While the risk from possible terrorist attack is not solely focused on major cities or monumental infrastructure, the consequence of such attacks on these locations could have a devastating impact on the nation as a whole. The Administration believes that any successful homeland security grant program must rely on a well grounded, risk-based methodology and input from all stakeholders at the state, municipal, and rural levels as well as from the owners of critical infrastructure.

35. The Committee's 2006 report on the failed response to Hurricane Katrina, "Hurricane Katrina: A Nation Still Unprepared" found that FEMA lacked the resources needed to accomplish its mission and that resource shortages contributed to FEMA's failures in responding to Katrina. For the past two fiscal years, the Bush Administration has asked for increases in FEMA's budget, but some believe FEMA's budget is still not adequate to accomplish its mission. Do you believe there is a need for additional increases to FEMA's budget? If so, please describe.

The Obama Administration is committed to raising FEMA's profile and focusing management attention on building the systems and management structures to ensure that FEMA is successful in the future. Money alone, though, will not solve FEMA's management and operational problems.

Improving FEMA's role in marshalling existing Federal resources and providing expertise and a coordinated Federal face for state and local governments should be an immediate and primary focus. Since Katrina, and at Congress' direction, FEMA has improved its logistic systems and strengthened field operations. Furthermore, it has achieved some success in developing regional response plans that identify "disaster support" gaps that can be filled either by neighboring states or the Federal government. It is in these areas, working with state and local governments in their planning for disasters and in assessing needs or gaps, where FEMA can provide a real service. This effort will result in a better understanding of FEMA's future funding and support requirements.

36. Although Hurricane Katrina made landfall over three years ago, the recovery and rebuilding process is far from complete and much work remains to be done. What is your vision of the role of the federal government in the recovery and rebuilding process in the Gulf Coast and what should the Obama Administration do to support those recovery and rebuilding efforts?

To date, the Congress has provided over \$120 billion to aid for the reconstruction and recovery of the Gulf Coast states. The Obama Administration is committed to ensuring these resources reach the communities that need them. However, the Federal role remains one of partnership – with decisions on how, what, and where to rebuild remaining firmly with state and local leaders. We also must work to make sure the Federal government does not impede progress through bureaucratic processes. To help achieve that goal, the government must speak with one voice through a single Federal rebuilding coordinator who will report directly to the President.

37. Providing long-term disaster housing for victims of Hurricanes Katrina and Rita has been difficult. What thoughts do you have on how the federal government should provide long-term disaster housing to disaster victims? What do you believe the roles of FEMA and the Department of Housing and Urban Development should be in long-term housing to disaster victims?

One of the greatest failures following Hurricane Katrina was the inability of government at all levels to meet the long-term housing needs of displaced people along the Gulf Coast. This remains true three years after the disaster, with many families still residing in mobile homes or temporary housing. Only recently was there a ground-breaking to rebuild damaged or destroyed public housing.

FEMA is responsible for immediate response and recovery, and Katrina highlighted its weaknesses as a steward for meeting the long-term housing needs of those displaced. It is appropriate, following disasters like Katrina, to rely on housing experts at the Department of Housing and Urban Development (HUD) and their nation-wide network of housing authorities to assist in housing and counseling for those who will be displaced for the long term. The Disaster Housing Assistance Program that was piloted in response to Hurricane Katrina improved rental housing assistance for disaster victims, but additional steps are needed to develop a fully functioning disaster housing assistance program under HUD's leadership and in partnership with FEMA.

38. What do you believe are the roles and responsibilities of OMB with respect to information-sharing? How would you coordinate OMB's information-sharing activities with those of the Program Manager (currently located in the Office of the Director of National Intelligence) to support the ongoing implementation of the Information Sharing Environment required by the Intelligence Reform and Terrorism Prevention Act of 2004?

I understand that OMB's role with respect to the Program Manager consists of conducting effective oversight; maintaining and enhancing integration into agency budget and performance management activities; promoting effective agency prioritization of information sharing investments towards target outcomes; and institutionalizing the enhanced capabilities developed by the Program Manager. The Program Manager has effectively embraced, and in many cases extended, these cross-government frameworks, underpinning our responsibility to build on what has been done. I would build on work underway in cross-government frameworks to enhance security, privacy, and information sharing.

If confirmed, I will work with the Chief Technology Officer; the Program Manager; state, local, and tribal stakeholders; agencies; and Congressional stakeholders to ensure that we have a shared view towards target outcomes and how we will implement the Information Sharing Environment to achieve those outcomes.

39. Ensuring the security of the nation's most critical infrastructure and key resources is an important mission of the federal government. Homeland Security Presidential Directive 7 (Critical Infrastructure Identification, Prioritization, and Protection) encouraged the development of voluntary private-public structures to provide a coordinated approach to critical infrastructure protection?

- a. What is your view of the role of voluntary private-public partnerships as a mechanism to ensure the security of our nation's critical infrastructure?

Since the vast majority of critical infrastructure is owned and operated by the private sector, there is no viable alternative to private-public partnerships in protecting such assets.

- b. What is your view of the role of regulation as a mechanism to ensure the security of our nation's critical infrastructure?

Regulatory enforcement is an important tool available to the Federal government to ensure compliance with security requirements for critical infrastructure.

- c. In your testimony before the 9/11 Commission on November 19, 2003, you stated that you had concerns with providing subsidies to the private sector to encourage anti-terrorism protective measures, including that they will lead to unnecessarily expensive investments and that the protections may have been undertaken even in the absence of subsidies. Do you believe that a government anti-terrorism program could be sufficiently detailed in its description and evaluation of the protections that are eligible for a subsidy so as to avoid these problems? If so, please provide an example.

The most appropriate government intervention to encourage greater security in private-sector settings is complex. Too many grant and subsidy programs, including Homeland Security grant programs, involve a significant level of funding without sufficient attention to incentives and to clear, measurable results. At this point, grants or subsidies to the private sector should be based on a clear industry security plan, with its foundation based on risk analysis and with funding targeted to specific security needs or gaps as determined by the Department of Homeland Security and industry stakeholders.

- 40. U.S. Customs and Border Protection (CBP) accounts for almost one-quarter of the Department of Homeland Security's budget. CBP faces significant challenges with its infrastructure at ports of entry, hiring sufficient staff to handle its multiple missions, and deploying technology at the border. The rapid evolution of CBP's missions and operational requirements have strained its personnel and port of entry infrastructure. Some of the land ports are more than 70 years old and increased traffic volumes and security requirements mean that a large portion of our nation's 163 land ports of entry must be upgraded or replaced.

- a. CBP estimates that facility modernization will cost \$600 million per year or \$6 billion over ten years. Based on current funding levels, the time required to modernize the inventory would exceed four decades. In addition to this, CBP is competing for

funding with other agencies from the Federal Building Fund, which is administered by the GSA. What do you see OMB's role in this process? Will you commit to ensuring that funding needed for the port of entry modernization projects is a priority?

As for many Federal agencies, the success of CBP's mission depends heavily on the condition of its physical infrastructure. Many CBP land ports of entry (LPOE) were designed and built some time ago and are struggling to accommodate new operational demands such as increases in personnel, high traffic volume, changes in technology, evolving design and security standards, and general aging and deterioration. To address these issues, CBP has begun a LPOE Modernization Initiative. The Obama Administration supports overdue investment in the modernization of many of the LPOEs, and OMB will work with both the General Services Administration and the Department of Homeland Security to ensure that future funding is based on the joint GSA/DHS modernization plan.

- b. Although the number of CBP officers has increased during the Bush Administration, it is still less than the optimal number called for in CBP's workforce staffing model. Will you commit to continuing to increase the number of officers at the ports of entry?

I understand that since 2004, CBP officer staffing has increased by nearly 20 percent. These Officers perform many tasks, most notably the screening of passengers and cargo at our land, sea, and airports of entry. CBP's workforce staffing model is only one tool used to provide direction and information on optimum staffing levels, and it is based on specific input criteria. CBP also considers other inputs – including threats and vulnerabilities, current workload, and changes in operational requirements – to determine appropriate officer staffing levels. Additional personnel are not always the answer to improved service. To best execute its mission of securing the border while facilitating legitimate travel and trade, CBP requires the proper mixture of infrastructure, technology, and personnel.

- c. Do you believe the deployment of advanced technology at the border is a critical part of developing an effective mix of personnel and infrastructure to secure our land borders?

Yes. To efficiently execute its mission of securing the border while facilitating legitimate travel and trade, CBP requires the proper mixture of infrastructure, technology, and personnel.

CBP currently uses many types of technology at our borders, including Radiation Portal Monitors (RPM) and non-intrusive inspection devices (NII), and it is testing the SBInet system on the southwest border. Since 2001, over 1100 Radiation Portal Monitors (RPM) have been deployed to our Nation's ports of entry, permitting the radiological scanning of approximately 95 percent of all truck cargo, 86 percent of all vehicles arriving from Canada, approximately 98

percent of all arriving sea-borne containerized cargo, approximately 100 percent of all truck cargo on the southern border, and 95 percent of all personally owned vehicles arriving from Mexico. In addition, CBP scans 100 percent of all arriving containers with NII equipment, targeting high risk containers with 216 large-scale NII systems, including 44 on the northern border. SBInet will serve as CBP's enforcement technology between ports of entry and it includes surveillance, detection, identification, classification, tracking, communications, and command and control enhancements. The Obama Administration will continue to support the deployment of the most effective enforcement technology to safeguard both our borders and ports of entry.

- d. The communications infrastructure available to CBP officers and Border Patrol agents in the field is severely outdated and, in many areas of the border, there is no radio coverage at all. This is a serious officer safety issue. To address the problem, CBP has drafted plans by which all Border Patrol sectors could be upgraded by 2017. Will you commit to making the improvement of CBP tactical communications a priority with appropriate budget requests?

We will consider the issue of the CBP communications infrastructure within the priorities outlined by the Department of Homeland Security as the Obama Administration develops its fiscal 2010 budget proposal. I understand that CBP is in the process of upgrading the current communications systems used by Border Patrol agents, Field Operations officers, and Air and Marine (A&M) agents in certain sectors. CBP's goal is to refresh aging technology, bring systems into compliance with Federal mandates, employ Advanced Encryption System (AES) voice protection, expand radio coverage into areas where agents currently have no communications, and provide Blue Force tracking through GPS technologies.

The Obama Administration has committed to improving interoperability within the Federal community and with its state and local law enforcement partners.

- 41. Deepwater is a collection of more than a dozen Coast Guard acquisition programs for replacing and modernizing the service's aging fleet of deepwater-capable ships and aircraft. It includes plans for, among other things, 91 new cutters, 124 new small boats, and 247 new or modernized airplanes, helicopters, and unmanned aerial vehicles (UAVs). The success of Deepwater is critical to the future of the Coast Guard, and the program must be carefully monitored to ensure that taxpayer dollars are being spent effectively. The Commandant of the Coast Guard has reformed the service's acquisition structure to correct past problems with Deepwater.

- a. How can OMB help ensure Deepwater's success?

OMB's role is to review programs such as Deepwater from the perspective of whether sound management practices are being employed and whether sufficient resources are available.

Through the fiscal 2010 budgetary review process, OMB will examine the annual and five-year investment strategy for Deepwater to identify risks before requesting funds from Congress and before any funds are obligated for specific acquisitions. We will also work with the Coast Guard to promote following the best acquisition practices described in OMB's Capital Programming Guide. Given the problems associated with the Deepwater acquisition, it is important that, wherever possible, the Coast Guard utilizes best practices or acquisition vehicles available from the Department of Defense or other DHS components as it recapitalizes its air, land, and water assets. In addition to monitoring acquisition practices, OMB continuously reviews the operational requirements driving project costs and, working with the Department of Homeland Security, evaluates asset alternatives.

- b. The Coast Guard is in danger of losing its polar icebreaking capability. Both of the Coast Guard's heavy polar ice breakers are nearing the end of their service life. Further, no long-term contingency plan exists to provide U.S. polar icebreaking capacity in the future. What actions do you support to restore the Coast Guard's capacity to maintain a U.S. presence in the resource-rich and increasingly strategic polar regions? Would you support the purchase of two new polar ice breakers (approximately \$1 billion each) in the proposed stimulus package or in future appropriations requests.

I understand that the Coast Guard's two active polar-class icebreakers, HEALY and POLAR SEA, have sufficient icebreaking capability to perform the nation's icebreaking missions in the Arctic and Antarctica for many years to come. It is premature to commit to any funding for any polar assets until it is clear what role and mission the Coast Guard will be required to perform and what asset mix and operational tempo is appropriate to achieve these mission requirements.

- 42. The Integrated Wireless Network (IWN) project began in 2003 to create a nationwide, consolidated, interoperable wireless communications system for employees of DHS, the Department of Justice, and the Treasury Department that was estimated to cost \$5 billion. Despite the hundreds of millions of dollars spent, a December 2008 GAO report found that the program had failed due to a lack of leadership within the participating agencies. What steps will you take and what investments will you recommend be made to more effectively support efforts to ensure that employees of federal agencies and other emergency officials are able to communicate with each other during a disaster and other joint operations?

The Obama Administration plans to support the development and deployment of reliable and interoperable communications systems that meet Federal, state and local law enforcement requirements. As I understand it, the IWN program was established to standardize basic wireless communications needed for emergency response. Standardization should create savings and improve interoperability, but IWN has achieved neither and it now far exceeds that original purpose. Before spending more on IWIN, the agencies should adopt best practices and devise a

common outcome and strategy. OMB plans to review the IWIN program in light of the Administration's commitment to improve interoperability.

43. The Post-Katrina Emergency Management and Reform Act directs the President to ensure that each federal agency with responsibilities under the National Response Framework (formerly the National Response Plan) has appropriate capabilities, resources and plans. It also requires the FEMA Administrator to submit to Congress annually an estimate of the resources needed by federal agencies to respond to a catastrophic incident. If confirmed, what will you do to ensure that the many federal agencies that need to prepare for and respond to natural and man-made threats to our nation have sufficient resources to do so?

OMB will work with FEMA and the appropriate agencies under the broad outline of the National Response Framework (NRF) to ensure that Federal agencies are reviewing their resources and management requirement needs to adequately respond to a catastrophic incident.

Budget and Economic Policy

44. In response to the current economic downturn, it appears increasingly likely that President-elect Obama will propose a substantial economic stimulus plan that Congress will consider in early 2009.

- a. What role, if any, have you played in the development of the proposed economic stimulus plan?

I have been substantially involved in the development of the plan as part of a process led by Larry Summers.

- b. What criteria do you believe should be applied in determining the appropriate size for an economic stimulus bill and the appropriate benefit to merit inclusion in the stimulus package?

President-elect Obama's economic recovery plan attempts to balance the need for substantial action to boost demand in the short run with the need to avoid significantly exacerbating our already grim medium-term deficit picture. We will soon release further information on the size and details of this plan.

45. Do you believe that funding for transportation infrastructure ought to be included in the stimulus package? If you do, how would you prioritize among the separate categories of transportation infrastructure?

The President-elect has made clear that he will include investments to rebuild our roads, bridges, and public transit systems in his economic recovery plan. We will soon release further information about the plan.

46. Do you believe the economic stimulus plan should include projects that will set the United States on a course towards energy independence?

The President-elect has made clear that he will include initiatives to reduce our dependence on foreign oil in his economic recovery plan. We will soon release more information about the plan.

47. In your view, do current federal budgetary accounting rules and practices provide sufficient information to policymakers and the public regarding the likely budgetary costs and market risks associated with the administrative and legislative responses to the current economic crisis?

Current Federal budget and accounting rules and practice provide a good start. Current law, including the Federal Credit Reform Act as amended by the Emergency Economic Stabilization Act (EESA), requires cash and present value accounting for government actions in response to the economic crisis. The year-by-year cash projections and the present value estimates provide a basis for understanding the near- and medium-term budgetary costs and market risks of the government's recent actions. The additional information that OMB typically provides, in the *Analytical Perspectives* volume of the President's budget, for credit and insurance programs and for long-term obligations provides a basis for understanding the longer-term budgetary costs and market risks. EESA includes additional reporting requirements for the President's budget that will help to make these costs more transparent. I would welcome additional ideas from the Congress and the policy-making community about other steps to provide useful information about the budgetary implications of current activities.

48. Should additional information be made publicly available regarding the federal government's increased financial exposure from Treasury and Federal Reserve lending and equity investment arrangements, FDIC actions, and other measures adopted in recent months?

Much more should be done to be more transparent about both the objectives and the details of the federal government's financial support programs, including the Troubled Assets Relief Program (TARP). If confirmed, I will work with my colleagues at the Treasury to ensure that transparency is at a standard that should be expected for such a significant government program. And, I will build on the progress that has already been made in this direction at OMB. For example, on December 5, OMB issued its first report under TARP showing both the path of

expected cash flow in and out of the federal government and the up-front subsidy costs under two different assumptions about discount rates. OMB is required to issue regular reports on the program and to provide information on the program in the President's budget. If confirmed, I will welcome ideas from the Congress about ways to ensure that this reporting is most useful to both the Congress and the public.

A much more complicated issue involves the disclosure of specific details of the exposures of the Federal Reserve's balance sheet and its lending and arrangements as well as the FDIC's explicit and implicit exposure to individual financial institutions. The Federal Reserve and the FDIC have historically been sensitive to disclosing information about their exposures to specific institutions or, in the case of the Fed, the specific amounts and values of collateral pledged as security for Fed lending. I do believe that there may be some additional types of information that could be disclosed in a manner that would not undermine the objectives that these institutions are seeking to achieve with these programs and could also help lawmakers and the public evaluate the increase in the government's financial exposure resulting from these efforts to stabilize the financial system. If confirmed, I will work with my colleagues in these institutions to examine the types of disclosures that could be appropriate.

49. Which economic measures or indicators do you believe are most appropriate for determining the point at which short-term, government-financed economic stimulus is no longer needed? In other words, how do you suggest we should determine when the focus of government fiscal policy should shift away from short-term economic stimulus and revert to the nation's long-run fiscal and budgetary imbalances?

To assess the state of the economy, we need to consider a range of economic indicators, especially including employment levels, unemployment insurance claims, industrial production, and income growth. The committee at the National Bureau of Economic Research (NBER) that officially determines whether the economy is in recession "places particular emphasis on two monthly measures of activity across the entire economy: (1) personal income less transfer payments, in real terms and (2) employment. In addition, the committee refers to two indicators with coverage primarily of manufacturing and goods: (3) industrial production and (4) the volume of sales of the manufacturing and wholesale-retail sectors adjusted for price changes. The committee also looks at monthly estimates of real GDP such as those prepared by Macroeconomic Advisers (see <http://www.macroadvisers.com>). Although these indicators are the most important measures considered by the NBER in developing its business cycle chronology, there is no fixed rule about which other measures contribute information to the process."

50. The federal government faces an unsustainable long-term budget outlook. In your view, what actions should the Congress and the Administration take to address our long-term structural budgetary imbalances? Do you have recommendations on how the policy-making process could be reformed to more effectively address long-term challenges?

What do you think is the appropriate rate of growth for discretionary spending over time? Do you have recommendations on how federal budgetary accounting practices could be reformed to increase recognition by policymakers and the public of the long-term budgetary implications of current programs, current tax provisions, and new tax and spending proposals?

The principal driver of long-term deficits is the projected rising costs of Federal health care programs, especially Medicare and Medicaid. Those rising costs, in turn, reflect the rising costs of health care throughout American society. We therefore need to be thinking about ways of slowing overall health care cost growth, rather than just slowing growth in Medicare and Medicaid. Massive opportunities appear to exist to reduce health care costs without harming health outcomes. Significant evidence suggests that higher-cost care does not always mean higher-quality care. (Perhaps the most compelling evidence of this fact is that per capita health care spending varies widely across the United States, but the very substantial variation in cost per beneficiary is not correlated with overall health outcomes.) Embedded in the country's fiscal challenge and the current burdens on state governments and workers are thus opportunities to reduce costs without impairing health outcomes overall.

In capturing these opportunities, we may need to think about important process changes to the way that we currently make health- and budget-related decisions. I have noted before that our current system to approaching gradual long-term problems – from the fiscal gap to rising health care costs and climate change – does not appear to work that well, which raises the question of whether process changes could help to produce better outcomes. In the end, though, no changes to process can substitute for sustained Presidential and Congressional leadership and a commitment among Members of Congress to make hard choices.

The appropriate growth rates for different parts of the discretionary budget vary. Some types of government programs have large fixed costs and low marginal costs, suggesting they can fall relative to Gross Domestic Product over time. Other components should grow both with inflation and with the size of the population that they are serving, or with the overall size of the economy.

As director of CBO, I tried to highlight the long-term fiscal imbalance both by examining its primary driver (health care) and by revising and improving CBO's measures of the nation's long-term fiscal gap. If I am confirmed as director of OMB, I would look forward to working with Congress on whether additional measures such as those would be useful to policymakers and the public.

51. Over the years, there have been various proposals for a biennial budget with funding decisions made in odd-numbered years and with even-numbered years devoted to authorizing legislation. What is your opinion of biennial budgeting?

The annual budget process already suffers from a considerable time lag between forecasts – such as for the economy, for anticipated revenues, and for automatic spending increases for key programs – that shape budget proposals from the President and Congress and budgetary decision-making. Biennial budgeting would add a year to that time lag, making the forecasts far less likely to reflect reality by the time the Administration and Congress make final budget decisions.

52. You have argued that spiraling health costs are the major factor contributing to long-term, structural budgetary imbalances. You have also argued that any real effort to reform Social Security will require very painful choices – tax increases, benefit reductions, or both. How do these positions inform and guide your recommendations about how we should address the government’s long-term structural budgetary imbalances and how we should reform Social Security?

The principal driver of our nation’s long-term budget problem is rising health care costs. If costs per enrollee in our two main Federal health care programs, Medicare and Medicaid, grow at the same rate as they have for the past 40 years, those two programs will increase from about 5 percent of GDP to 20 percent by 2050. (As the Congressional Budget Office and others have noted, there are reasons to expect cost growth to slow in the future relative to the past even in the absence of policy changes. But the point remains that reasonable projections of health care cost growth under current policies shows that they are the key to our fiscal future.) As part of efforts to enact overall health care reform, I look forward to working with Congress on such issues as:

- Expanding the use of health information technology (IT) and electronic medical records, which is a necessary (but not sufficient) step to improving the quality and efficiency of the health care system;
- Expanding research on “comparative effectiveness” of different options for treating a given medical condition, which could provide information on both medical benefits as well as costs;
- Providing financial incentives for better care rather than more care (currently, financial incentives for providers and patients encourage or facilitate expensive treatment and procedures, even when there is little evidence that they are more effective than existing therapies); and
- Providing incentives for prevention (such as immunizations and screening tests) and healthy living (such as avoiding obesity and smoking) so that people have fewer health care problems throughout their lives.

The Obama Administration will be exploring these and other steps as key components of its broad health care reform efforts.

Although the need to reform health care is more urgent in terms of addressing our long-term budget problem, we must also restore actuarial solvency to Social Security. I have written about possible ways of restoring solvency to Social Security, as have many other authors. Picking and choosing from the various ideas that have been published and enacting reform will require a bipartisan effort between the Administration and Congress, and I look forward to working with members of both parties on that challenge.

53. As Director of the CBO, you testified that rising health costs and their consequences for Medicare and Medicaid constitute the nation's central fiscal challenge, and that, without changes in federal law, the government's spending on these two programs is on an unsustainable path. What changes would you advocate to slow the growth in health care spending?

As I noted above, the principal driver of our nation's long-term budget problem is rising health care costs. If costs per enrollee in our two main Federal health care programs, Medicare and Medicaid, grow at the same rate as they have for the past 40 years, those two programs will increase from about 5 percent of Gross Domestic Product to 20 percent by 2050. (As the Congressional Budget Office and others have noted, there are reasons to expect cost growth to slow in the future relative to the past even in the absence of policy changes. But the point remains that reasonable projections of health care cost growth under current policies shows that they are the key to our fiscal future.)

And yet massive opportunities appear to exist to reduce health care costs without harming health outcomes. Significant evidence suggests that higher-cost care does not always mean higher-quality care. Perhaps the most compelling evidence of this fact is that per capita health care spending varies widely across the United States, but the very substantial variation in cost per beneficiary is not correlated with overall health outcomes. Embedded in the country's fiscal challenge and the current burdens on state governments and workers are thus opportunities to reduce costs without impairing health outcomes overall. Some of the most important steps include:

- Expanding the use of health information technology (IT) and electronic medical records, which is a necessary (but not sufficient) step to improving the quality and efficiency of the health care system;
- Expanding research on "comparative effectiveness" of different options for treating a given medical condition, which could provide information on both medical benefits as well as costs;
- Providing financial incentives for better care rather than more care (currently, financial incentives for providers and patients encourage or facilitate expensive treatment and procedures, even when there is little evidence that they are more effective than existing therapies); and

- Providing incentives for prevention (such as immunizations and screening tests) and healthy living (such as avoiding obesity and smoking) so that people have fewer health care problems throughout their lives.

The Obama Administration will be exploring these and other steps as key components of its broad health care reform efforts.

54. As the Director of the CBO, you have testified on a number of occasions that our policies should be directed to increasing the value of health spending, which will help us to reduce costs without impairing health outcomes. You have also recommended that we adopt policies that promote greater use of “evidence-based standards” and “comparative effectiveness” research, as well as expanded use of Health IT and measures to encourage prevention and promote good health.

Some have expressed concern, however, that current scoring processes used by the federal government actually serve as a barrier that blocks these kinds of innovations because they only count the costs of implementation without taking into account any savings that may accrue. Do you think that these scoring processes should be modified to ensure that a focus on short-term costs does not unnecessarily discourage the adoption of steps that may generate net long-term budget benefits? If not, how can we overcome this barrier to changes that most of us agree are necessary to transform both our public and private health care systems?

When I served as director of CBO, members of Congress would regularly ask me this question. Part of the difficulty lies with the 5- and 10-year budget windows, since in some cases increases in spending today can generate reductions in spending over the long term – but that long-term reduction in spending occurs outside the budget window. I would look forward to working with the Budget Committees and others to explore methods of addressing such cases.

55. What role do you believe pay-as-you-go (PAYGO) budget rules should have given the present economic and budgetary circumstances? In your view, is it desirable that the expiration of tax cuts generate revenue for PAYGO purposes that may be used to pay for new, non-emergency tax relief or spending increases?

We need to separate the very short-term from the medium- and long-term. In the type of short-term economic environment in which we find ourselves, the key impediment to economic activity is the level of aggregate demand – and in that context, PAYGO on items like an economic recovery act that is intended to promote demand can be counterproductive.

After the economic recovery plan is enacted, and after the economy starts growing again, the principles involved in pay-as-you go budgeting make considerable sense – especially given the

serious medium-term and long-term deficits we face. The President-elect is concerned about our fiscal future and committed to the common-sense principle that we should not exacerbate our long-term fiscal gap.

The Obama administration would like to extend some but not all expiring tax cuts and, as I indicated below, believes the principles involved in pay-as-you-go budgeting make considerable sense after the economy starts growing again. But the question of whether a PAYGO rule is better measured from a baseline that assumes temporary provisions will continue in their current form or one that assumes temporary provisions will expire on schedule is an open one. We look forward to working with Congress on these and other issues related to PAYGO.

56. Do you believe that the Congress and the Administration should reinstate statutory PAYGO rules? Should the provisions be modified?

As I mentioned, we need to separate the very short-term from the medium- and long-term. In the type of short-term economic environment in which we find ourselves, the key impediment to economic activity is the level of aggregate demand – and in that context, PAYGO on items like an economic recovery act that is intended to promote demand can be counterproductive.

After the economic recovery plan is enacted, and after the economy starts growing again, the principles involved in pay-as-you go budgeting make considerable sense – especially given the serious medium-term and long-term deficits we face. The President-elect is concerned about our fiscal future and committed to the common-sense principle that we shouldn't exacerbate our long-term fiscal gap. We look forward to working with Congress on the details of pay-as-you-go budgeting principles.

57. The U.S. Postal Service concluded fiscal year 2008 with a net loss of \$2.8 billion and reported a mail volume decline of 9.5 billion pieces, or 4.5 percent, compared to the previous fiscal year. As the Postal Service's financial difficulties increase, what role do you think OMB should have?

In my view, OMB should continue to forecast USPS budget impacts and make or analyze legislative recommendations for this independent entity. While the Postal Service is treated as off-budget, its net outlays are considered part of the unified budget. As a result, its financial health is important to the bottom line of the annual budget. I look forward to working with the Postal Service and Congress to provide the tools and authorities the Postal Service needs to remain viable during and beyond its current financial difficulties.

58. What are your thoughts on how or whether the Federal government can or should budget for emergencies?

Congress has a legitimate need to budget separately for emergencies, so that government can respond quickly to unforeseen situations that demand immediate attention without the ordinary constraints of budget rules. In recent years, however, Administrations and Congresses have stretched the definition of "emergency" to the breaking point, such as by designating costs for the decennial Census as an emergency, even though the Constitution specifies that the Federal government will conduct a Census every 10 years. "Emergency" designation should be reserved for demands that are truly emergency in nature.

59. The Improper Payments Information Act of 2002 requires agencies to reduce waste that occurs in the form of improper payments. Under OMB guidance to agencies covered by the Improper Payments Information Act, however, agencies only report improper payments for a program if they actually exceed \$10 million and 2.5 percent of program outlays. This high threshold undermines the original intent of Congress in drafting the Improper Payments Information Act and results in millions in payment errors going unreported each year.

Based on the most recent estimate submitted by agencies in their annual financial reports, the Federal Government makes more than \$70 billion per year in improper payments, most of them overpayments to contractors, beneficiaries, and others. This calculation does not even include estimates from programs such as Medicare Part D and a number of programs at the Department of Homeland Security.

This Committee recently passed the Improper Payments Elimination and Recovery Act, authored by Senators Carper, Coburn, and McCaskill, to address these issues. There was no floor action on this bill, so the problems in attempting to recoup improper payments continue to exist.

- a. If confirmed as Director, what steps do you intend to take to ensure that agencies comply with the Improper Payments Information Act?

Payment errors of this magnitude are unacceptable. Federal agencies must fulfill their responsibility to identify and report errors as well as take actions to reduce or eliminate the errors altogether. I understand that Federal agencies have identified approximately \$1.89 trillion of Federal program outlays as being high risk for improper payments and have produced an annual error measurement for 97 percent of those program dollars (approximately \$1.84 trillion). The three percent of unmeasured dollars are from six programs (five from the Department of Homeland Security, and Medicare Part D at the Department of Health and Human Services), of which the five from DHS will report an error measurement in fiscal 2009 and Medicare Part D will report an error measurement in fiscal 2010. I will make it a top management priority to have the reporting measurements for these six programs come in on schedule.

Additionally, as part of the Administration's overall initiative to improve the transparency of the government, I will work to make improper payment reporting a focus area and highlight the

magnitude of payment errors as well as the steps agencies are taking to reduce improper payments. OMB staff should also promote improved payment integrity and the integration of such payment integrity programs into routine financial management practices at every agency.

- b. Would you consider changing the OMB guidance to agencies under this Act so that agencies are more accurately reporting the improper payments they make?

Under existing OMB guidance, agencies are measuring approximately \$1.89 trillion of the \$2.98 trillion of total Federal outlays (or 64 percent). Agencies have thus already made significant progress in identifying and measuring high-risk programs. However, if confirmed, I will review the guidance and the reporting that derives from it. Such a review of OMB's current guidance should go beyond an evaluation of comprehensive reporting of error. We need to work to eliminate the more than \$70 billion in annual improper payments that has already been identified. In my view, we should dedicate resources toward reducing or eliminating errors in the 12 programs* that account for more than 90 percent of the government's total error. This approach has greater returns for the government and taxpayer as opposed to dedicating more resources towards measuring and reporting additional (lower risk) programs.

* Medicaid, the Earned Income Tax Credit, Medicare Fee-For Service, Medicare Advantage (Part C), Supplemental Security Income, Unemployment Insurance, Old-Age Survivors and Disability Insurance, Food Stamps, Temporary Assistance for Needy Families, School Lunch, Public Housing/Rental Assistance, and the State Children's Health Insurance Program.

- c. What steps would you take to prevent improper payments before they occur so that the money being wasted now can be spent more productively?

It is simple common sense and sound financial management that at the time of payment, the right person should receive the right benefit for the right amount. Improper payments inflate costs for taxpayers and undermine trust in government. In recent years, however, program integrity efforts have not been fully funded out of the agency's base discretionary appropriations largely because of budget constraints and because these activities often fall behind other priorities.

If confirmed, I will request adjustments for spending that would provide additional resources for administrative program integrity and tax compliance efforts at the Social Security Administration, Internal Revenue Service, Department of Health and Human Services, Department of Labor, and their respective Offices of Inspector General. Program data show that these funds would generate program efficiencies that result in large, positive returns on investment for taxpayers as high as 11:1 and produce savings estimated as high as \$3 billion over ten years. I will identify and prioritize other program integrity initiatives that will provide the greatest return on investment for the government and reduce or eliminate the over \$70 billion in improper payments (reported in fiscal 2008).

- d. Most private sector firms and a handful of federal agencies use recovery audits as a tool to identify and recover overpayments they make. For example, in a three-year recovery auditing pilot in the Medicare program, more than \$1 billion was collected in just three states. Would you expand the use of recovery auditing in the federal government?

I believe that innovative solutions such as recovery auditing can be useful in recouping payments in programs. I understand that since the Recovery Auditing Act was enacted in 2002, agencies have recovered approximately \$982 million in contract errors, reflecting an overall recovery rate of 53 percent. If confirmed, I will not only work to identify solutions to prevent improper payments from being made altogether, but I will analyze the possibility of expanding recovery auditing to more Federal benefit programs where such an approach is feasible. (I understand that there was recent legislation introduced that would have lowered the threshold as to what programs are subject to recovery auditing.)

E-Government and Information Technology

60. The E-Government Act of 2002 (P. L. 107-347) gave responsibilities to OMB to develop interagency E-Government services and to promote both interagency cooperation and the use of the internet for providing services to citizens. How effective do you believe OMB has been in developing these services, and how will OMB facilitate these initiatives under your leadership?

OMB has established a foundation for coordinating E-Government and information technology across the Federal government. While the set of E-Government initiatives undertaken to date provide improved services to citizens, businesses, and government entities, we now must take further actions to build the accountable, transparent, and participatory government envisioned by President-elect Obama. I will oversee OMB's evaluation of the performance of the existing E-Government initiatives to determine what additional actions and improvements are needed. I will also evaluate opportunities to provide new services in new ways that are consistent with the President-elect's agenda and determine how to manage the combination of the existing and new services going forward.

61. An important goal of the E-Government Act of 2002 was to make the federal government more transparent and accountable. Subsequent laws, such as the Federal Funding Accountability and Transparency Act of 2006 (P. L. 109-349), have established additional requirements for making government information available to the public online. What would you do, if confirmed, to help agencies make government information more readily available to the general public and federal agencies more transparent overall?

The Obama Administration wants to create an unprecedented level of openness in our government, and I am firmly committed to that objective. As you may know, I started a blog while I was director of the Congressional Budget Office as my own small way of communicating more openly and directly with the public.

As director of OMB, I will work with our Chief Performance Officer and our Chief Technology Officer to make the government more transparent and accountable. As an example, agencies can and should harness new technologies to make more information about their operations and decisions publicly available online. One area of concern is that some of the information currently collected is not as reliable or accurate as needed to make sound decisions. I will provide direction to ensure that information is collected in a consistent manner with high quality and useful format.

OMB is uniquely positioned to drive the Obama Administration's transparency agenda due to its central role within, and visibility across, Federal agencies.

62. The Office of Electronic Government and Information Technology within OMB has the responsibility for providing overall leadership and direction to the executive branch on E-Government. OMB's Office of Information and Regulatory Affairs also has certain responsibilities, under the Paperwork Reduction Act (P. L. 104-13), regarding the collection and dissemination of government information. Do you believe functions related to the management of government information are appropriately allocated between those two offices, or should those functions or offices be reorganized?

I intend to review the functions for managing government information that the Office of E-Government and Information Technology and the Office of Information and Regulatory Affairs now perform in order to determine OMB's best long-term approach to this vitally important government function. I will evaluate the need for potential realignment of functions across OMB in the future, and work with the Congress on any appropriate changes.

63. President-elect Obama committed during the campaign to the creation of a Chief Technology Officer (CTO) who "will ensure the safety of our networks and will lead an interagency effort, working with chief technology and chief information officers of each of the federal agencies, to ensure that they use best-in-class technologies and share best practices." What role do you believe the Chief Technology Officer will play in OMB's overall management of the Federal government's information technology infrastructure and how will it relate to the current management structure of OMB?

The CTO will bring a fresh perspective to help assess and improve the overall state of Federal information technology. He or she can help us infuse new technologies into the government, in areas that include social media to improve collaboration and enhanced web technology to improve information sharing and transparency. The CTO can help us identify the best

commercial solutions and practices, and can work with OMB and the agencies to develop plans to close any gaps they have. The CTO would support the current OMB management structure by focusing attention on these important issues, and work with OMB to help transform agency plans into actions through its management and oversight functions. OMB officials will work closely with the CTO to develop plans to execute new approaches and technologies across Federal agencies and departments in collaboration with the CIO Council.

64. Information security continues to be a serious and growing problem throughout government. Under the Federal Information Security Management Act of 2002 (FISMA), OMB is required to develop and oversee the implementation of policies, principles, standards, and guidelines on information security for federal agencies. Recently, OMB has played the lead role in implementing the Trusted Internet Connection (TIC) and Federal Desktop Core Configuration (FDCC) initiatives, which are designed to strengthen information security at federal agencies.
- a. Please discuss your familiarity and experience with cybersecurity issues.
 - b. What do you see as the greatest information security challenges facing the federal government?
 - c. What do you believe OMB's role should be in securing government networks, and how do you believe that role could be exercised more effectively?
 - d. In addition to its responsibilities under FISMA, what role do you see OMB playing in the implementation of the Comprehensive National Cybersecurity Initiative

Protecting our sensitive information from cyberattack is one of the nation's most important national security and economic imperatives. Hostile actors are constantly trying to attack the information systems of government agencies, as well as the systems supporting critical infrastructure such as at banks and telecommunications companies.

As you know, my background is in economics, not security or IT. I did, however, manage important IT security initiatives at CBO. If I am confirmed as director of OMB, I will work closely with cybersecurity leaders, including OMB executives charged by law to oversee information security, the Chief Technology Officer, the National Security Council, and the Federal agencies to improve the security of Federal and critical private sector systems.

One of our biggest challenges is balancing the need to increase and improve information sharing, transparency, and the delivery of services to citizens while simultaneously improving the protection of our networks, systems, and information and safeguarding the privacy and civil liberties of our citizens. Another major challenge is improving our ability to detect and respond to emerging IT security threats more quickly. Cyber security threats and attacks do not respect organizational boundaries. In this age of massively networked systems, we need to enhance our

ability to monitor threats and attacks across the Federal government, with the private sector, and ultimately with international partners.

I believe OMB's role should be to continue to see that security investments are appropriately carried out through its policy and management oversight roles. In addition to setting policy and overseeing the development of standards, OMB can help coordinate efforts among agencies, oversee development and implementation of agency plans, and facilitate sharing of best practices. We also must have broad-based involvement and shared ownership from the agencies to ensure full implementation. Individual agencies need to continue to operate and maintain their own systems in conformance with government-wide policies, procedures, and standards.

I will review OMB's role under the Comprehensive National Cybersecurity Initiative (CNCI), and assess how OMB can best contribute to this initiative – which has both classified and unclassified elements – consistent with its statutory responsibilities.

65. There have been concerns over the past few years about whether OMB has sufficiently enhanced information security across the Federal government. Specifically many agencies have complained that the guidance issued by OMB under FISMA is not timely, inconsistent from year to year, and does not measure whether agencies are secure.
- a. What specific steps will you put in place to ensure OMB is measuring appropriate information security metrics that are timely and correctly identify areas that need more attention?
 - b. How will OMB under your leadership improve agency implementation of information security standards

I will rely on the Deputy Director for Management to provide recommendations about how to make the process work more efficiently. It is clear that good metrics are key to attaining good security.

OMB must reach out to the agency heads, the Federal IT community, and private sector experts to evaluate the effectiveness of information security metrics. Through this process, OMB will develop recommendations for improving our framework, processes, and measures in this area.

66. The federal government will spend over \$70 billion in fiscal year 2008 on IT projects. Major IT investments are tracked quarterly by OMB in its Management Watch List and High Risk List. Through these lists, OMB consistently identifies more than a billion dollars worth of IT projects that are poorly planned and/or poorly performing. The number of investments on these lists grows annually, signifying that additional money is being spent on poorly planned and/or poorly performing projects. OMB is responsible, under the Clinger-Cohen Act, for overseeing these major IT investments by approving

agencies' business cases and ensuring that investments achieve on average 90 percent of cost, schedule, and performance goals. Unfortunately, many of these costly investments have far exceeded their original cost estimates and delivery dates, leading to billions of dollars in waste?

- a. What do you believe OMB needs to do to get these troubled investments back on track?
- b. Initial planning of the full lifecycle cost, schedule, and performance of major information technology projects is an important aspect of preventing future cost, schedule, and performance overruns. What policies would you implement, if confirmed, to ensure that agencies effectively plan major information technology investments?
- c. What do you believe should be done to improve general management of information technology projects in order to improve performance and reduce wasteful spending?
- d. If confirmed, how will you better inform Congressional oversight Committees on those information technology investments that are facing cost, schedule, and performance problems before their costs significantly increase?

I believe OMB and agencies can improve how we select, plan, manage, and oversee IT investments by improving the capital planning and investment management process.

To get off-target projects back on track, I will direct staff to review the existing portfolio of investments closely and ask agency heads to make explicit decisions and recommendations as to whether investments in their current portfolios should continue as part of the 2010 and 2011 budgets. Consistent with the requirements of the Clinger Cohen Act, the head of the agency will be responsible for ensuring that troubled projects get the assistance they need to get back on track within a reasonable time frame and ensuring that progress is made before committing more agency resources to the effort.

To improve planning, agencies need to be better at selecting capital investments at the onset, including explicit alignment with the agency's strategic and tactical plans. The government can do more to tie IT investments to delivering mission results and make sure that technologies are acquired and managed in a manner that supports priority needs. With IT investments properly selected, we can then focus on ensuring that investments are well planned and well managed

With respect to better IT management for performance improvement, I will review the current OMB approach to the Watch List and evaluate whether changes are needed to prioritize management and oversight attention on high-risk and high-impact investments. More generally, I will also assess current guidance for developing cost and schedule estimates for IT projects, as well as current guidance for ongoing performance measurement, to determine whether improvements are needed.

To better inform Congressional oversight committees and Federal agencies about the performance of Federal IT investments, OMB should make oversight data available in an appropriate manner that balances timeliness and quality. In particular, I would expect to continue developing capabilities to provide transparency of Federal IT investment cost, schedule, and performance information to the Congress. Finally, I would expect that OMB would meet with the appropriate Congressional committees to discuss specific kinds of information the committees need.

67. OMB memorandum M-05-23 requires agencies to monitor cost, performance and schedule information for major information technology investments using an earned value management (EVM) system. OMB is required to collect this information on a regular basis and help agencies that are experiencing cost, schedule, and performance overruns. Many agencies, however, fail to provide EVM data, either because project managers are not aware of the requirement, do not effectively collect and track EVM data, or do not require contractors to provide accurate and useful EVM data.
- a. What do you intend to do to enhance the education of project managers and senior management to effectively collect, use, and report EVM data?
 - b. How do you intend to ensure that agencies provide the EVM data to the Office of Management and Budget in an accurate and timely manner?
 - c. How will OMB use the EVM data submitted by agencies to monitor the status of IT investments government-wide and better inform Congress whether investments are achieving cost, schedule, and performance goals?
 - d. If confirmed, how will you ensure that contractors are providing useful EVM data to project managers?

If confirmed, I will assess how agencies collect and use cost, schedule, and performance data, including EVM data. While EVM is a proven tool for large and complex development projects, it is not the only management tool to track progress against established cost and schedule goals. I will also work with the OPM Director to assess the capacity of the Federal IT workforce to apply project management, EVM and other cost, schedule, and performance management estimating and tracking processes.

Accurate and timely data are critically important to successful EVM. Accordingly, I will assess the need for improving how agencies systematically collect and report cost, schedule, and performance information to OMB (including EVM data). Good EVM data can give OMB the ability to monitor higher risk investments, to work with agency management on remediation actions, and to inform Congress about progress.

Two aspects of a robust EVM process are crucial to ensuring ongoing process and data quality, regardless of whether a project is performed by a contractor or government staff – compliance reviews and ongoing system surveillance. I understand that outside of the Department of Defense, agencies often struggle to find qualified, independent, and affordable resources to perform compliance reviews and system surveillance. I will work with industry groups and the IT and acquisition communities to improve the performance of these services.

68. The Clinger-Cohen Act of 1996 created federal chief information officers (CIOs) and charged them with strategically planning and managing agency information resources to enhance the way the Federal government achieves its overall mission. Congress originally intended for CIOs to report directly to the agency head, but many agencies have positioned CIOs lower in the organizational structure.
- a. What do you see as the role and proper authority of federal CIO?
 - b. What steps, if any, will you take toward providing additional authority to the CIOs to carry out their mission?
 - c. The Clinger-Cohen Act requires agency CIOs to assess the requirements established for agency personnel regarding information technology knowledge and skills and to develop specific plans for hiring, training, and professional development. If confirmed, what actions will you take to ensure that CIOs effectively fulfill this mandate?
 - d. The Chief Information Officer Council is the principal interagency forum to improve agency practices for the management of information technology. Do you believe this forum is effective? What steps do you believe need to be taken to improve the Council's effectiveness in fulfilling its role and mission?

I understand that the primary role of an agency CIO is to actively identify and facilitate the process of achieving improvements in agency mission performance and internal efficiency by applying IT and using information systems effectively. Along with this come related responsibilities and duties, including IT planning, management, governance, and operations. As Director, I would examine whether the law provides sufficient authority for CIOs to fulfill their responsibilities, and I will develop any appropriate recommendations thereafter.

The IT community faces some unique issues to address in terms of normalizing the technical skills and abilities of the Federal workforce. Agency IT staff need to apply available and emerging technology to their day-to-day activities, and they need skills to oversee the significant amount of IT that is executed through contracts. I will assess the adequacy of these skill sets, and determine whether additional steps are needed.

I believe the CIO Council provides a valuable forum for Federal CIOs to exchange information, share best practices, and help each other identify opportunities and solve problems. In general, I support this collaborative approach to the management of information technology. If confirmed, I would work with the OMB and agency leadership, and the Council to assess current practice and identify any additional efforts needed to improve its effectiveness.

Regulatory Affairs and Paperwork Reduction

69. What do you believe should be the role of OMB and its Office of Information and Regulatory Affairs (OIRA) regarding regulation, particularly regulation to protect health, safety, and the environment? For example, in what areas should OIRA provide guidance to the regulatory agencies, are there areas in which OIRA guidance should be mandatory, and how should any differences in policy or practice between OIRA and an agency be identified and addressed?

I believe that the national government has an extremely important role to play in protecting health, safety, and the environment. One of the key functions of OMB, and of OIRA, is to coordinate the regulatory process and to promote regulatory decisions that are consistent with the President's priorities. I believe that agencies and OIRA should work together and in a spirit of cooperation to ensure smart regulation in many areas. If confirmed, I would work to ensure that OMB and OIRA help agencies to meet current pressing needs, particularly with respect to health, safety, and the environment.

As a general matter, I believe that OIRA's role regarding regulation as set out in Executive Order 12866 is well-understood. At this time, I am not ready to recommend changes in the principles in Executive Order 12866, but I will assess how it is working and determine whether any revisions should be considered. I also plan to work closely with my counterparts in the cabinet and with the Congress regarding the need to make changes to guidance for regulatory agencies.

70. OIRA is a relatively small office within OMB, but it has many responsibilities under various statutes and executive orders. Administration initiatives in recent years have also added more oversight duties to OIRA's staff, in areas such as oversight of information quality, peer review, and reviews of regulatory agencies' guidance documents.

- a. Do you believe OIRA has sufficient staff to carry out all of these tasks effectively?

I would need to make a careful review to answer this question. If confirmed, I would carefully review OIRA's needs and develop appropriate responses.

- b. Alternatively, do you believe any of these tasks should be eliminated, reduced, or delegated to other federal officials?

I have no immediate plans for changing OIRA's responsibilities. If confirmed, I would assess OIRA's organization and resource needs. I would also welcome the views of this Committee on the recently added initiatives you mention.

71. The Committee is aware that some agencies, including DHS, have used contractor support in various policy-related functions including their rulemaking process. For example, a contractor for U.S. Citizenship and Immigration Services (USCIS) performed research and "prepared initial draft of the regulation." A contractor for U.S. Immigration and Customs Enforcement (ICE) supported "comment evaluation," "response drafting," and "rule adjustment" upon publication of the Notice of Proposed Rulemaking. We understand the draft was then reviewed and approved by federal employees prior to promulgation. What is your view on contractor involvement in the public rulemaking process?

Contractors can provide a useful supplement to, but should not replace decision-making by, agency staff. I understand that there have been times when contractor support has been crucial to an agency's capacity to meet quick or unanticipated deadlines. It will be important to review the relationship between contractors and agencies in regulatory development to determine how the use of contractors affects the development of regulations that serve the interests of the American people.

72. The Bush Administration has had difficulty evaluating the costs and benefits of proposed homeland security regulations. The former head of the OIRA, John D. Graham, acknowledged substantial challenges in evaluating new homeland security regulations:

At OMB we have been humbled by the challenge of analyzing these ideas. How should agencies quantify the benefits of rules aimed at reducing the probability of (or damages from) future terrorist acts? How should agencies quantify the costs of homeland security rules, whether they come in the form of time losses at airports or intrusions into privacy or freedoms of foreign students and visitors to our country. Quite frankly, the agencies and OMB need help on how homeland security ideas should be evaluated.¹

In a 2003 report to Congress, OMB reviewed 69 homeland security regulations issued as of May 2003, noting that only 20 included a cost estimate and only 2 had a quantified

¹ John D. Graham, Administrator, OIRA, CATO Institute Hill Briefing: *Reigning in the Regulatory State, The Smart-Regulation Agenda* (Oct. 3, 2003), available at <http://www.whitehouse.gov/omb/inforeg/speeches/031003graham.html>.

benefit assessment.² OMB decided against making recommendations to address the unique challenges of homeland security regulations at that time and instead required agencies “to the extent possible, [to] use the standard tools of regulatory analysis that have been developed over the years to inform decision makers about the anticipated benefits and costs of the various policy options that they are considering.”³ However, OMB recognized that this should not be the final word on the matter and concluded that the analysis of homeland security regulations would remain a “subject of continuing inquiry and discussion at Federal agencies.”⁴ To date, however, the executive branch has published no subsequent guidance on how DHS and other agencies implementing homeland security regulations should make cost-benefit determinations. How should DHS evaluate the benefits and costs of homeland security regulations?

Regulations designed to protect homeland security are critical but they should actually make Americans more secure – and they should not impose unjustified costs, economic or otherwise, on the American people. For purposes of assessing alternative approaches, one problem is that the relevant risks are extremely difficult to quantify. We often cannot assign specific percentage values to various security risks. Moreover, intelligent adversaries may be able to observe and adapt their responses to any security precautions that we put in place. It is a high priority to figure out better ways to evaluate proposed and final regulations in this domain. If confirmed, I would work with DHS to produce the best possible analysis of regulations designed to protect homeland security.

73. Are there particular ways in which better documentation and more transparency should be required in order to enable members of the public to be better informed of OIRA’s interactions with interested parties and agencies?

Transparency is exceedingly important. As Justice Louis Brandeis noted, “sunlight is said to be the best of disinfectants.” I believe in disclosure requirements, especially when OIRA is meeting with those outside of government. E.O. 12866, together with current OIRA policy, already imposes some such requirements, which OIRA has been implementing with disclosures of meetings with interested parties that it documents on its website (<http://www.whitehouse.gov/omb/inforeg/regpol.html>). Consistent with the Obama Administration’s priority on open government, I am committed to enhancing public disclosure of information as balanced with the Executive Branch’s need to maintain the confidentiality of its internal deliberations. I would, if confirmed, be willing to consider any reasonable proposal.

² OMB, *Informing Regulatory Decisions: 2003 Report to Congress on the Costs and Benefits of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities* at 67-78 (2003), available at www.whitehouse.gov/omb/inforeg/2003_cost-ben_final_rpt.pdf.

³ OMB 2003 Report at 85-86.

⁴ OMB 2003 Report at 86.

74. In your opinion, do the Paperwork Reduction Act (PRA) and OIRA's implementation of it strike an appropriate balance between the benefits to the public and the burdens on the public that result from data collection by federal agencies? Would it be beneficial to amend the PRA, or to modify OIRA's implementation of it, to enable agencies' data-collection efforts to yield greater net benefits to the public?

This is a complicated question that merits detailed examination. If confirmed, I would be open to working with Congress to consider changes to the PRA that would allow OIRA to implement it in an effective manner that follows Congress' instructions and yields the greatest net benefits to the public.

Privacy Policy

75. President Clinton appointed a Chief Counselor for Privacy at OMB during his second term; however, that position was eliminated at the outset of the Bush Administration. In fact, since January 2001 there has not been any senior federal official devoted to privacy issues notwithstanding a growing set of challenges posed by technological and policy developments and a growing cadre of privacy officers within key government agencies. Please discuss your views on how to incorporate privacy concerns into government policymaking and whether you would advocate creating a senior level position within OMB to address privacy concerns.

I believe that agencies must continue to safeguard citizens' right to privacy. As Director, I would ensure that OMB implements its statutory responsibilities for privacy under the Privacy Act and E-Government Act and, working with privacy leaders in and out of government, I would assess whether additional policies are needed to strengthen privacy protections for the digital age. I recognize that achieving the goal of greater transparency requires attention to strong privacy, and I would ensure that addressing privacy concerns is a high priority area of information management.

If confirmed, I will also assess whether OMB has the proper senior and staff capacity to develop and oversee privacy policies across the government, including the need for a senior position in OMB or elsewhere.

Inspectors General

76. This Committee has strongly supported the work of the federal Inspectors General and recently passed legislation to improve the independence and accountability of these critical oversight officials within the federal agencies. What do you believe is the importance of the IG's in enforcing ethics rules, minimizing waste, and preventing conflicts of interest, and what would you do, if confirmed, to help them fulfill this

function? What role, if any, should OMB play in helping resolve conflicts between an Inspector General and his or her agency head?

Inspectors general play a critical role in identifying and mitigating fraud, error, waste and other improprieties in Federal programs. By their mission, independence, subject matter expertise, audit capability, and proximity to agency operations, the IGs are uniquely positioned to:

- Determine emerging and ongoing risks of agency mismanagement;
- Investigate the scope of problem areas, root causes, and responsible individuals;
- Shine a light on agency activities in a way that facilitates transparency and accountability; and
- Recommend effective reforms and improvements actions.

I have a deep respect and admiration for the work of the IG community. If confirmed, I will do my part to help ensure that the IGs can effectively meet their mission and responsibilities by ensuring that:

- OMB policies and actions are consistent with the need for preserving IG independence;
- OMB actively participates in the newly formed Council of the Inspectors General on Integrity and Efficiency; and
- IG capacity to get their jobs done keeps pace with emerging management challenges faced by Federal agencies.

As to OMB's role in resolving conflicts between IGs and agency heads, OMB must use extreme prudence in determining what action to take. OMB's involvement must not, in any way, compromise the independence of the IG or otherwise interfere with the important functions of the IG. Instead, OMB should work closely with both the IG and the agency head to determine productive steps that OMB can take to help resolve issues.

IV. Relations with Congress

77. Do you agree without reservation to respond to any reasonable request or summons to appear and testify before any duly constituted committee of the Congress, if confirmed?

Yes.

78. Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress, if confirmed?

Yes.

79. In 2004, the National Commission on Terrorist Attacks Upon the United States, also known as the 9/11 Commission, recommended that Congress create, "a single, principal point of oversight and review for homeland security." In early 2005, the 109th Congress took the initial steps in consolidating legislative and oversight jurisdiction over the Department of Homeland Security by expanding the jurisdiction of the Senate Committee on Homeland Security and Governmental Affairs and by establishing the Committee on Homeland Security as a new standing committee in the House of Representatives. Both chambers, however, allowed other standing committees to retain jurisdiction over large components of the Department. Since that time, Congress has failed to complete this consolidation and, thus, has not created a "single, principal point" for homeland security oversight.

According to the Department's statistics, as of August 2008, DHS officials were reporting to 108 committees and subcommittees in the House and Senate. Of these, 65 are in the House, 41 are in the Senate, and 2 are non-committee congressional organizations. In the 110th Congress, as of mid-November 2008, DHS officials participated in 4,922 briefings and testified in 377 briefings. These statistics do not reflect the thousands of employee hours spent preparing for hearings, responding to thousands of Questions for the Record, filling document requests, and replying to emails and telephone inquiries. Moreover, as a result of this complex web of Congressional jurisdiction, the Department frequently receives conflicting guidance from Congress and its key officials and staff are diverted from fulfilling vital missions.

- a. What is your view of this situation?

I will defer to Congress regarding the best way of organizing itself to oversee homeland security matters.

- b. How do you anticipate that the complex web of Congressional oversight will affect OMB?

Although more complexity imposes costs on agencies like OMB, OMB will work with whatever system of Congressional oversight for homeland security and other matters that the Congress creates.

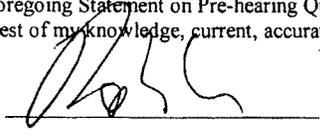
V. Assistance

80. Are these answers your own? Have you consulted with OMB or any other interested parties? If so, please indicate which entities.

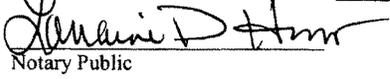
These answers are my own. I consulted with staff from the presidential transition team and from OMB in developing them.

AFFIDAVIT

I, Peter Orszag, being duly sworn, hereby state that I have read and signed the foregoing Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.



Subscribed and sworn before me this 5 day of JAN, 2009.


Notary Public

Lorraine D. Hunt
Notary Public, District of Columbia
My Commission Expires 2/28/2011

Senator Carl Levin
Questions for the Record
Pre-Hearing Questions for Peter Orszag
Director, Office of Management and Budget
December 20, 2008

Transparency in Rulemaking at OIRA

1. I have for many years raised concerns in the past about transparency in the rulemaking review process at the Office of Information and Regulatory Affairs (OIRA). OIRA often conducts “informal” reviews of draft agency rules prior to the agency’s submission for “formal” review. OIRA has acknowledged that during this informal review period it can have a substantial effect on agencies’ rules, yet changes to the rule during this informal period are not currently disclosed to the public. The transparency requirements of Executive Order 12866 require public disclosure of changes made to draft agency rules at the suggestion or recommendation of OIRA. The Executive Order itself does not distinguish between “formal” or “informal” reviews or permit a category of changes that may be made at the suggestion of OIRA without public disclosure.
 - a. Do you agree that it is inconsistent with the language and intent of the executive order for agencies to make significant changes at the suggestion or recommendation of OIRA without disclosing that fact to the public?

Disclosure is very important, especially of communications between the private sector and OIRA. On the complex question of disclosure of OIRA-agency interactions, I would want to study the text, the intent, and practices of OIRA before making a final judgment. I will assess OIRA’s practices for public disclosure and make any changes needed to ensure the fullest possible disclosure, consistent with the legitimate arguments for confidentiality with respect to the deliberative process within the executive branch.

- b. If confirmed, will you direct OIRA and the federal agencies to ensure that, whether made in a formal or informal process, all changes made to an agency rule at the suggestion or recommendation of OIRA are disclosed to the public in compliance with Executive Order 12866?

If confirmed, I will assess OIRA’s practices for public disclosure and make any changes needed to ensure the fullest practicable disclosure.

Contracting for Services

2. In recent years, federal agencies have become increasingly reliant on services provided by contractors. Over the past eight years, for example, the Department of Defense’s (DOD) spending on contract services has more than doubled, with the estimated number

of contractor employees working for the Department increasing from an estimated 730,000 in Fiscal Year 2000 to an estimated 1,550,000 in Fiscal Year 2007. As a result, the Department now spends more for the purchase of services than it does for products (including major weapon systems). Do you believe that the federal government can continue to support this level spending on contract services?

The use of government outsourcing for services needs to be revisited. The federal government has long relied on private contractors, including as part of our defense needs, for various commercial services. In recent years, the division between inherently governmental activities (which are not appropriate for outsourcing) and commercial activities (which are properly subject to private sector competition) has become confusing and blurred. Clarification seems warranted.

That having been said, extensive reliance on contractors has always been part of the way our government functions, and that will continue to be the case in the future. Given that, the federal acquisition workforce must have the skills and capacity to properly manage the increased workload and a support structure tailored to the challenges associated with acquiring services (such as making certain that requirements are clearly defined, work is awarded in a fair and transparent manner, and contracts are properly managed). Agencies, including the Department of Defense, must also retain the internal expertise and capacity to manage their mission and rely on contractors to supplement – not supplant – their internal core capability.

3. Section 807 of the National Defense Authorization Act for Fiscal Year 2008, required the Department of Defense to develop an inventory of services performed by contractors comparable to the inventories of services performed by federal employees that are already prepared pursuant to the Federal Acquisition Inventory Reform (FAIR) Act. In your view, should other federal agencies than the DOD be required to develop comparable inventories of services performed by contractors?

Contractor manpower inventories can be beneficial in cases in which this information gives the agency meaningful insight that it can use in human capital planning. As DoD develops its inventory, OMB will work with several civilian agencies to pilot additional contractor inventories. If confirmed, I will look to the OFPP Administrator to evaluate these efforts to determine whether an expansion of this effort would be beneficial.

4. As a result of the explosive growth in service contracts, contractors now play an integral role in the performance of functions that were once performed exclusively by government employees, including the management and oversight of weapons programs, the development of policies, the development of public relations strategies, and even the collection and analysis of intelligence. In many cases, contractor employees work in the same offices, serve on the same projects and task forces, and perform many of the same functions as federal employees.

- a. In your view, has the federal government become too reliant on contractors to perform basic functions?

Recent reports, such as that by the Acquisition Advisory Panel, suggest that agencies have contracted out significant portions of certain activities, such as certain acquisition functions, and some mission-critical functions without considering how increased contractor reliance is affecting their capability and capacity to manage their missions.

As I noted above, the federal government has long relied on private contractors, including as part of our defense needs, for various commercial services. In recent years, the division between inherently governmental activities (which are not appropriate for outsourcing) and commercial activities (which are properly subject to private sector competition) has become confusing and blurred. Clarification seems warranted.

- b. Do you believe that the current extensive use of personal services contracts is in the best interest of the federal government?

As a general matter, I believe that work of an ongoing nature requiring an employer-employee relationship should be performed by federal employees hired under civil service laws. Personal services contracts, however, may play a useful role in circumstances in which it is difficult to recruit federal employees or otherwise impracticable to hire federal employees, as may be the case for some short-term needs requiring specialized skills, work to be performed overseas, or surge requirements. If confirmed, I will ask OFPP to review current agency practices, authorities, and procedures and assess what, if any, regulatory, administrative or legislative actions may be necessary to more effectively manage agencies' use of personal services contracts.

- c. Do you believe that we need a comprehensive reappraisal of "inherently governmental functions" and other critical government functions, and how they are performed in order to ensure that federal agencies have the capacity they need to perform their functions?

Yes. A review of current policies for identifying and performing inherently governmental functions and other critical functions is an important step for strengthening how we manage our multi-sector workforce and ensuring our workforce maintains effective control over government operations. We must also review our human capital planning practices to ensure that agencies are developing holistic analyses that take into consideration the agency's entire manpower needs, including both work that is performed internally and work that is performed by contractors.

Acquisition Workforce

5. Over the 15 years, the federal government has dramatically reduced the size of its acquisition workforce, without undertaking any systematic planning or analysis to ensure

that it would have the specific skills and competencies need to effectively manage the federal acquisition system. Since September 11, 2001, moreover, the demands placed on that workforce have substantially increased. Do you believe that federal acquisition workforce is large enough and has the skills needed to perform the tasks assigned to it?

I understand that staffing levels of contracting professionals have not increased with additional spending. Increased spending requires increased oversight, management, and transparency, and this stewardship responsibility must be supported by a qualified cadre of acquisition professionals. Expanding a highly trained acquisition workforce is therefore a top priority. Acquisition oversight includes ensuring we have enough qualified program managers, contracting officers' technical representatives, and others involved in the acquisition process. Part of the answer may be a greater emphasis on training and professional certifications for those already in the workforce.

I look forward to reviewing the progress on the Acquisition Workforce Development Strategic Plan required by the National Defense Authorization Act of 2009 and on DoD's human capital planning efforts. Also, I will work with the new Administrator for Federal Procurement Policy to ensure that acquisition workforce policies and certification programs support core skills development and continuous training and that they leverage the efforts of civilian and defense agencies.

6. Section 852 of the National Defense Authorization Act for Fiscal Year 2008 established an Acquisition Workforce Development Fund to help DOD address shortcomings in its acquisition workforce. The fund would provide a minimum of \$3 billion over six years for this purpose.
 - a. Do you support the use of the DOD Acquisition Workforce Development Fund to ensure that DOD has an adequate number of employees with the right skills to run its acquisition programs in the most cost effective manner for the taxpayers?

While I am not familiar with DoD's implementation of the AWDF, developing an adequate number of qualified acquisition professionals throughout the federal government is critical to ensuring that taxpayer dollars are spent appropriately and deliver the intended value and performance. I strongly support funding the training and development of more acquisition professionals to ensure that all phases of the acquisition process – from requirements development to contract closeout – are managed and overseen by qualified professionals.

- b. What is your view on the need of similar funding mechanisms for civilian agencies?

Increased support of the federal government's acquisition workforce is essential to ensuring that agencies meet their mission goals responsibly and effectively. I understand that the civilian agency acquisition community is undertaking an Acquisition Workforce Development Strategic Plan that will include, among other deliverables, a funding model to support civilian agency workforce development. I will work with the Administrator for Federal Procurement Policy and the Chief Acquisition Officers Council to support their efforts in this study and ensure that the civilian agencies are prepared to meet their future acquisition needs.

Senator Daniel K. Akaka
Questions for the Record
Pre-Hearing Questions for Peter Orszag
Director, Office of Management and Budget
December 20, 2008

1. The Office of Federal Procurement Policy within the Office of Management of Budget (OMB) is now responsible for providing “overall direction of Government-wide procurement policies, regulations, procedures, and forms for executive agencies and to promote the economy, efficiency, and effectiveness in the procurement of property and services by the executive branch of the Federal Government.” According to the President’s proposed fiscal year 2009 budget, the program activity funding within this office has been steady at approximately \$2 million since 2007, which is the lowest funding of any OMB office.
 - a. In light of the fact that civilian contracting within the federal government is well over \$100 billion, do you believe that the Office of Federal Procurement Policy (OFPP) has adequate funding to execute its statutory responsibilities effectively?
 - b. Do you believe that the current structure of OFPP is effective for executing its statutory responsibilities?

OFPP has significant statutory responsibilities to support the acquisition community and these responsibilities increase each year with increased federal spending and related statutory, regulatory, and policy requirements. I will work with OMB’s Deputy Director for Management and the Administrator for Federal Procurement Policy to determine whether the proposed funding for OFPP is appropriate to ensure that the federal acquisition system is efficient, effective, and transparent.

2. The federal government relies heavily on contractors. OMB Circular A-76 permits federal jobs to be “competitively sourced,” provided the jobs are not inherently governmental. The circular defines inherently governmental. For contracts for any new job or service, the Federal Acquisition Regulation (FAR) rules regarding inherently governmental must be followed

A-76 and FAR standards for inherently government work are not wholly consistent. Both of these standards are wide are open to wide interpretation. The Government Accountability Office (GAO) recently concluded that at the Department of Homeland Security (DHS), contracting decisions were driven by the need for staff and expertise, and contractors provided services that closely supported inherently governmental functions and at times services integral to the agency mission and comparable to government employees. Additionally, GAO concluded that program officials did not assess the risk that government decisions may be influenced by contractor judgments, and they did not provide adequate control oversight. *See* GAO, Department of Homeland

Security, Improved Assessment and Oversight Needed to Manage Risk of Contracting for Selected Services (September 2007), GAO-07-990.

- a. How best can the federal government decide which functions are inherently governmental and which ones are not?

Inherently governmental activities are those that are so intimately related to the public interest as to require performance by federal government employees. They include functions such as those that involve the setting of agency policy and the award of contracts. We must ensure that inherently governmental activities are performed only by federal employees.

The federal government has long relied on private contractors for various commercial services, such as for transportation, food, and maintenance. The premise behind OMB Circular A-76 is that inherently governmental activities should be performed by government employees, but that taxpayers receive more value for their dollars if government activities that can better be provided commercially are subject to the forces of competition. In recent years, however, the division between inherently governmental activities (which are not appropriate for outsourcing) and commercial activities (which are properly subject to private sector competition) has become confusing and blurred. Too many inherently governmental functions are being outsourced. Clarification of OMB Circular A-76 seems warranted.

- b. Would you support a clearer definition of "inherently governmental" for government contracts if confirmed?

Yes. As noted above, in recent years, the division between inherently governmental activities (which are not appropriate for outsourcing) and commercial activities (which are properly subject to private sector competition) has become confusing and blurred. Too many inherently governmental functions are being outsourced. Clarification of OMB Circular A-76 seems warranted.

- c. What would you do to ensure that inherently governmental functions and functions closely supporting inherently governmental functions are not contracted out if confirmed?

I would work to clarify A-76. I would then ask the OFPP Administrator to review with agency Chief Acquisition Officers the adequacy of current internal controls used to prevent contractor performance of inherently governmental functions and make adjustments as necessary.

- d. What would you do to ensure that inherently governmental decisions are not unduly influenced by government contractors if confirmed?

If confirmed, I would ask the Administrator for Federal Procurement Policy to review OFPP and FAR policies addressing the management of professional and technical services to determine if they are effective and to take appropriate action with the FAR regulatory drafters to make refinements if necessary. These policies currently call for an enhanced degree of federal management attention to ensure contractors do not become the de facto decision makers.



United States
Office of Government Ethics
1201 New York Avenue, NW., Suite 500
Washington, DC 20005-3917

December 19, 2008

The Honorable Joseph I. Lieberman
Chairman
Committee on Homeland Security
and Governmental Affairs
United States Senate
Washington, DC 20510-6250

Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Peter R. Orszag. President-elect Obama has announced his intent to nominate Mr. Orszag for the position of Director, Office of Management and Budget.

We have reviewed the report and have also obtained advice from the Office of Management and Budget concerning any possible conflict in light of its functions and the nominee's proposed duties. Also enclosed is a letter dated December 18, 2008, from Mr. Orszag to the agency's ethics official, outlining the steps Mr. Orszag will take to avoid conflicts of interest. Unless a specific date has been agreed to, the nominee must fully comply within three months of his confirmation date with any action he agreed to take in his ethics agreement.

Based thereon, we believe that Mr. Orszag is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Fox".

Don W. Fox
General Counsel

Enclosures

12/18/2008

Mr. Stuart Bender
Assistant General Counsel and
Designated Agency Ethics Official
Office of Management and Budget
725 17th Street, NW, Room 5001
Washington, DC 20503

Dear Mr. Bender:

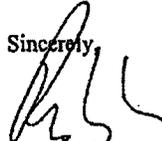
The purpose of this letter is to describe the steps that I will take to avoid any actual or apparent conflict of interest in the event that I am confirmed for the position of Director for the Office of Management and Budget.

As required by 18 U.S.C. § 208(a), I will not participate personally and substantially in any particular matter that has a direct and predictable effect on my financial interests or those of any person whose interests are imputed to me, unless I first obtain a written waiver, pursuant to 18 U.S.C. § 208(b)(1), or qualify for a regulatory exemption, pursuant to 18 U.S.C. § 208(b)(2). I understand that the interests of the following persons are imputed to me: any spouse or minor child of mine; any general partner of a partnership in which I am a limited or general partner; any organization in which I serve as officer, director, trustee, general partner or employee; and any person or organization with which I am negotiating or have an arrangement concerning prospective employment.

As a term of the sale of my former company, Competition Policy Associates, Inc. to FTI Consulting, Inc. (FTI), FTI established a custodial account for my benefit. I am the sole owner of the account funds, and I have exclusive control over the selection of account assets. FTI retains only a contractual right to payment from the custodial account funds for any indemnity for claims arising from a breach of representations and warranties made at the time of the sale of Competition Policy Associates to FTI. FTI made the initial deposit of funds into the account as prescribed by the sale agreement. FTI no longer contributes to the account, nor do I. Also pursuant to the sale agreement, the remaining account funds will be distributed, in equal portions, from the custodial account to me on January 6, 2009; January 6, 2010; and January 6, 2011. I will not participate personally and substantially in any particular matter involving specific parties in which FTI is a party or represents a party, unless I am first authorized to participate, pursuant to 5 C.F.R. § 2635.502(d).

I am currently a member of the Institute of Medicine of the National Academies of Sciences and serve as a panelist for the Roundtable on Evidence-Based Medicine. Upon confirmation, I will retain my membership with the Institute of Medicine, but I will resign from my position as panelist for the Roundtable on Evidence-Based Medicine.

Sincerely,



Peter R. Orszag

Senator Joseph I. Lieberman
Additional Questions for the Record
Nomination Hearing for Peter Orszag
January 14, 2009

1. Section 201 of the Export Enhancement Act of 1992 [15 U.S.C. 4727] provides that the Trade Promotion Coordinating Committee (TPCC) shall propose to the President an annual unified federal trade promotion budget to promote the sale of United States exports. How can the Office of Management and Budget (OMB) and TPCC improve their collaboration to ensure that the Administration identifies areas of overlap and duplication in the trade promotion budget, and that the Administration's budget request supports priority trade promotion activities?

Response

I believe that budgets should reflect our best current projections of future needs. The Federal government has largely budgeted for the wars in Afghanistan and Iraq through supplemental appropriations that Congress has considered separately from the budget allocation for defense needs. The budget could better integrate likely war costs into its presentation of likely future spending on defense.

OMB will work closely with the Secretary of Commerce, as chair of the TPCC, to strengthen the interagency strategic planning process that helps to create an annual unified federal trade promotion budget. For example, we will work with the Secretary of Commerce so that the development of the annual National Export Strategy occurs during the development of the President's budget to identify areas of overlap and duplication and to align the individual TPCC member agency budgets with government-wide export promotion goals.

2. Do you have concerns regarding the increasing use of the tax code for purposes other than raising revenue – specifically the steady proliferation of tax credits, deductions, exclusions, and other provisions that distort the measurement of income? In your view, when is it appropriate to use the income tax code for policy objectives other than raising or reducing federal revenue?

Response

The tax code exerts important influences on economic incentives and people's behavior. The Treasury Department has primary responsibility for tax policy, but tax expenditures (special tax provisions that have similar effects to spending programs) are listed in the President's budget, and OMB cooperates with Treasury in evaluating the effectiveness of such provisions. The President has directed that all Federal programs be scrutinized and ineffective programs be eliminated. That effort will include an examination of tax expenditures.

3. In light of current fiscal imbalances, do you see a greater role for user fees in connection with federal services in the years ahead? If so, do you have views on which specific services may warrant greater cost-sharing?

Response

User fees are charges imposed on those who receive special benefits from government activities beyond the benefits, if any, that accrue to the general public. These special benefits may be goods, services or regulatory approval. Regardless of the nation's fiscal condition, the cost of government activities that yield special benefits to particular parties should be borne by the beneficiaries of those activities – though the nation's projected fiscal gap only reinforces that conclusion.

4. Does the incoming Administration intend to submit a full budget request for FY2010? If not, in what form will the incoming Administration submit its requests for the FY2010 budget? When will the budget requests be submitted?

Response

The Administration intends to submit a full budget request for FY 2010. As previous incoming Administrations have done, we plan to provide an economic and budgetary overview in late February. We then plan to follow up with a formal FY 2010 Budget in late March or early April.

Senator Carl Levin
Additional Questions for the Record
Nomination Hearing for Peter Orszag
January 14, 2009

Earmarks and Transparency

1. On January 29, 2008, President Bush signed Executive Order 13457, which states that agency decisions to commit, obligate, or expend funds may not be “based on language in any report of a committee of Congress, joint explanatory statement of a committee of conference of the Congress, statement of managers concerning a bill in the Congress, or any other non-statutory statement or indication of views of the Congress, or a House, committee, Member, officer, or staff thereof.”

Congress responded to this Executive Order by including a provision in the Fiscal Year 2009 Defense Authorization Act that incorporated by reference the funding tables in the conference report on the bill. Similar provisions were included in several other bills including the Department of Defense and Military Construction Appropriations bills.

- a. Do you see the need for any changes to Executive Order 13457? If so, what changes would you recommend?
- b. If confirmed, what would your duties be with respect to implementing this Executive Order?
- c. Do you agree with the Government Accountability Office (GAO) that the guidance contained in such tables which have been incorporated by reference into statute is legally binding on federal agencies?

Response

The Administration will work with Congress to increase the efficiency and transparency of congressionally directed projects, also known as earmarks. We are currently reviewing all the Executive Orders issued by the previous Administration and have not yet made a decision as to Executive Order 13457.

The duties of the OMB Director are outlined in Executive Order 13457, as well as in the instructions that OMB issued to agencies on October 23, 2008 (OMB Memorandum M-09-03), regarding implementation of the Executive Order with respect to earmarks included in the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009 (P.L. No. 110-329).

Tables that have been incorporated by reference into statute, and are therefore a part of the statute, are legally binding on Federal agencies in the same way that other language in the statute is legally binding. OMB Memorandum M-09-03 states regarding Public Law 110-329: “The appropriations acts in Divisions B, C, D, and E of P.L. No. 110-329 include earmarks in the

statutory text, including those statutorily incorporated by reference. As these statutory earmarks 'are based on the text of laws,' agencies shall implement them 'in a manner consistent with applicable law.' E.O. 13457,2(a)(i), 4(b)."

2. The Armed Services Committee has considered the possibility of moving the funding tables from the report language into the bill language in future bills. Concern has been expressed that this approach could limit the flexibility of the Department of Defense to transfer funds to meet emerging high-priority needs.
 - a. What is your view on the advisability of incorporating funding tables into the text of bills authorizing and appropriating funds for federal agencies?
 - b. Do you believe such a change would make congressional funding guidance in such tables any more legally binding than incorporating the tables by reference within the bill itself?
 - c. In your view, is it necessary to move the funding tables describing the President's annual budget request, and the congressional adjustments to that request, from the statement of managers into the bill language to achieve the transparency we need?

Response

Moving funding tables from report language into bill language might unnecessarily restrict an agency's ability to meet unanticipated demands. As described above, tables that have been incorporated into statute, and are therefore a part of the statute, are legally binding on federal agencies in the same way that other language in the statute is legally binding.

I do not believe it is necessary to move the funding tables describing the President's annual budget request, and the congressional adjustments to that request, from the statement of managers into bill language. Doing so could unnecessarily restrict an agency's ability to meet unanticipated demands. The Administration wants to promote openness about spending decisions to the public and will work with Congress to increase transparency as much as possible.

Policy for determining budget requests

3. When preparing the annual budget proposal, the past practice for the Office of Management and Budget (OMB) has been to remove congressional additions for all programs from the previous fiscal year when determining the next year's budget request. This practice was done across the board for programs without considering that these program increases were needed to allow programs to operate properly. Under this policy, when the administration said that it was level funding a program, they were in fact providing the same amount of funding that they proposed in the previous fiscal year rather than the amount of the actual appropriation. Under this policy, there were

decreases in the proposed funding, and the administration could claim that it was proposing level funding. I believe this policy is detrimental to government programs and dishonest. As Director of OMB, do you plan to follow this same policy?

Response

As Director, I look forward to working with you to see that agencies have the resources necessary to operate their programs effectively and efficiently, with as much transparency and clarity as possible. This transparency applies both to the level of funding being requested and the intended use of requested funds. The Administration is committed to restoring fiscal discipline to the budget process. This can be accomplished in part by evaluating programs for their merits and eliminating those that are obsolete or duplicative, and by requiring more disclosure and transparency for earmarks.

Use of Supplementals for Operations in Iraq and Afghanistan

4. Dr. Orszag, the budgets submitted by the previous Administration did not adequately account for the likely costs of ongoing operations in Iraq and Afghanistan. As a result, the annual budget requests understated the cost of war, the level of defense spending, and the deficit.

In response to that problem, section 1008 of the John Warner National Defense Authorization Act for Fiscal Year 2007 (Public Law 109-364) requires the President's budget to include funding for ongoing military operations in Afghanistan and Iraq each year, along with a detailed justification for that funding. It also requires the President's budget to include an estimate of the total funding to be required in the next fiscal year for such operations.

The Administration fully complied with these requirements in the fiscal year 2008 budget, but more than a year elapsed before Congress approved the bulk of the requested funding. The Administration then failed to comply with these requirements in the fiscal year 2009 budget request.

- a. To what degree do you believe it is possible, in the near term, to include the full cost of these ongoing operations in the base budget request?
- b. Do you believe the costs of ongoing military operations can be fully incorporated into a unified budget request such that the use of supplementals could be eliminated?
- c. If not, what do you think would be a reasonable goal for reducing or minimizing the use of supplementals, if you believe we cannot rule them out entirely?

Response

I believe that budgets should reflect our best current projections of future needs. The Federal government has largely budgeted for the wars in Afghanistan and Iraq through supplemental appropriations that Congress has considered separately from the allocation for defense needs. The budget could better integrate likely war costs into its presentation of likely future spending on defense.

Public Private Competition

5. In response to the Committee's pre-hearing questions, you express your support for the principle of public-private competition, which I share. Could you please elaborate on your views, specifically your views on whether public employees should have the right to compete for work once it has gone private and on public-private competition for work currently performed by contractors?

Response

Public employees should be able to compete for contracted work through public-private competition when an agency believes work might be performed more cost-effectively by federal employees. In some cases, insourcing without competition will be necessary, such as where contract work is determined to be inherently governmental or involves a critical function that the government lacks an internal capability to perform.

Double Funding for MEP

6. We have lost more than 4 million manufacturing jobs over the past 8 years. I believe we should be doing all we can to promote programs that help create jobs and strengthen the technological innovation of American companies. The Manufacturing Extension Partnership (MEP) works with manufacturers across the country to improve efficiency, implement new technology and strengthen company growth. This highly-successful program has engaged in more than 350,000 projects across the country and in 2006 alone, helped create and protect over 50,000 jobs. But despite this success, funding for MEP has been slashed by the Bush administration. President-elect Obama and Joe Biden said they will double funding for the MEP so its training centers can continue to bolster the competitiveness of U.S. manufacturers.
- a. Are you aware of President-elect Obama's pledge to double funding for the MEP?
 - b. Will you commit to supporting the MEP program by increasing its funding in the President's budget?

Response

Yes, I am aware of the President's statements on MEP funding. We are currently developing the President's FY 2010 budget and will pay special attention to funding for this program.

Senator Daniel K. Akaka
Additional Questions for the Record
Nomination Hearing for Peter Orszag
January 14, 2009

1. Since 2004, the Subcommittee on Government Management, under both the leadership of myself and Senator Voinovich, has worked closely with the Office of Management and Budget (OMB) in reforming the current security clearance process, which remains on the Government Accountability Office's (GAO) High Risk List.

Until recently, the backlog for obtaining a security clearance was unacceptably long. In 2004, the Intelligence Reform and Terrorism Prevention Act tasked OMB with coordinating clearance policy and ensuring reciprocity of clearances between agencies. This resulted in the formation of the Performance Accountability Council at OMB through Executive Order 13467 which is the body responsible for enacting policies related to suitability determinations and security clearances.

- a. Will you commit to have your team, especially the Deputy Director for Management, continue working with our Subcommittee on this important issue?
- b. Will you recommend to the President-elect that this Executive Order and the resulting council stay intact?

Response

I commit to you that my team and I will work with your Subcommittee on this important issue. Meeting the objectives for security clearance process reform included in the Intelligence Reform and Terrorism Prevention Act (IRTPA) will continue to be a significant priority for OMB.

With regard to the Executive Order and Council generally, OMB will coordinate a review of the existing initiatives underway for meeting the IRTPA objectives related to security clearance process reform. The scope of this review will include Executive Order 13467, the Suitability and Security Clearance Performance and Accountability Council, and the specific priorities and performance targets outlined in the December 2008 Report issued by the Joint Security and Suitability Reform Team. In conducting this review, we will seek input from your Subcommittee, as well as other interested Congressional offices and the Government Accountability Office. Based on this review, we will expeditiously make recommendations to the President on any changes or enhancements to existing plans and approaches.

2. Over the past eight years, many agencies have experimented with pay-for-performance personnel systems that attempt to link employees' pay more directly to their performance. Many employees and employee unions did not have a meaningful opportunity for input into these plans, contributing to employee resistance to their implementation. I have

raised many concerns about the fairness, transparency, and proper training of managers in these systems, especially at the Departments of Defense and Homeland Security.

As you develop a management agenda that integrates a performance plan for agencies and personnel, how will you ensure that this agenda has employee buy in and avoids earlier pitfalls?

Response

Pay-for-performance is intended to tie agency goals and achievements to staff performance ratings, but it is not a panacea and requires careful implementation. My experience at CBO suggests that the use of performance bonuses and pay linked to performance is a valuable tool in motivating workers and encouraging productivity. While pay-for-performance can be useful for improving individual and organizational performance, however, it cannot be successful without meaningful program performance standards, effective performance appraisal systems, and effective, well-trained managers. A successful personnel performance management system must also focus on employee satisfaction and buy-in if pay-for-performance and performance appraisal systems are to work.

3. Last June this Committee held a hearing in response to several reports released by GAO regarding privacy. In addition to its report calling on stronger leadership on privacy issues at agencies, GAO issued a report making key recommendations for how to strengthen the Privacy Act and privacy policies at federal agencies.

Specifically, GAO recommended updating the Privacy Act's terms and definitions, applying more consistent privacy rules across agencies, limiting the collection of personal information to a clearly stated purpose, and improving mechanisms to inform the public about government programs that use personal information. Can you share your thoughts on GAO's report and its recommendations related to privacy?

Response

Protecting the privacy of personal information is a priority for this Administration. As Director of OMB, I have oversight responsibility for agency implementation of the Privacy Act, and each agency head has the responsibility to see that his or her agency complies with the requirements of the Act.

Over the coming months, I look forward to working with agency heads to review compliance with the Privacy Act and the privacy requirements of other statutes, including the E-Government Act, and evaluating other opportunities to make meaningful improvements, whether through new legislation or by enhancing OMB guidance.

Senator Mark Pryor
Additional Questions for the Record
Nomination Hearing for Peter Orszag
January 14, 2009

1. The issue of management of the federal workforce has received an increased amount of attention in the last several years. In the pre-hearing questions that you submitted to the committee, you indicated that about 60% of the government's 1.6 million "white-collar" employees and 90% of an estimated 6,000 career Federal executives will be eligible for retirement by 2016.
 - a. How can the federal government broaden the appeal of public service for national security related professionals?
 - b. What types of incentives would you support to either retain current national security professionals or recruit new ones?

Response

There is tremendous interest in becoming a national security professional (NSP). National security events over the past few years (e.g., 9/11, Hurricane Katrina, etc.) have sparked increases in applications for agencies involved in dealing with such events, such as the Federal Bureau of Investigation and the State Department.

Although the federal government has a large cadre of high-quality people in full-time national security positions and many others who currently voluntarily serve as emergency personnel, we can broaden the appeal of public service for NSPs by redefining the concept of national security and improving the federal hiring process.

First, we should aim to expand our notion of "national security" to encompass activities beyond the traditional defense-diplomacy-intelligence framework. An effective national security strategy requires collaboration from multiple sectors such as international development, environment, and health policy. To meet this challenge, we should recruit Americans with diverse backgrounds such as science, math, and language skills to seek challenging and rewarding careers within the national security arena.

We also need to improve the Federal recruitment and hiring process step so that Federal agencies have the talent they need to accomplish their missions. OPM, in collaboration with the CHCO Council and with input from external stakeholders, has designed an end-to-end hiring model for the Federal government. The model's key components are workforce planning, recruitment, hiring process, suitability/security, and employee orientation. OPM has identified government-wide standards and measures for each component. Once implemented, the result will be a streamlined, effective, and efficient Federal hiring process so agencies can meet their critical needs.

2. There is a lack of a common definition of the term “inherently governmental function” across federal agencies. If confirmed, do you plan to issue guidance for agencies to determine what work must be carried out by government employees and what work is appropriate to contract out? What criteria will you use to determine what work should be carried out by government employees and what work is appropriate to contract out?

Response

In recent years, the division between inherently governmental functions (which are not appropriate for outsourcing) and commercial functions (which are properly subject to private sector competition) has become confusing and blurred. OMB intends to review these definitions and clarify the government’s approach and policies. As required by section 321 of the FY 2009 National Defense Authorization Act, OMB will seek public comment and report to Congress prior to issuing guidance.

3. Health care currently accounts for about 16 % of the U.S. economy. Businesses, individuals, and government are struggling to pay for health care cost increases. President-Elect Obama has indicated that the economic downturn makes it imperative that we make American employers more competitive by addressing the way health care is financed. As Director of the Congressional Budget Office, you have overseen a considerable amount of analysis related to our health care situation. As the Obama Administration works with Congress to advance health care reform, what strategies do you believe should be pursued that will be most successful in holding down costs while ensuring all Americans have quality access to health care?

Response

As you suggest, the principal driver of our nation’s long-term budget problem is rising health care costs. Improving the efficiency of the health system is central to our fiscal future. Health care costs impose severe burdens on state government budgets and reduce worker’s take-home pay to a degree that is both unnecessarily large and perhaps under-appreciated.

Substantial opportunities appear to exist to reduce health care costs without harming health outcomes. Significant evidence suggests that higher-cost care does not always mean higher-quality care. Perhaps the most compelling evidence of this fact is that per capita health care spending varies widely across the United States, but the very substantial variation in cost per beneficiary is not correlated with overall health outcomes. Embedded in the country’s fiscal challenge and the current burdens on state governments and workers are opportunities to reduce costs without impairing health outcomes overall. To capture these opportunities requires a combination of strategies, including:

- Expanding the use of health information technology and electronic medical records, which is a necessary but not sufficient step to improving the quality and efficiency of the health care system;
- Expanding research on “comparative effectiveness” of different options for treating a given medical condition, which could provide information on both medical benefits as well as costs;
- Providing financial incentives for better care rather than more care (currently, financial incentives for providers and patients encourage or facilitate expensive treatment and procedures, even when there is little evidence that they are more effective than existing therapies); and
- Providing incentives for prevention (such as immunizations and screening tests) and healthy living (such as avoiding obesity and smoking) so that people have fewer health care problems throughout their lives.

The Administration will be exploring these and other steps as key components of its health care reform efforts.

Senator Susan M. Collins
Additional Questions for the Record
Nomination Hearing for Peter Orszag
January 14, 2009

1. In 1999, President Clinton issued Executive Order 13132, providing guidance to federal agencies with respect to the preemption of state laws by agency rules. While concerns are legitimately raised that interstate commerce is often burdened by the cost and complexity of state laws, some have argued that the current approach to the federal preemption of state laws is overly expansive, and have specifically called for the revision of Executive Order 13132. Do you agree that Executive Order 13132 ought to be revised, and if so, how?

More generally, what principles do believe ought to be followed in establishing the proper scope of agency rules with respect to their preemptive effect on state laws?

Response

President Clinton's Executive Order on federalism (Executive Order 13132) includes a section on preemption (Section 4), which states several principles regarding when, and to what extent, Federal preemption of State law is appropriate. I have not yet had the opportunity to examine the Order carefully, and I would welcome your perspective on whether and how to revise Executive Order 13132.

2. The Federal government spends more than \$530 billion annually in procurements and we have a fast-approaching crisis in acquisition workforce. Total spending on government contracts has roughly doubled since 2000, yet the number of Federal acquisition specialists who help plan, write, and oversee these contracts has remained fairly constant, following a downsizing of approximately 50 percent in the 1990's. The shortage in this area of expertise will become even more acute over the next few years, when roughly half of the acquisition workforce is eligible to retire. To help address this, Senator Lieberman and I included a provision in the FY 2009 Defense Authorization Act to require the Office of Federal Procurement Policy (OFPP) to prepare an Acquisition Workforce Development Strategic Plan, including a specific and actionable five-year plan, to increase the size of the acquisition workforce by 25 percent over the next 5 years and to operate a government-wide acquisition intern program. What do you plan to do to address this dire acquisition workforce crisis?

Response

A qualified and appropriately staffed Federal acquisition workforce is critical to delivering value for taxpayer dollars and accomplishing agency missions. Increased spending requires increased oversight, management, and transparency, and this stewardship responsibility must be supported by an increase in trained acquisition professionals.

I understand that OMB's Office of Federal Procurement Policy and the Federal Acquisition Institute have taken affirmative steps to improve the government's recruitment and development efforts, and are undertaking the development of a human capital plan to better quantify the hiring, training, and development needs of the civilian agencies' acquisition workforce. The Department of Defense is also assessing its workforce needs, and both of these efforts will improve the government's ability to address acquisition workforce shortages.

3. As Director of the Congressional Budget Office (CBO), you have testified on a number of occasions that our policies should be directed to increasing the value of health spending, which will help us to reduce costs without impairing health outcomes. You have also recommended that we adopt policies that promote greater use of "evidence-based standards" and "comparative effectiveness" research, as well as expanded use of Health IT and measures to encourage prevention and promote good health.

Some have expressed concern, however, that current scoring processes used by the CBO actually serve as a barrier that blocks these kinds of innovations because they only count the costs of implementation without taking into account any savings that may accrue. Do you think that these scoring processes should be revisited? If not, how can we overcome this barrier to changes that most of us agree are necessary to transform both our public and private health care systems?

Response

We may need to consider important process changes to the way that we currently make health-related decisions that have important budgetary implications. I have noted before that our current approach to gradual long-term problems – from the fiscal gap to rising health care costs and climate change – does not appear to function effectively, which raises the question of whether process changes could help to produce better outcomes. I hope to work with you and others to explore these possibilities.

**Senator Tom Coburn
Additional Questions for the Record
Nomination Hearing for Peter Orszag
January 14, 2009**

1. Which programs within the Department, if any, do you think can be eliminated because they are ineffective, duplicative, and unnecessary or have outlived their purpose?

Response

As part of the development of the President's FY 2010 budget, which we will release in late February, we are reviewing programs that can be eliminated for the reasons you suggest.

2. President-elect Obama promised to conduct "an immediate and periodic public inventory of administrative offices and functions and require agency leaders to work together to root out redundancy." When do you plan to start this and when can we expect you to complete it?

Response

We plan to begin immediately by leveraging existing sources of information and efforts already underway. We will build on that effort by developing and executing plans to assess other functions not currently being assessed. For example, a number of administrative functions already have interagency teams and plans to eliminate redundancy, improve business processes and reduce the cost of operations. Lines of business in this area include financial management, human resources management, and information technology operations and maintenance. Others may be developed as we consider how to optimize the government's business processes.

3. Currently all recipients of federal grants, contracts, and loans are required by law to be posted online for public review. Do you support making all federal assistance including subcontracts and subgrants transparent in the same manner?

Response

We plan to provide a historic level of transparency into government spending, including full implementation of the Federal Funding Accountability and Transparency Act of 2006. This includes posting information on subcontracts and subgrants in the same manner as award data are currently posted on www.USASpending.gov. Enabling citizens to better understand how their tax dollars are being spent is critical to restoring trust in government.

In making this commitment, I also acknowledge the challenges. The central collection and reporting of subaward information from tens of thousands of Federal award recipients will require significant data and process standardization across Federal and non-Federal entities and

investments in our information technology infrastructure. An effective and capable program management office must be established to maximize the availability, quality, and usefulness of the data, as well as to minimize the costs to the Federal government and award recipients. We are currently considering options to meet this requirement, and I look forward to working with you as we develop our path forward on this important priority.

We are also committed to including in the pending economic recovery legislation strong accountability mechanisms that provide both transparency and rigorous, independent oversight of how taxpayer dollars are spent. We will set up a new website, www.recovery.gov, which will be a model for providing the public greater insight into Federal spending. We will continue to work with Congress to identify additional measures or tools that could further strengthen accountability and transparency so that Federal agencies and oversight authorities can ensure that taxpayer dollars are spent effectively.

Senator George V. Voinovich
Additional Questions for the Record
Nomination Hearing for Peter Orszag
January 14, 2009

1. I'm interested in the President-elect's decision to make the Office of Management and Budget's (OMB) next Deputy Director for Management the government's Chief Performance Officer, but I hope her expanded role won't mean you will lose focus on OMB's management responsibilities. If confirmed, how much time will you devote to management issues?

Response

I remain firmly committed to "OMB Version 2.0," in which OMB better integrates its management and budget activities, and I will focus much of my time on management topics. The Administration's decision to have the Chief Performance Officer and Deputy Director for Management be the same person will help elevate the attention paid to management issues. Management efforts must be more closely linked to broader efforts to improve outcomes instead of examining management issues in traditional stovepipes. Ultimately, improvements in financial management, IT systems, procurement, or human capital should demonstrate gains in program effectiveness or efficiency.

One of the clearest advantages of having a dual CPO-DDM is to begin work with agencies and interagency councils so that each agency has a senior official in place that is empowered to bring together Chief Financial/Budget, Acquisition, Human Capital, and Information Officers, as well as program staff to solve problems. This would be a significant step toward increased productivity. For example, each agency now holds quarterly meetings to review program performance that include program, budget, and management offices. I expect OMB to help foster these agency-led efforts and identify opportunities for greater intra- and inter-agency collaboration that will produce greater effectiveness or efficiency. In this and other ways, I see an important nexus between the CPO and DDM roles.

2. Twenty-six federal agencies administer more than 1000 different grant programs with many different processes for grant applicants to follow. To streamline and simplify those processes, the Chairman and I enacted the Federal Financial Assistance Management Improvement Act of 1999 with Senator Durbin and then-Congressman Rob Portman. The Government Accountability Office (GAO) reported in 2005 and 2006 that progress was made under our law, but the legislation sunset in November 2007. GAO suggested that Congress consider reauthorizing the law, and last year the Senate passed legislation the Chairman and I introduced to do just that. Unfortunately, the House adjourned before acting on the bill. We plan to reintroduce this legislation soon, and my hope is to work with the House, OMB and GAO to reauthorize the law. If confirmed, will you commit to work with Senator Lieberman and me in an attempt to enact our legislation?

Response

Yes, I am committed to working with you and Senator Lieberman on this important issue. I believe that improving grants management should be a priority, and that we should work towards simplifying the process and creating more integrity and transparency in the grant-making process. The enactment of the Federal Funding Accountability and Transparency Act (FFATA) was a critical step toward greater transparency of grant awards, but significant work remains in carrying out the full vision of this law. The reauthorization of the Federal Financial Assistance Management Improvement Act of 1999 would complement FFATA by enabling us to achieve, along with transparency enhancements, process improvements that lower costs and reduce burden on government agencies and Federal funding recipients.

3. GAO has noted that in making plans to streamline the grant making process as required by the Federal Financial Assistance Management Improvement Act of 1999, agency coordination with the grantee community was limited to soliciting input from grantees during the planning stages to implement the law; agencies did not coordinate with grantees on an ongoing basis. As OMB Director, how would you ensure that the grantee community has significant input into efforts to streamline the grant-making process?

Response

The President has identified increased citizen input in government decision-making as a high priority. This includes not only working to reach a broader array of stakeholders, but also tapping new technologies and innovative approaches for making government more accessible to citizens. I anticipate these efforts will yield new partnerships with the grantee community that will foster meaningful improvements at every stage of the grant process. I look forward to working with the Committee on these outreach efforts and welcome your input as we move forward.

4. Members on both sides of the aisle have talked and talked about the looming fiscal crisis, without any action. It seems like everyone wants to complain about the current state of our fiscal affairs without offering any solutions. Too many of my colleagues see these issues as politically painful to address. Congress needs presidential leadership to have the political cover to tackle these problems. What is President-elect Obama going to do to lead on fiscal responsibility and when is he going to do it? How much of a priority is reforming the entitlement and tax systems? This reform cannot wait until a second term or sometime in the future. The time to lead is now.

Response

The President has stated the urgency with which we need to tackle the current economic crisis, but he has also continually emphasized our need to address the longer-term fiscal challenge as well. He has called for a "fiscal responsibility summit" in February as a first step in bringing

together the Administration, the Congress and the public to discuss ways of addressing our medium and long-term budget problems. And in late February, the Administration will release its budget overview for FY 2010, which will propose specific ideas for reducing the deficit over the medium term.

5. The stimulus is expected to be enacted this year is anticipated to be more expensive than the entire Iraq War. What impact will the stimulus have on our long-term fiscal health? Is the US government in danger of losing our Triple A credit rating? Could the stimulus spook our bondholders and lead to higher interest rates?

Response

In the short-term economic environment, the key impediment to economic activity is the level of aggregate demand. In that short-run context, policy-induced increases in the deficit can help to bolster aggregate demand and return the economy to a medium-term growth path. Immediately offsetting the deficit impact of such efforts to bolster aggregate demand would undermine the rationale for the efforts and thus be counterproductive. But because these measures are designed to be temporary, they will not have a significant impact on the nation's long-term fiscal health.

The President is concerned about our fiscal future and, after the economy starts growing again, he is committed to the common-sense principle that we shouldn't exacerbate our long-term fiscal gap. He will present a budget and economic overview to the Congress in late February, which will include his approaches to restoring fiscal discipline over the medium term.

The Government is in no immediate danger of losing its good credit rating and thus far has not experienced any difficulty marketing its debt or finding willing lenders to supply it with credit. Over the medium and long term, however, our Nation is on an unsustainable fiscal course and we must act to address it before we lose the confidence of investors.

6. I believe many issues on GAO's high risk list could be addressed by better agency management, particularly in larger departments like Defense and Homeland Security, where I'm afraid management practices are often subsumed by day-to-day operations. Thirteen of the 27 items on GAO's 2007 high risk list fall within the responsibility of the Departments of Defense (DoD) and Homeland Security (DHS). I think designating officials in those agencies who focus solely on management issues, serve for set terms that transcend presidential transitions, and report directly to their Secretaries on management issues would help DoD and DHS better address their high risk issues. Do you believe that better management would help address high risk issues? Would you support terms for these management officers?

Response

Better management will certainly improve Government agencies' efforts to address GAO high risk issues. More can and should be done so that each agency has a senior official responsible

for agency operations and management. The concept of a Chief Management Officer (CMO) offers a model for such a position. A CMO has recently been established in the Department of Defense, a position held by the Deputy Secretary. I plan to examine this model closely and to explore other potential approaches to improving management within departments and agencies.

7. One high risk area GAO has identified is DoD's security clearance program, which has been on the high risk list since 2005. OMB has been designated the executive branch agency responsible for setting policy for the security clearance process. Together with the Department of Defense, the Office of Personnel Management, the Office of the Director of National Intelligence, and the Office of the Assistant to the President for National Security Affairs, OMB has developed plans to improve the timeliness and effectiveness of the security clearance process. This group has set a number of security clearance reform goals for 2009. If confirmed, do you anticipate moving forward with those plans and goals, including budgeting for the goals like information technology modernization?

Response

OMB will coordinate a review of the existing initiatives underway for improving the security clearance process, with emphasis on the specific reform goals included in the Intelligence Reform and Terrorism Prevention Act (IRTPA). The scope of this review will include Executive Order 13467, the Suitability and Security Clearance Performance and Accountability Council, and the specific priorities (including information technology modernization) and performance targets outlined in the December 2008 Report issued by the Joint Security and Suitability Reform Team (http://www.whitehouse.gov/omb/reports/joint_security_dec2008.pdf). In conducting this review, we intend to seek input from the Subcommittee, other interested Congressional offices, and the Government Accountability Office. Based on this review, we will seek to expeditiously make recommendations to the President on any changes or enhancements to existing plans and approaches.

8. OMB was designated the executive branch agency responsible for setting policy for the security clearance process in 2005. As OMB Director, would you make reforming and streamlining the security clearance process a priority?

Response

Yes. Improving the security clearance process will be a significant priority for OMB.

9. The Intelligence Reform and Terrorism Prevention Act of 2004 requires that "all security clearance background investigations and determinations completed by an authorized investigative agency or authorized adjudicative agency shall be accepted by all agencies"? As OMB Director, how would you ensure that agencies comply with this requirement?

Response

It is my understanding that OMB and the Office of the Director of National Intelligence issued several memoranda to implement this IRTPA requirement. As part of the larger review referenced above, we will evaluate the status of this requirement and take necessary actions to assure compliance.

10. In 2008, President Bush established the Suitability and Security Clearance Performance Accountability Council, which OMB chairs, to coordinate hiring and clearing processes. Do you believe that this Council should be retained, and if so, what coordination efforts do you foresee OMB undertaking as chair of the Council?

Response

As referenced above, we will closely review the Suitability and Security Clearance Performance and Accountability Council and identify any necessary enhancements to the structure, mission, role, and/or priorities of this Council. Regardless of the outcome of this review, I anticipate that OMB will continue to play a central role in coordinating government-wide efforts on this front.

11. In 2007, I joined Senator Cornyn to introduce the United States Authorization and Sunset Commission Act to look at the effectiveness and efficiency of federal programs. I think this step-by-step approach can help us identify and improve programs that are not working as well as eliminate programs that are not necessary, thereby saving American taxpayers' money. As director of the Congressional Budget Office (CBO), every year you reported to Congress on programs whose authorizations had or would soon expire. Would you undertake a similar review as OMB Director in an effort to reduce or eliminate wasteful spending?

Response

Yes, OMB will work with Congress to regularly identify opportunities to improve program performance and make needed reforms, including elimination of programs that are ineffective, outdated, or duplicative. I will actively solicit Congressional input on how the Executive Branch can provide useful performance information to inform Congress's authorization, appropriation, and oversight processes. I have a record of engaging constructively with members of Congress from both parties, and I would apply the same approach to obtaining Congressional views on performance management: I would reach out early and often – and would strongly encourage the Deputy Director for Management and other parts of OMB to do so also – to appropriate oversight, authorizing, and appropriations Committees as well as other stakeholders to receive feedback on performance information that is useful to Congress. OMB and the agencies should also work more closely with GAO and other stakeholders to lay out a regular process for engaging Congress on high risk or timely agency- or program-specific performance issues. Through more regular dialogue, OMB and agencies could identify targeted opportunities for broad engagement on performance issues such as in advance of programs coming up for

reauthorization, as you suggest. In addition, the Administration will propose to reduce spending and eliminate ineffective and duplicative programs as part of the President's FY 2010 economic and budget overview, which we plan to release in late February.

12. In your responses to the pre-hearing questionnaire, you stated "The Federal workforce needs to continue to become more results-oriented, customer-focused, and collaborative" What types of personnel systems do you believe are needed to meet these objectives?

Response

One important way to emphasize the link between human capital and organizational performance is to insist that each agency's Chief Human Capital Officer works in close partnership with the agency's CFO and Performance Improvement Officer (PIO) in strategic planning, workforce planning, setting organizational goals, and holding managers accountable for achieving results. Systematic workforce planning and analysis that considers the capabilities of the Federal workforce as a whole (employees and contractors) are essential to addressing the Federal government's human capital challenges.

As the GAO has found, current personnel systems do not effectively link individual and organizational performance. Providing each employee with a line of sight between his or her own goals and the organization's goals should serve as the foundation for effective personnel appraisal systems. OMB will continue to work with OPM to evaluate the strengths and weaknesses of current personnel systems in helping the U.S. government build a results-oriented culture.

13. I appreciate your recognition of the need to continue to improve the federal government's recruiting and hiring efforts. I often hear from human resource professionals and stakeholders that many existing flexibilities, such as student loan repayment and recruitment bonuses, are not used effectively because agencies lack the resources to do so. What do you believe can be done to address these concerns in light of our current financial challenges?

Response

The Federal government certainly needs to continue improving its recruitment to get the right talent, in the right jobs, at the right time. In the context of the current economic environment, however, we believe that the full Federal compensation package is competitive with the private sector. The Federal government's voluntary quit rate, a good market test of whether employees are underpaid, is one-fourth of the private sector rate. And www.USAJobs.gov, the Federal government's online job clearing house, has seen a major increase in attention, with as many as 2.8 million people visiting the site weekly.

If agencies still find they are having trouble recruiting the talent they need to meet their mission and serve the American people effectively, they have the ability to use hiring flexibilities such as

student loan repayment and recruitment bonuses. Agencies must weigh those decisions against other budget priorities.

14. The President-Elect has nominated Mr. Cass Sunstein to be the Administrator of the Office of Information and Regulatory Affairs (OIRA) within OMB that is charged with reviewing agency regulations. This is an important office given current economic conditions and the potential negative effect poorly designed rules can have on economic growth. Will you assure us today that you will continue to support this important office within OMB, including assuring that it has adequate resources and staffing to continue to conduct its mission?

Response

Yes. In my opinion, the centralized oversight role performed by OMB and OIRA for regulatory review results in better analysis of proposed agency actions, consideration of a wider range of views and expertise, and ultimately in more effective and less burdensome Federal regulation.

15. As someone with a technical background, you obviously understand the importance of acknowledging all major sources of uncertainties in analyzing policies and risks to human health and the environment. Can you commit today to instruct your staff to work with agencies to fully identify all key uncertainties in analyzing policies and risks; and to conduct uncertainty analyses whenever possible to better inform the public?

Response

I agree that analyzing uncertainty is important to making fully informed decisions. I would also note that such analysis is currently required in many instances, including in the regulatory analysis conducted under Executive Order 12866, as amended, and OMB Circular A-4. I will be sure to enforce these authorities and would be happy to have further discussions with you on this subject.

16. If Environmental Protection Agency (EPA) decides to regulate greenhouse gas emissions in response to last year's Supreme Court decision, *Mass vs EPA*, it will trigger one of the largest regulatory programs in EPA's history. This will have significant budgetary impacts for EPA and the states, and it could end up pulling resources from other important health and environmental regulatory programs. Can you commit today to providing this Committee with an analysis of the budgetary impacts of such a decision before it is made, and explain how EPA could meet this new potential obligation without undermining its other important missions?

Response

As you know, the decision on how best to respond to *Massachusetts vs. EPA* carries major policy, regulatory and budgetary consequences. The Administration will evaluate all of these and seek to respond to the Court's decision in a way that takes into account the potential benefits as well as costs, to both the private sector and the government, of various options for compliance consistent with the requirements of the Clean Air Act. We appreciate the Committee's attention to this issue and look forward to working with both Congress and the public on this issue.

17. Having followed the current Administration's implementation of the 2005 Energy Policy Act, especially the provision on the federal loan guarantee program for clean energy projects, I must say I am thoroughly disappointed and frustrated with the lack of progress. I have written letters and talked directly with both Jim Nussle, the current OMB Director and his predecessor, Rob Portman, as well as Sam Bodman, the Secretary of Energy. It has been over 3 years since the legislation was enacted, but not a single loan guarantee has been issued by the current administration. Moreover, the existing loan volume of \$38.5 billion authorized in the Consolidated Appropriations Act of 2008 is woefully inadequate to jump start clean energy technologies on the scale required. The Department of Energy recently announced that it has received 19 applications for loan guarantees of \$122 billion to support the construction of 21 new nuclear power plants that significantly exceeds the authorized loan volume. If all 21 new projects are constructed, they would add 28,800 mega-watts of clean, emission-free, base load electricity, while creating hundreds of thousands of new jobs. And, what often gets overlooked is the fact that the Department of Energy's policies and procedures require the borrower to pay into the Treasury the full subsidy costs associated with the loan guarantee, thus no appropriation of federal funds is necessary. Do you believe a balance can be achieved between assuming a manageable risk to the Treasury under a well-operated loan guarantee program, while avoiding the unacceptable risk to the Nation of failing to meet our energy and economic needs in an environmentally acceptable manner?

Response

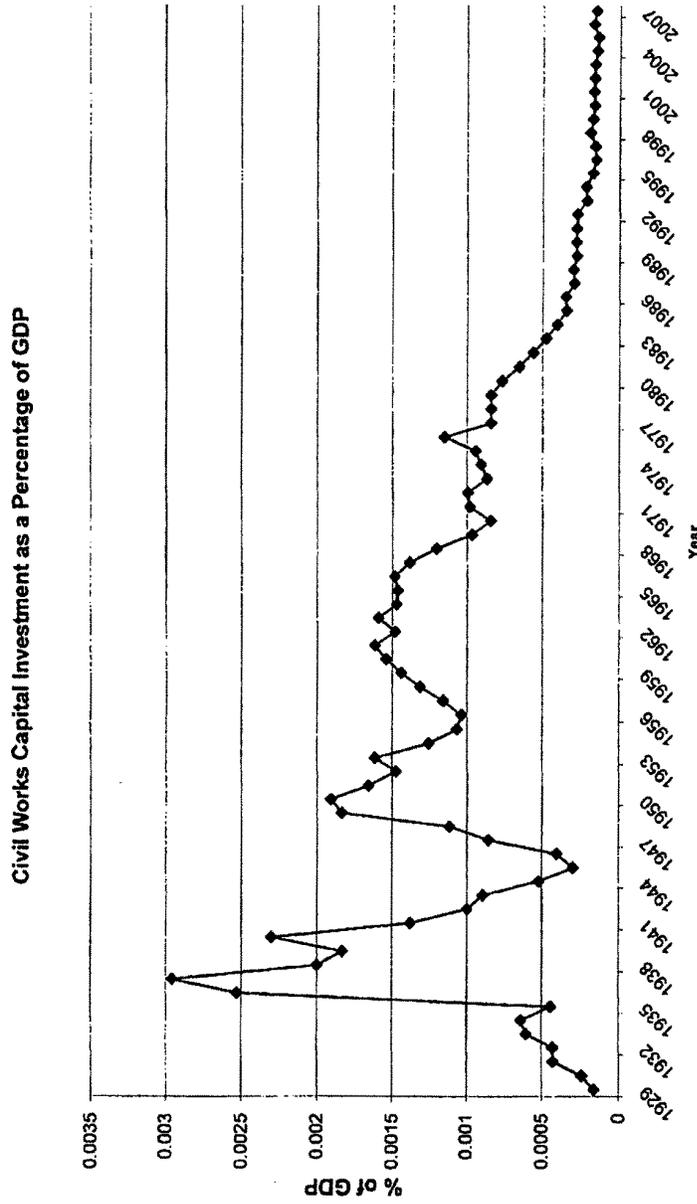
Yes, I believe that the Department of Energy's EPACT 2005 Title XVII Innovative Technology Loan Guarantee Program can be managed and operated in a way that balances the significant risk to taxpayers with the possibility of transforming our energy sector to meet our future energy and economic needs. I believe these goals can best be met by implementing the program in a thoughtful manner, which will allow DOE to "learn as it goes." There are considerable risks to taxpayers in supporting unknown advanced technologies that private credit markets have historically found too risky to support. At the same time, this program gives us the opportunity to transform the energy sector. I welcome your ideas about how best to balance risks to the taxpayer against these significant opportunities.

18. As you consider the FY 2010 budget for the federal government programs, would you support increasing the authorized loan volume for the loan guarantee program to a sufficient level, so we can move forward with all qualified and worthy energy projects, such as renewable energy, clean coal, advanced nuclear, and fuel efficiency projects under the authority of the Energy Policy Act of 2005?

Response

I believe the Innovative Technology Loan Guarantee Program has the potential to transform our energy sector. During formulation of the Administration's FY 2010 budget, I will assess the appropriate loan volume for this program so that the program is successful.

Chart submitted for record by Sen. Landrieu - Jan 14 2009



Civil Works Data Sources: 1929-2000 data from Rob Vining, June 22, 2001 presentation; 2001-2007 data from the Corps of Engineers construction budget. The data does not include emergency supplemental funding (e.g., funding for Hurricane Katrina-related repairs and improvements). GDP Data Sources: Bureau of Economic Analysis, National Income and Product Accounts, Table 1.1.5, Gross Domestic Product, Adjusted using the GDP deflator from the Bureau of Economic Analysis, National Income and Product Accounts, Table 1.1.4, Price Indexes for Gross Domestic Product.