THE PRESIDENT'S FISCAL YEAR 2014 BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

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THE PRESIDENT'S FISCAL YEAR 2014 BUDGET

THURSDAY, APRIL 11, 2013

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

The Committee met, pursuant to call, at 10:00 a.m., in room 210, Cannon House Office Building, Hon. Paul Ryan, [Chairman of the Committee] presiding.

Present: Representatives Price, Campbell, Calvert, Cole, McClintock, Black, Ribble, Flores, Rokita, Blackburn, Rice, Williams, Duffy, Messer, Lankford, Woodall, Garrett, Schwartz, Ryan, Lee, Cicilline, Jeffries, Pocan, Lujan Grisham, Huffman, Cardenas, Schrader, Pascrell, Yarmuth.

Chairman RYAN. The hearing will come to order. Welcome, everybody, and while this budget may be two months late, I want to thank Mr. Zients for coming to testify. And, by the way, I want to thank you for serving your country in the capacity you have been serving. It is not a very easy job. It is probably, arguably, one of the most important, but one of the most different jobs in the Executive Branch, and I want to thank you, Jeff, for your service because I know you are in your last days of this, and we wish you great success in whatever it is you choose to do in the future.

Now, for my speech. Now for the other side of the story. It is good to have you here. We are glad you put out a budget. Sixty-five days late, but, seriously, though, we are disappointed in this budget. We are disappointed in this budget because it is a status quo budget. It does not break any new ground. It just goes over old ground. It raises taxes by $1.1 trillion. It increases spending by nearly a trillion dollars net, and it adds $8.2 trillion to our debt. In short, it takes more from families to spend more in Washington. The president often says his policies would cut the deficit by $4.3 trillion over 10 years. Sadly, that is not true. The budget itself claims $1.4 trillion of deficit reduction over 10 years, and nearly all of those savings are from well-worn gimmicks that we have established as gimmicks from both parties over the years. In fact, if you remove these gimmicks, this budget cuts the deficit by just $119 billion. And, by the way, the president's budget proposes that this paltry deficit reduction does not begin until the year 2020, four years after he has left office.

Having said that, the president does deserve credit for challenging his party on entitlements. For instance, he has proposed increased means testing for Medicare Part D and B. Unfortunately, the budget does not include the structural reforms that we need to protect and strengthen critical health and retirement security programs. These policy changes in this budget will not save these programs. They will make them a little less expensive, but they still go bankrupt. So the president's budget is a disappointment because it is missed opportunity. We need a new approach in Washington to meet our country's most pressing needs. That is what our side is offering. That is the budget we passed.

Our plan balances the budget in 10 years to foster a healthier economy and to help create jobs. It is a plan to expand opportunity for the young, to guarantee a secure retirement for seniors, and it repairs the safety net for those in need. That is our objective. I understand my colleagues choose to pursue the objective in a different way, but that is our objective and we think we accomplish that. I will say this. At least everybody has a plan now: House Republicans, Senate Democrats, and the president. That is a pretty good start. We have not seen that in a few years around here. There are many differences between these plans. The president and the Senate seem to believe that Washington knows better so that their plans put more power in its hands. Their budgets never balance. They raise taxes. We see it differently. And by defending the status quo, we are letting critical programs like Medicare wither on their watch, and their policies will cement the record poverty and high unemployment that we have had in place if we stick to the status quo as these—as this budget does.

But we cannot simply sit here and dwell on our differences. We have got to move forward. We have got to find common ground. And the existence of these plans being put on the table helps us establish a process to go and find that common ground. Even if we cannot agree on everything, we need to make a down payment on our debt and we need to make that down payment now. As difficult as these challenges are, I believe we can make progress and I am hopeful that we will. And with that, I would like to yield to my friend, the Ranking Member, Mr. Van Hollen.

[The prepared statement of Paul Ryan follows:]

PREPARED STATEMENT OF HON. PAUL RYAN, CHAIRMAN, COMMITTE ON THE BUDGET

Welcome, everybody. Well, this budget may be two months late, but I want to thank Mr. Zients for coming to testify.

That said, I'm disappointed by the President's proposal—because it's a status quo budget. It doesn't break any new ground; it just goes over old ground. It raises taxes by $1.1 trillion. It increases spending by nearly $1 trillion. And it adds $8.2 trillion to our debt. In short, it takes more from families to spend more in Washington.

The President says his policies would cut the deficit by $4.3 trillion over ten years. But that's not true. The budget itself claims $1.4 trillion of deficit reduction over ten years. And nearly all those savings are from well-worn gimmicks. In fact, if you remove the gimmicks, this budget cuts the deficit by just $119 billion.

Oh, and by the way, the President's budget proposes that this paltry deficit reduction begin in 2020—four years after the President has left office.

The President does deserve credit for challenging his party on entitlements. For instance, he's proposed increased means-testing for Medicare Part B and D. Unfortunately, the President's budget doesn't include the structural reforms we need to protect and strengthen critical health and retirement-security programs. The policy changes in this budget won't save these programs.

So the President's budget is a disappointment—because it's a missed opportunity. We need a new approach in Washington to meet our country's most pressing challenges. That's what our side is offering. Our plan balances the budget in ten years to foster a healthier economy and to help create jobs. Our plan expands opportunity for the young. It guarantees a secure retirement for seniors. And it repairs the safety net for those in need.

But I'll say this. At least everyone has put a plan on the table—House Republicans, Senate Democrats, and the President. There are many differences between these plans. The President and Senate Democrats believe Washington knows better, so their plans put more power in its hands. They never balance the budget. They raise taxes. By defending the status quo, they're letting critical programs like Medicare wither on their watch. And their policies will cement record poverty and high unemployment into place.

But we can't simply dwell on our differences. We've got to move forward. We've got to find common ground. Even if we can't agree on everything, we need to make a down payment on our debt—now.

As difficult as the challenges are, I believe we can make progress. And I'm hopeful we will.

With that, I yield to the ranking member.

Mr. VAN HOLLEN. Thank you very much, Mr. Chairman. I want to join the Chairman in thanking you, Mr. Zients, for your service as the head of the Congressional—head of the OMB, Office of Management and Budget. And as the Chairman said, it is a tough job, and I think you, working with the president, have done it very, very well. And you are going to have a lot of opportunity to respond to some of the claims the Chairman made with respect to your budget. I think the important thing is it meets two essential goals. First of all, it focuses on job growth and strengthening the economy. We have seen more and more Americans getting back to work, but we also know we have got a lot more work to do to kick this economy in full gear, and your budget focuses on that. It also focuses, of course, on reducing our long-term deficits in a balanced way, asking for shared responsibility.

Democrats in Congress, Republicans in Congress, and now the president, have all now submitted plans, and while I have some concerns with aspects of the president's plan, the overall thrust of this is clearly in the right direction for our country, and stands in very stark contrast to the House Republican plan that was put forward. First of all, the House Republican plan would actually put the brakes on our economy. We know that the Congressional Budget Office has said that if we keep the sequester levels of spending in place, we will see 750,000 fewer jobs at the end of this year alone. And yet, the House Republican budget keeps those levels in place.

I received a letter from a CEO in my district, the head of a very large bio-tech company, who said, as a result of the sequester, they have frozen hiring. In fact, the only place they are hiring right now is in China, not because of lower wages in China, but because the Chinese looked at the American model of investment in bio-science and medicine, and said, "Hey, that is a winning economic strategy." And so while we are cutting our investments in places like the National Institute of Health and investments that are important to keep our competitive edge, the Republican budget would actually undermine those important investments. So I applaud the president for putting forward a budget that focuses on investments in education, investments in science and research, and investments in the infrastructure necessary to make sure we are competitive in the 21st century.

With respect to the president's approach to deficit reduction, he has, in his budget, done what he said he was going to do. He does it in a balanced way, asking for shared responsibility. Our Republican colleagues, in their budget, they ask everybody to take some responsibility for deficit reduction, except folks at the very top of the income ladder. There, if you are already getting a tax break or tax benefit that disproportionately benefits very wealthy people, guess what? Not only do you get to keep it, but they are going to double down and give you an extra tax break by lowering the top rates, which we believe, mathematically, can only be done by increasing the tax burden on middle income Americans. So throughout their budget, whether it is seniors who rely and count on Medicare or Medicaid, whether it is investments in our kid's education, the choice made in the Republican budget is to say, "Let's put the burden on them at the same time we continue and, in fact, expand tax breaks for folks at the very top." We do not think that that is the way to address our budget challenges or get our economy fully in gear.

So let me just end where the Chairman ended, which is, we do now have these budgets that are on the table. We believe that the president has clearly indicated a willingness to meet Republicans more than halfway. In fact, as you indicated, Mr. Chairman, some of the proposals in the president's budget create—or have not been that well-received by members on our side because what the president did in his budget was he included certain provisions the Speaker of the House, Speaker Boehner, had called for as part of a negotiation with the president. So whether chained CPI or some of the other provisions, what the president said in this budget is, "You know what? I will put those in there. The Speaker asked for them. We will put them in there as a sign of our willingness to meet our Republican colleagues more than halfway." And it has been very disappointing. What has been disappointing is the response from some of our Republican colleagues not to recognize that the president made that good-faith effort going forward.

So I hope this will be the beginning of a conversation, Mr. Chairman. I do hope that the House Republic leadership will appoint budget conferees so that we can get going immediately in a conference between the House and the Senate and continue to get the input from the president. And Mr. Zients, thank you again for your very important contributions to that effort.

[The prepared statement of Chris Van Hollen follows:]

PREPARED STATEMENT OF HON. CHRIS VAN HOLLEN, RANKING MEMBER, COMMITTEE ON THE BUDGET

Thank you very much, Mr. Chairman. I want to join the Chairman in thanking you, Mr. Zients, for your service as head of the OMB, Office of Management and Budget. And as the Chairman said, it's a tough job and I think you, working with the President, have done it very, very well.

And you're going to have a lot of opportunity to respond to some of the claims the Chairman made with respect to your budget. I think the important thing is it meets two essential goals.

First of all, it focuses on job growth and strengthening the economy. We've seen more and more Americans getting back to work. But we also know we've got a lot more work to do to kick this economy in full gear, and your budget focuses on that.

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In fact, as you indicated, Mr. Chairman, some of the proposals in the President's budget have not been that well received by Members on our side. Because what the President did in his budget was he included certain provisions that the Speaker of the House, Speaker Boehner, had called for as part of a negotiation with the President. So whether it's chained CPI or some of the other provisions, what the President said in this budget is, you know what, I'll put those in there. The Speaker asked for them. We'll put them in there as a sign of our willingness to meet our Republican colleagues more than halfway.

And it has been very disappointing—what's been disappointing is the response from some of our Republican colleagues not to recognize that the President made that good faith effort going forward.

So, I hope this will be the beginning of a conversation. Mr. Chairman, I do hope that the House Republican leadership will appoint budget conferees so that we can get going immediately in a conference between the House and the Senate, and continue to get the input from the President. And Mr. Zients, thank you, again for your very important contributions to that effort.

Chairman RYAN. Mr. Zients, the floor is yours.

STATEMENT OF HON. JEFFREY ZIENTS, ACTING DIRECTOR AND DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. ZIENTS. Thank you, everybody. Pleased to be here today to discuss the president's 2014 budget. I am going to work off of a few slides. The main message of the president's budget is that we can make critical investments to strengthen the middle class, create jobs, and grow the economy while continuing to reduce the deficit in a balanced way. We can do both balanced deficit reduction and jobs investments. On the left-hand side, in terms of balanced reduction, the budget builds off of the deficit reduction achieved to date and includes the president's fiscal cliff compromise offer to Speaker

Boehner from December. Importantly, the budget turns off the sequester by replacing the sequester with balanced deficit reduction.

At the same time, the budget proposes important jobs investments to enhance economic growth through skills and competitiveness, with investments in education and R&D. Each of these new investments are fully offset. They are fully paid for and they do not add to the deficit. In deficit reduction over the last couple of years, Democrats and Republicans have worked together to cut the deficit by more than $2.5 trillion. Here is the breakdown of deficit reduction to date. The Budget Control Act capped discretionary spending, saving over a trillion dollars. Another $370 billion in savings through 2011 appropriations. The end of last year's fiscal cliff agreement reduced the deficit by more than $600 billion. Together, this deficit reduction lowered interest payments, saving an additional $480 billion. In total, more than $2.5 trillion in deficit reduction has been achieved.

The president is committed to achieving a total of $4 trillion in deficit reduction. Four trillion is the benchmark that both Simpson and other independent economists have set in order to put us on a sustainable fiscal path. The good news is we are more than halfway to the $4 trillion goal. The president's budget finishes the job with an additional $1.8 trillion of deficit reduction. The $1.8 trillion is from the compromised offer the president made to Speaker Boehner during fiscal cliff negotiations in December. By including this offer in the budget, the president is showing his willingness to compromise and make tough choices, and his commitment to putting the country on a sustainable fiscal path.

Here are the components of the deficit reduction that take us from the $2.5 trillion achieved to date, to over the $4 trillion target. On the left side, starting with the $2.5 trillion we have already achieved, the first bar, $400 billion in health savings that strengthened Medicare by squeezing out waste and incentivizing delivery of high-quality and efficient care. Next, $200 billion in savings from other mandatory programs, including reductions to farm subsidies, reforms to federal retirement contributions, and selling unneeded federal real estate. Next, $230 billion in savings by indexing annual inflation adjustments to the chained CPI. Another $200 billion in discretionary savings beyond the BCA caps. Next, $580 billion in revenues from tax reform by closing loopholes and reducing benefits for families with more than $250,000 in income. As a result of these measures, we have $190 billion in savings from reduced interest payments on the debt. At the same time, we invest $50 billion in immediate infrastructure to repair our roads and bridges and create jobs. In total, this achieves $1.8 trillion in additional deficit reduction over the next 10 years, bringing total deficit reduction to $4.3 trillion, with more than $2 in spending cuts for every dollar in revenue.

To be clear, this offer includes difficult cuts the president would not propose on their own, including CPI, which the president is only willing to do with protections for the vulnerable and as part of this balanced plan. However, by including the compromise offer in the budget, the president is showing his willingness to make tough choices, and his commitment to reducing deficits and putting the country on a sustainable fiscal path.

Here are annual deficits from 2012 through 2023. As you can see, in 2012, the deficit was 7 percent as a percent of the economy. The budget phases in deficit reductions to support the ongoing recovery. And by 2016, the deficit is below 3 percent. And by 2023, it is below 2 percent, at 1.7 percent. As a result of this deficit reduction, debt as a percent of our economy is also on a declining path. With declining deficits and debt, the president's budget achieves an important milestone of fiscal sustainability.

The budget reaches that important fiscal milestone while also investing in the drivers of economic growth. In doing so, it demonstrates that we do not have to choose between deficit reduction and economic growth. It shows that we can, and indeed we must, do both. The country will not prosper if we have unsustainable deficits. But it also will not prosper if our infrastructure is crumbling and our workers lack the skills to compete. Through paid-for initiatives, like pre-pay for all, job training, and accelerated infrastructure investments, this budget will enhance our nation's competitiveness. And through balanced deficit reduction, this budget will enhance confidence and lay the foundation for more durable economic growth. It is the right strategy for our economy, for creating jobs, and for building prosperity.

With that, I would be happy to answer any questions.

[The prepared statement of Jeffrey Zients follows:]

PREPARED STATEMENT OF HON. JEFFREY ZIENTS, ACTING DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Chairman Ryan, Ranking Member Van Hollen, members of the Committee, thank you for welcoming me here today, and giving me the opportunity to present the President's 2014 Budget. It is good to be with you again.

The President's 2014 Budget demonstrates that we can make critical investments to strengthen the middle class, create jobs, and grow the economy while reducing the deficit in a balanced way. The Budget addresses three core questions the President raised in his State of the Union address: How do we attract more jobs to our shores? How do we equip our people with the skills needed to do the jobs of the 21st Century? How do we make sure hard work leads to a decent living? The Budget addresses these questions as part of a comprehensive plan that reduces the deficit and puts the Nation on a sound fiscal course.

Every new initiative in this plan is fully paid for, so they do not add a single dime to the deficit. At the same time, the Budget includes the President's offer made as a part of the 'fiscal cliff' negotiations to build on the more than $2.5 trillion in deficit reduction already enacted with another $1.8 trillion, comprised of additional entitlement reforms, spending cuts, and tax reform that promotes growth, while reducing tax benefits for the wealthiest Americans. The Budget would result in:

• $4.3 trillion in total deficit reduction, with over $2 in spending cuts for every $1 in increased revenue.

• Debt as a share of GDP on a downward trajectory by 2016, reducing it from 78.2 % of GDP in 2014 to 73.0% by 2023.

• Deficit under 2% of GDP in the 10-year window, and below 3% of GDP by 2016.

This strategy will build on our country's economic recovery. It is the right budget and economic plan for this period in our economy.

Since I was last with you, we have continued to make significant progress in the recovery from the worst financial crisis since the Great Depression. The economy is now on the mend. We have seen positive economic growth for 14 consecutive quarters, and 37 months of private sector job growth. Our businesses have created nearly 6.5 million jobs. The housing market is recovering. America's auto industry is once again resurgent. And we have successfully ended the war in Iraq and are bringing our troops home from Afghanistan.

But as the President has indicated, our work is not done. The economy is adding jobs, but too many Americans are still unemployed. Businesses are hiring again, but too many are still struggling to compete and find workers with the right skills to meet their needs. Home prices are rising at the fastest pace in six years and construction is expanding, but too many families with solid credit are still finding it difficult to buy a home or refinance.

At the same time, we face significant near- and long-term fiscal challenges. In the near-term, deficits are coming down, but they remain too high—primarily as a legacy of the recession, and unpaid for policies enacted over the decade before this President took office. Over the long-term, although the Affordable Care Act reduced the deficit and is helping to slow the growth in health care costs, along with an aging population, rising health costs continue to be one of the largest threats to our long term fiscal sustainability.

The right prescription to address these challenges is to combine smart, targeted investments in areas critical for economic growth and competitiveness, with deficit reduction that will boost confidence and certainty by putting the nation on a sound long-term fiscal trajectory. The Budget does just that—offering a plan for deficit reduction that is phased in to avoid harming the economic recovery, and includes protections for the most vulnerable. At the same time, it preserves high priority investments that will enhance economic growth and private sector job creation.

Let me briefly give an overview of how this Budget invests for growth, and then how it reduces the deficit in a balanced way.

INVESTING FOR GROWTH AND STRENGTHENING THE MIDDLE CLASS

Making America a Magnet for Jobs

Over the last four years, we have begun the hard work of rebuilding our Nation's infrastructure, but to compete in the 21st Century economy and become a magnet for jobs, we must do more. The Budget includes $50 billion for up-front infrastructure investments, including a "Fix-It-First" program that makes an immediate investment to put people to work as soon as possible on our most urgent repairs. And to make sure taxpayers do not shoulder the whole burden, the Budget creates a Rebuild America Partnership to attract private capital to upgrade what our businesses need most: modern ports to move our goods, modern pipelines to withstand a storm, and modern schools worthy of our children.

If we want to make the best products, we must also invest in the best ideas. That is why the Budget maintains a world-class commitment to science and research, increasing non-defense research and development (R&D) investment by 9 percent over 2012 levels. Furthermore, we are targeting resources to those areas most likely to directly contribute to the creation of transformational technologies that can create the businesses and jobs of the future—like Advanced Manufacturing R&D, where the Budget proposes to increase R&D investments by over 80%.

No area holds more promise than our investments in American energy. The Budget continues to advance the President's "all-of-the-above" strategy on energy, investing in clean energy research and development; promoting energy efficiency in our cars, homes, and businesses; encouraging responsible domestic energy production; and launching new efforts to combat the threat of climate change.

A top priority is making America a magnet for new jobs and manufacturing. After shedding jobs for more than 10 years, our manufacturers have added more than 500,000 jobs over the past three years. To accelerate this trend, the Budget builds on the success of the manufacturing innovation institute we created in Youngstown, Ohio last year, and calls for the creation of a network of up to 15 of these institutes across the Nation. Each manufacturing innovation institute will bring together companies, universities and community colleges, and government to invest in cutting-edge manufacturing technologies and turn regions around our country into global centers of high-tech jobs.

The Budget also supports efforts the President announced earlier this year to modernize and improve the efficiency of the Federal permitting process, cutting through the red tape that has been holding back even some of the most carefully planned infrastructure projects. These efforts will help cut timelines in half for infrastructure projects, while creating new incentives for better outcomes for communities and the environment.

Educating a Skilled Workforce

All of these initiatives in manufacturing, energy, and infrastructure will help set the stage for entrepreneurs and small business owners to expand and create new jobs. But these investments won't matter unless we also equip our workforce with the education, skills, and training to fill those jobs.

And that has to start at the earliest possible age. The Budget includes a proposal that invests in America's future by ensuring that four-year-olds across the country have access to high-quality preschool education through a landmark new initiative in partnership with the States. Research confirms that investments in quality preschool are among the highest return in improving educational outcomes and better preparing our workforce for the demands of the global economy. This investment in preschool is fully paid for in this Budget by increasing the tax on tobacco products, which is also an effective measure to improve health outcomes for our communities.

But it's not just preschool that we need to invest in. We also need to ensure access to higher education for our country's young people. Skyrocketing college costs are still pricing too many young people out of a higher education, or saddling them with unsustainable debt. To encourage colleges to do their part to keep costs down, the Budget includes reforms that will ensure affordability and value are considered in determining which colleges receive certain types of Federal aid.

To further ensure our educational system is preparing students for careers in the 21st Century economy, the Budget includes additional measures to improve and promote science, technology, engineering and mathematics (STEM) education. This includes a comprehensive reorganization and consolidation of STEM education programs to make better use of resources and improve outcomes, and a new STEM Master Teacher Corps, to leverage the expertise of some of America's best and brightest teachers in science and mathematics, and to elevate the teaching of these subjects nationwide.

Making Sure Hard Work Leads to a Decent Living

The Budget also builds on the progress made over the last four years to expand opportunity for every American and every community willing to do the work to lift themselves up. The Budget creates new ladders of opportunity to ensure that hard work leads to a decent living.

The Budget proposes partnerships with communities to identify Promise Zones that will help them thrive and rebuild from the recession. The Promise Zones initiative will revitalize high-poverty communities across the country by attracting private investment, improving affordable housing, expanding educational opportunities, reducing crime, and providing tax incentives for hiring workers and investing in the Zones.

The Budget makes it easier for the long-term unemployed and youth who have been hardest hit by the downturn to remain connected to the workforce and gain new skills with a Pathways Back to Work fund. This initiative will support summer and year round jobs for low-income youth, subsidized employment opportunities for unemployed and low income adults, and other promising strategies designed to lead to employment.

The Budget supports the President's call to reward hard work by raising the Federal minimum wage to $9.00 an hour. Raising the minimum wage would directly boost wages for 15 million workers and would help our growing economy. Furthermore, the Budget permanently extends expansions of the Child Tax Credit, the American Opportunity Tax Credit and the Earned Income Tax Credit.

Economic growth is best sustained from the middle class out. Everyone who works hard and plays by the rules should have a fair shake at opportunity, including going to college and getting a well-paying job to support their family. As the President said in the State of the Union, "America is not a place where the chance of birth or circumstance should decide our destiny. And that's why we need to build new ladders of opportunity into the middle class for all who are willing to climb them."

Keeping America Safe

Finally, we know that economic growth can only be achieved and sustained if America is safe and secure, both at home and abroad. At home, the Budget supports the President's initiative to help protect our children, reduce gun violence, and expand access to mental health services. To confront threats outside our borders, the Budget ensures our military remains the finest and best-equipped military force the world has ever known, even as we wind down more than a decade of war. Importantly, the Budget upholds our solemn obligation to take care of our service members and veterans, and to protect our diplomats and civilians in the field. It keeps faith with our veterans, investing in world-class care, including mental health care for our wounded warriors; supporting our military families; and giving our veterans the benefits, education, and job opportunities that they have earned.

REDUCING THE DEFICIT IN A BALANCED WAY

The Budget does all of these things as part of a comprehensive plan that reduces the deficit. All of these initiatives and ideas are fully paid for, to ensure they do not increase the deficit by a single dime. As a result, we do not have to choose between investing in our economy and reducing the deficit—we have to do both.

We have already made important progress in reducing the deficit. Over the past few years, President Obama has worked with Democrats and Republicans in Congress to cut the deficit by more than $2.5 trillion through a mix of spending cuts and new revenue from raising income tax rates on the highest income Americans. This deficit reduction puts us more than halfway toward the goal of $4 trillion in deficit reduction that independent economists say is needed to put us on a fiscally sustainable path.

Now we need to finish the job. That is why the President stands by the compromise offer he made during "fiscal cliff" negotiations this past December. That offer is still on the table. And this Budget includes the proposals in that offer. These proposals would achieve $1.8 trillion in additional balanced deficit reduction over the next 10 years, bringing total deficit reduction to $4.3 trillion, with more than $2 in spending cuts for every $1 in revenue. The Budget brings deficits to below 3 percent by 2016, to below 2 percent of GDP by the end of the budget window, and puts debt on a declining path.

This represents more than enough deficit reduction to replace the damaging cuts required by the Joint Committee sequestration. We should reduce the deficit in a balanced, targeted and thoughtful way, not by making harsh and arbitrary cuts that jeopardize our military readiness, devastate priorities like education and energy, and cost jobs. As the President has said, sequestration is not smart policy—it can and should be replaced.

By including this compromise offer in the Budget, the President is demonstrating his willingness to make tough choices to find common ground to further reduce the deficit. This offer includes some difficult cuts that the President would not propose on their own. But both sides are going to have to be willing to compromise if we hope to move the country forward.

Deficit reduction is not an end in and of itself. But reducing the deficit in a way that protects our core priorities is a critical step toward ensuring that we have a solid foundation on which to build a strong economy and a thriving middle class for years to come.

The key elements of the President's compromise offer include:

- Tax Reform: $580 billion in additional revenue from tax reform that closes tax loopholes and reduces tax benefits for those who need them least.
- Health Savings: $400 billion in health savings that build on the health reform law and strengthen Medicare.
- Other Mandatory Savings: $200 billion in savings from other mandatory programs, such as reductions to farm subsidies and reforms to Federal retirement contributions.
- Discretionary Savings: $200 billion in additional discretionary savings, with equal amounts from defense and non-defense programs—that is $200 billion below the Budget Control Act spending caps that were lowered even further by the American Taxpayer Relief Act.
- Inflation Indexing: $230 billion in savings from switching to the use of chained-CPI.
- Reduced Interest Payments: Almost $200 billion in savings from reduced interest payments on the debt and other adjustments.

Reforming the Tax Code

First, the Budget proposes pro-growth tax reform that closes loopholes and addresses deductions and exclusions that allow the wealthy to pay less in taxes than many middle-class families. The President believes that today's tax code has become increasingly complicated and unfair. There is no better time to pursue tax reform that reduces the deficit, maintains progressivity, simplifies the tax system, and supports job creation and economic growth.

As a first step towards comprehensive tax reform, the Budget proposes two measures that would raise $580 billion by broadening the tax base and reducing tax benefits. First, by limiting the tax rate at which high-income taxpayers can reduce their tax liability to a maximum of 28 percent, the President's Budget will reduce the tax benefits for the top two percent of families to levels closer to what middle-class families get. Second, by requiring those individuals with incomes over $1 million to pay no less than 30 percent of their income after charitable giving in taxes—the so-called Buffet rule—the President's Budget will further reduce wasteful and inefficient tax expenditures.

The Budget also supports the President's plan for corporate tax reform. Now more than ever, we cannot afford a tax code burdened with costly special-interest tax breaks. In an increasingly competitive global economy, we need to ensure that our tax code contributes to making the United States an attractive location for entrepreneurship and business growth. For this reason, the President is calling on the Congress to immediately begin work on corporate tax reform that will close loopholes, lower the corporate tax rate, encourage investment here at home, and not add a dime to the deficit.

Health Savings

Along with an aging population, rising health costs continue to be one of the largest contributors to the deficit, and any sustainable fiscal path forward must include further reforms to our country's health care systems.

The Affordable Care Act (ACA) was a significant step toward controlling health care spending. The law reduced the deficit by over $100 billion in the first 10 years and $1 trillion in the 10 years after that, and it includes some of the best ideas on how to make our health system more efficient and change payment systems to incentivize higher quality and lower cost care. One of the most important steps we can take right now for long-term deficit reduction is to implement the ACA fully and efficiently. Still, more needs to be done.

The President is proposing to build on the achievements of the Affordable Care Act by offering additional health savings that will reduce the deficit by another $400 billion over the next 10 years. These savings will be primarily achieved through smart reforms that address long term cost growth, reduce wasteful spending, improve efficiency, and ask beneficiaries who are able to contribute a little more.

Specifically, the Budget includes several reforms, encouraging delivery of high-quality and efficient services by skilled nursing facilities, long-term care hospitals, inpatient rehabilitation facilities and home health agencies. We are squeezing out waste by making sure we get the same rebates for drugs, regardless of whether people are participating in Medicare or Medicaid. Finally, the Budget calls for the wealthiest Medicare beneficiaries to cover more of the costs. We can reform Medicare without breaking the fundamental compact we have with our nation's seniors. Together, these reforms illustrate that we can achieve significant savings to improve the long-term fiscal outlook of our healthcare programs without sacrificing quality care.

Other Mandatory Savings

Third, the Budget includes $200 billion in other mandatory savings, coming from smart reforms and tough choices in programs outside of mandatory health care programs. This includes reforms to agriculture subsidies, Federal employee retirement programs, and disposing of excess Federal property.

Combined with the economy's continued recovery, over time these savings will reduce mandatory spending as a share of the economy outside of the major entitlement programs by 15 percent.

Discretionary Savings

Fourth, the President's plan proposes additional cuts to discretionary spending without jeopardizing our need to maintain the investments in education, research and development, clean energy and infrastructure that are necessary to continue to rebuild our economy in the short-term and build a foundation for long-term growth. Total discretionary spending has already been cut by over $1 trillion since January 2011, and is currently on a path to its lowest level as a share of the economy since the Eisenhower Administration.

In the interest of reaching bipartisan agreement on a balanced deficit reduction package, the Budget proposes to lower the discretionary caps even further, reducing discretionary spending by an additional $200 billion over the next decade. The proposed cuts are evenly distributed between defense and non-defense spending, and are timed to take effect beginning in 2017, after the economy is projected to have fully recovered.

It is important to note that discretionary spending only represents about a third of the budget this year and is projected to drop to less than a quarter of the budget by 2023. While we can work to eliminate inefficiencies, we cannot put the country on a sustainable path forward with cuts to discretionary spending alone.

Inflation Indexing

Fifth, in the interest of achieving a bipartisan deficit reduction agreement, the President is also standing by his compromise offer to use the chained Consumer Price Index (CPI) to compute cost-of-living adjustments in major federal programs and the tax code. This is not the President's preferred approach, but it is an idea that both House Speaker Boehner and Senate Minority Leader McConnell have pushed for and that the President is willing to accept. However, he is only willing to do so in the context of a major fiscal agreement that is balanced, includes revenue contributing to deficit reduction, and protects vulnerable populations, as the Budget does.

The switch to chained CPI, like the additional domestic discretionary spending cuts in the Budget, is a clear example of the President's willingness to make tough choices in order to reach a bipartisan agreement. The President has made it clear that he is willing to make these compromises as part of a deal that calls for shared sacrifice, and will put the country on a sustainable long-term fiscal path.

Rooting Out Waste and Inefficiency

In addition to making tough trade-offs to reduce the deficit in a balanced way, the Budget continues the President's efforts to ensure we are getting the biggest bang for our buck when it comes to spending taxpayer dollars. It includes a series of new proposals to root out waste as well as reform and streamline government for the 21st Century.

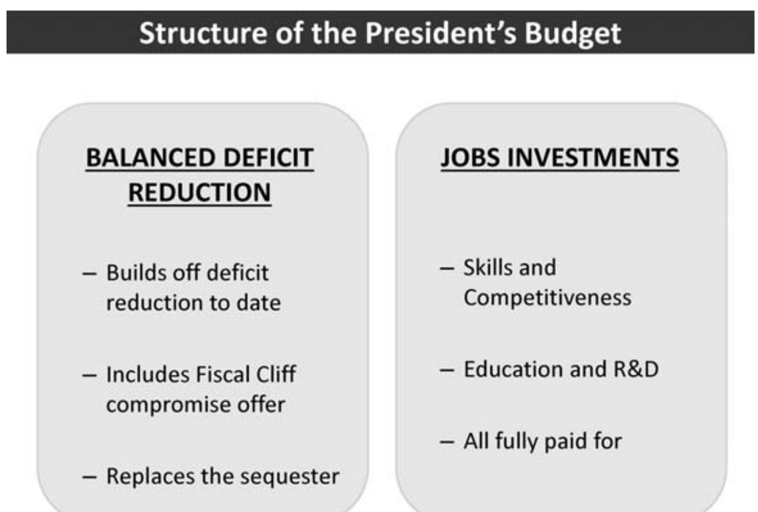
In total, the Budget includes 215 cuts, consolidations, and savings proposals, which are projected to save more than $25 billion in 2014. These measures include closing a loophole in current law that allows people to collect full disability benefits and unemployment benefits that cover the same period of time; major food aid reforms that would assist up to two million additional people, while reducing mandatory spending by $500 million over the next decade; and ensuring that the government pays the lowest price for drugs, regardless of the program that makes the purchase, saving $123 billion over 10 years.

The Budget also builds on the Administration's successful efforts to root out wasteful improper payments, which have prevented over $47 billion in payment errors over the past three years. The Budget dedicates a dependable source of funding to root out fraud and abuse, producing deficit savings of roughly $40 billion over 11 years.

CONCLUSION

Building on the economic recovery we have seen over the past couple years, the Budget is the right plan for this moment in our country's economy. This is the plan it will take to make sure America remains strong in the years ahead and that we leave behind something better for future generations.

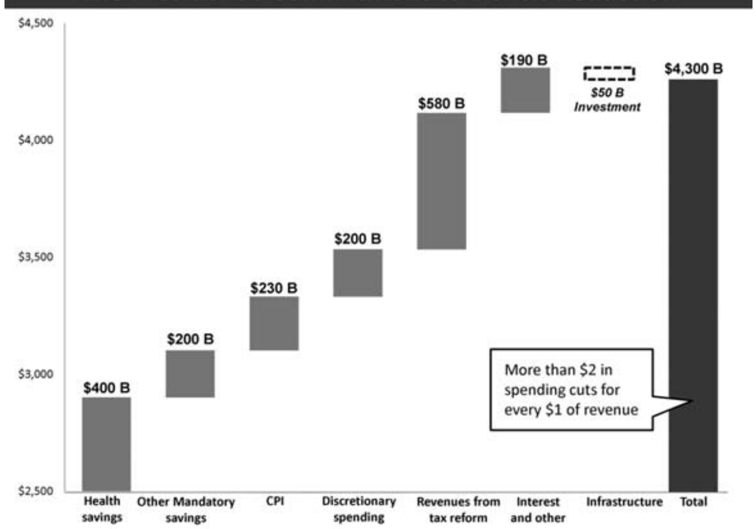
I look forward to working with both houses of Congress in the coming months as we work to make the tough decisions needed to both grow our economy and put our country on a sustainable fiscal course.

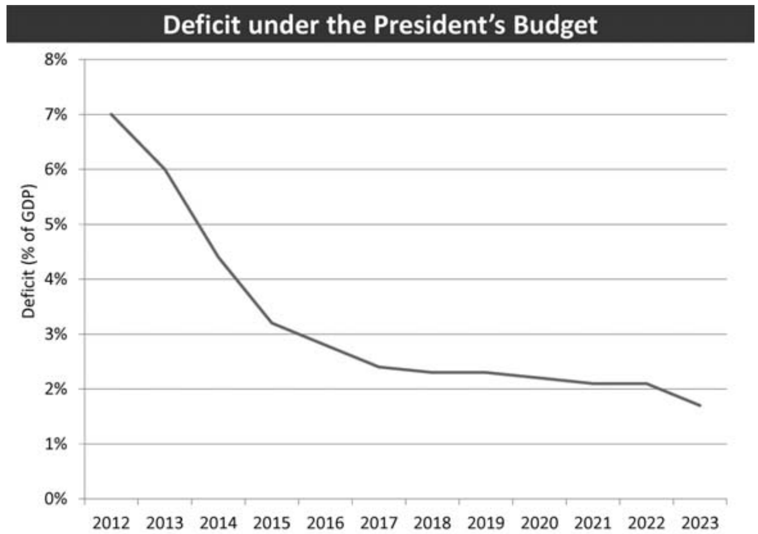


Deficit Reduction to Date

Budget Control Act	**$1,090 B**
2011 Appropriations	**$370 B**
Fiscal Cliff Agreement	**$660 B**
Reduced Interest Payments	**$480 B**
Total	**> $2.5 T**

The President's Commitment to Deficit Reduction





Chairman RYAN. Thank you. Let me start with unpacking some of these claims of deficit reduction to date. I mean, gosh, by the sound of it, it sounds like, you know what, we are pretty much done, we do not have to worry about it anymore. You know, problem solved. But when you measure deficit reduction in a gross, not net, way, by simply saying, "Look at all the deficit reduction that occurred; you cannot neglect the deficit increases that occurred at the same time." So missing from this computation of $4.3 trillion of achieved deficit reduction is the stimulus that passed during this same time, $831 billion; the payroll tax holiday, $111 billion; the other payroll tax holiday, $89 billion; the 24 percent increase in non-defense appropriations in the first two years, the president's first term, $576 billion; disaster spending above the caps, $110 billion; Sandy supplemental, $50 billion; the debt service that accompanies all that, $300 billion. If you go with net numbers, it is about $500 billion, generously, of deficit reduction, not $4.3 trillion. If you take a look at the numbers in the budget claim $1.4 trillion in deficit reduction that are being proposed. If you take out the war gimmick, which we all know is a gimmick, that is $675 billion. If you remove the extension of the stimulus critics, which are assumed in this baseline, that is $161 billion. If you remove the Doc Fix assumed in this baseline unpaid for, that is $249 billion. The unpaid Pell grants, $28 billion. The debt service that accompanies this, $175 billion. If you net all of this out, if you strip out the gimmicks that have been well-worn, well-established gimmicks, it is about $119 billion of deficit reduction. And all you have to point to the fact is that this budget never balances, ever.

And so I understand maybe it polls well to use the word balance every third word in every sentence when you are describing fiscal policy, but how is the budget balanced if it never balances? And I just think we need to be a little more honest about the true fiscal nature of the situation and the problems we have. That is just a statement.

I want to ask you a couple technical questions because I also want to be kind to all the members here on time. The Doc Fix, for instance, in the past we have been paying for the Doc Fix. We have done this on a bipartisan basis. Why is it that in this budget, you assume the Doc Fix is fully funded and not paid for?

Mr. ZIENTS. Well, we have a balanced deficit reduction of $1.8 trillion, incremental to what we have achieved to date. We believe that it is honest budgeting to acknowledge that we are not going to cut doctors by 30 percent. We fix it year over year over year, and therefore it should be in the adjusted baseline.

Chairman RYAN. So let me get to there. So you are saying irrespective of the fact of the fact that we paid for this by cutting spending elsewhere in the past, you are saying we will not pay for it anymore.

Mr. ZIENTS. Overall, the president's budget saves $400 billion in health care costs, $370 billion of Medicare, $200 billion in other mandatory, $200 billion in discretionary. The Doc Fix is something that happens year over year, so let's be honest in our baselines, and acknowledge that it happens every year and do deficit reduction accordingly. I think, you know, you threw around a lot of numbers in that opening statement. It is hard to track.

Chairman RYAN. I am sure you have seen them.

Mr. ZIENTS. Yeah, they are all over the place. So I think at the end of the day, we have to look at the bottom line, the same way when I was in the private sector I looked at the bottom line. The bottom line of the president's budget is that deficits are a declining path, debt is on a declining path, we are below 3 percent of GDP in 2016, and we are below 2 percent at 1.7 percent of GDP, our deficits are, by 2023. I worry that we end up spending a lot of time with baselines, and what is in baselines and what is not in baselines. It is best to go to the bottom line.

Chairman RYAN. Public debt, in the beginning of the budget window and at the end of the budget window, are north of 70 percent. That is not much of accomplishment over 10 years.

Mr. ZIENTS. Debt is on a declining path.

Chairman RYAN. We know that that is organic to the baseline. We know that that is happening if did nothing, irrespective of this budget.

Mr. ZIENTS. It is an important benchmark. We need to have balanced deficit reduction. We also cannot think of deficit reduction alone as an economic plan.

Chairman RYAN. Why do we start the deficit reduction in 2020? Why not start now?

Mr. ZIENTS. Deficit reduction does not start in 2020.

Chairman RYAN. The deficit reduction policies proposed in this budget start in 2020.

Mr. ZIENTS. No, there is deficit reduction well in advance of 2020.

Chairman RYAN. So let me ask you this, then.

Mr. ZIENTS. And that is how we achieve deficits on a declining path. But I want to make the point that deficit reduction is important. It is an important component of an economic plan. But it, in and of itself, is not an economic plan. We have to put people back to work, we have to increase our global competitiveness, we have to invest in R&D, we have to invest in education. The most important way to achieve deficit reduction beyond the policies that we are talking about here today is economic growth. I think we would all agree with that.

Chairman RYAN. So, a case in point: If we did not pass this budget, the deficit would drop faster. So when I take a look at war spending, the budget assumes we are going to spending at these high inflated levels with the kind of troop count we have in Afghanistan right now, in perpetuity, and if you have a draw-down, then you count that as savings, $675 billion. Now, we all agree that we have a withdrawal occurring in 2014. That is stated policy. It is a bipartisan agreement. But we are going to count as a spending cut the idea that the baseline assumes we would be at full troop strength well beyond 2014. And if you are going to have a withdrawal in 2014, that all of a sudden counts as a spending cut of $675 billon? In other words, not spending money that was never going to be spent in the first place is now counted as a spending cut?

Mr. ZIENTS. Well, let me review this. CBO has, in its baseline, continued spending in OCO, the Overseas Contingency Operation. We actually cap the spending, which is important because it closes the back door for further discretionary spending. Furthermore, the savings that you are talking about from OCO versus CBO's baseline, the official scorekeeper's baseline, are not counted in the $2.5 trillion that I mentioned, and they are not counted in the $1.8 trillion that I mentioned.

Chairman RYAN. It is in your $1.8, and I do not know how you can explain that it is not.

Mr. ZIENTS. If we want to go back to the slide, the $1.8 is $400 billion of health care spending cuts, $200 billion of other mandatory, $200 billion of discretionary, $230 billion from CPI, $580 billion from tax reform, and the resulting interest savings. That does not include any OCO.

Chairman RYAN. You are double counting. You are using it to offset other spending.

Mr. ZIENTS. The only place we use OCO is because of the president's policies and the war in Iraq, draw-down and end in Afghanistan, we are going to take some of that money, a small portion of it, and invest in infrastructure in this country. That is not part of the $1.8 trillion deficit reduction.

Chairman RYAN. Therein lies the issue here, which is we are taking spending that will never be spent, and we are using it as if it is free money to spend. That is the problem with budgeting. Look, CBO does not have a choice. The law requires that they have a baseline that reflects current law, and so they have parameters placed upon them that allows such a gimmick to proliferate. The point I would make is if all this grand deficit reduction were real, then why does your budget never balance? I mean, these are the things. Why are we adding $8.2 trillion to the debt in this budget? We can round and round. My time is running out, and I am putting myself on a clock. I want to ask you a question about IPAB. We talked about this on the phone the other day, but on table S-9, Page 197 in your budget, you have IPAB beginning to accrue savings in 2021, 2023, for a total of about $4.1 billion. But you lower the growth rate to GDP 0.5, but your baseline claims that cost growth is within that parameter. So this is a sincere question: Where does the 4.1 come from? How does the IPAB mandate a GDP 0.5 in this budget get that savings if your assumed Medicare cost growth is below that?

Mr. ZIENTS. Well, Medicare cost growth, to your point, has come in quite a bit, and we believe that the Affordable Care Act is helping to drive that. The way the IPAB works is it is not just at a total level, there are components. Put $4 billion in context. You are talking about a fraction of 1 percent.

Chairman RYAN. No, I understand that.

Mr. ZIENTS. So we believe that through continued progress in reducing unnecessary care, promoting more cost-effective care through accountable care organizations and other innovations, that Medicare costs will continue to come in. IPAB serves an important backstop function, but with health care costs coming in the way they are, we do not anticipate that backstop being necessary.

Chairman RYAN. Okay, so that is where I am trying to get. So that is the discretionary exercise of IPAB's authority.

Mr. ZIENTS. No, it is set in law. It is GDP plus 0.5.

Chairman RYAN. Right. So it is set in law at GDP 0.5. They have to make the spending come within that cap. You are saying that the spending never exceeds that cap, yet they are showing savings to the budget.

Mr. ZIENTS. I am saying at the end of the window it does by a very small percent. So we would assume, as we have seen across the last couple years, that health care spending will continue to come in, and that the backstop will not be necessary. To be clear, if it ever is, any recommendations to the IPAB comes to Congress for approval.

Chairman RYAN. No, I understand the process.

Mr. ZIENTS. And so ultimately, IPAB is there to protect seniors and ensure that we do not have excessive costs.

Chairman RYAN. Okay, but I just want to be clear. I am not trying to put you in a trap. You are saying that by 2021, the cap will be hit, breached for an ever-so-small amount in IPAB's mandate triggers, and they have to start producing recommendations.

Mr. ZIENTS. Again, yes, that is the case as currently projected. I think we have seen significant progress in containing health care costs across the last couple of years. We anticipate further progress, and therefore, that will most likely be unnecessary.

Chairman RYAN. Okay. Thank you. Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. And Mr. Zients, I am glad that in response to the Chairman's questions on deficit reduction, and how much we have achieved over the last couple of years and in this budget, you took us directly to the bottom line, which is what is the deficit as a percent of GDP, and whether debt as a percent of GDP is rising or declining, because is it not the case that when you use that measure, you standardize all the budgets, right? You wash out people's different baselines when you use that bottom line, as you said.

Mr. ZIENTS. Absolutely. Well put.

Mr. VAN HOLLEN. And as you pointed out, the president's budget at the end of the 10-year window reduces the deficit's percent of GDP to 1.7 percent, is that right?

Mr. ZIENTS. Yes.

Mr. VAN HOLLEN. I would just point out that in the House Republican budget last year, at the end of their 10-year window, they reduced deficit percent of GDP to 1.2 percent, so we are talking about half a percent of GDP in the 10th year, and the president's budget this year compared to the House Republican budget last year. I would also point out that if you look at the Congressional Budget Office baseline, after 10 years, the ratio of debt as a percent of GDP is 77 percent. If I recall you saying, Mr. Zients, your calculation, and, obviously, CBO and OMB have somewhat different assumptions, but what was the debt-to-GDP ratio at the end of the 10-year window?

Mr. ZIENTS. I believe it is 73 percent.

Mr. VAN HOLLEN. Seventy-three percent, lower than the CBO baseline and declining; is that the case, Mr. Zients?

Mr. ZIENTS. Yes, declining each and every year.

Mr. VAN HOLLEN. All right.

Mr. ZIENTS. Starting in 2016, right.

Mr. VAN HOLLEN. I mean, so, the Chairman refers to these kind of gimmicks and different baselines, but the measures we are talking about now wash out all those issues. I would submit that the biggest whopper of a gimmick in this year's budget is the Republican claim that their budget actually balances in 10 years, and their claim that they also repeal ObamaCare. I would like to put up a chart, if I could.

So, this is in the 10th year of the Republican budget, House Republican budget. If you look, it claims to be $7 billion in surplus. That budget also claims to repeal ObamaCare in its entirety. The problem with that is that ObamaCare achieved $715 billion in Medicare savings by ending overpayments to insurance companies, by rationalizing the system, and, in fact, the Republican budget includes all those savings in their budget. And that represents the red portion of that chart, the Medicare savings that are incorporated in the Republican budget. The Republican budget also assumes the amount of revenue that will come in through the tax provisions in ObamaCare, approximately a trillion dollars, so that is the blue portion. So, you will see that if they really were going to get rid of ObamaCare, which they claim to do in their budget, their budget would not come close to balance in year number 10. So that is the whopper of the budget gimmick this year.

Now, there is another big difference in the Republican budget and in the president's budget when it comes to how we deal with tax issues. And what I want to ask you, Mr. Zients, is you have pointed out, the president's pointed out in this budget, that very wealthy individuals continue to disproportionately benefit from deductions in the tax code. And so you, in this budget, propose to ask high income people to take a little less as part of a balanced approach, whereas the Republican budget, as you know, says they are going to drop that top rate all the way from 39 percent to 25 percent, which will provide a huge windfall to the very wealthiest people in this country. And mathematically, if you also meet the criteria they set out, which is it does not increase the deficit, it means middle income taxpayers are going to have to pay more in order to finance tax breaks for the wealthy. So if you could just take a little bit of time to explain the very different approaches the president takes to tax reform issues in this budget compared to the House Republican budget.

Mr. ZIENTS. So the president, in his budget, raises $580 billion from tax reform. So there is no raising of rates. This is all through tax reform, all from families with income more than $250,000. The president believes we should do tax reform, individual tax reform and corporate tax reform. At the same time, he puts forward two specific policies that raise that $580 billion. A limit on deductions, again, for families with more than $250,000 of income of 28 percent. So their deductions are at the level of the highest of the middle income families. And secondly, through the Buffett Rule, which says that anyone with over a million dollars of income should pay a minimum of 30 percent. So the president raises $580 billion in tax reform. No families are impacted with less than $250,000 of income. This is done through the two specific policies, the 28 percent limit on deductions and the Buffett Rule. And, at the same time, the president believes there is an opportunity to do tax reform to make the tax code simpler, more fair, to maintain progressivity, and to help the middle class.

Mr. VAN HOLLEN. And I do not know, Mr. Zients, if you had an opportunity to look at some of the analyses that have been done of the House Republican budget approach with respect to the tax piece. So where they would drop the top rate all the way down to 25 percent, have you seen any plausible scenario where you can do that in a deficit-neutral manner without increasing the tax burden on middle income families?

Mr. ZIENTS. So my understanding is that in order to go to 25 percent for the high income folks, it is a $5.7 trillion tax break. And you either have to add to the deficit, which is what we are trying to improve here, not make worse, or you would have to increase taxes on middle class Americans by thousands of dollars. The math just does not work any other way.

Mr. VAN HOLLEN. All right.

Mr. ZIENTS. It is either adding to the deficit, or middle class families have to pay higher taxes. Both of those policies are obviously unacceptable for the president. The president wants no tax increases for families less than $250,000, and wants to raise $580 billion as part of the balanced deficit reduction package.

Mr. VAN HOLLEN. Well, thank you. So just to go to the bottom line on that, what that means is that either the Republican budget would not be in balance if they actually did what they say they want to do with respect to tax rates and tax policies, in which case it would not balance in 10 years, even with the super-gimmick of continuing to include ObamaCare when they say they are not, or you would be raising taxes on middle income families. And, as you indicated, that is something that we also oppose and did so in our budget.

Let me just conclude by asking you to talk about the $50 billion infrastructure investment that is contained in the compromise proposal the president has put forward. You know, it used to be that infrastructure investments for our country were a bipartisan issue, that there was bipartisan unity behind the need to make sure this country is number one by making sure that we have the infrastructure necessary to support entrepreneurship and the private sector lifeline is the economy.

Mr. ZIENTS. Well, I will tell you, in my job I have an opportunity to spend time with lots of outside groups, including CEOs of small, medium, large businesses, entrepreneurs, and as anyone who is working in the economy would agree, that investing in our infrastructure is key for our global competitiveness, short-term, medium-term, long-term, and the great opportunity we have right now is that we can put people back to work at the same time, construction workers and other people back to work. So it is really a win for our global competitiveness; short, medium, and long-term, it also helps in terms of putting people back to work on worthy projects, so the $50 billion investment in infrastructure is money extremely well spent.

Mr. PRICE [presiding]. Thank you so much. I, too, want to welcome you and thank you for your service. The Chairman and the Ranking Member have a previous commitment and they are going to be absent for a while, so I am honored to be able to assist in his absence. I want to commend the president for bringing a budget that, however, was 65 days late. The law of the land states that the president presents a budget to Congress on the first Monday in February, and the president, his administration, did not do so. One would have thought that had he taken that much time, he would have presented a budget that actually balanced, because he had the extra time to do so.

Sadly, that is not what the budget does. It increases taxes, increases spending, same old kind of thing that we have seen before; increases debt, increases dependence, sadly, on the federal government, grows government and does not grow the economy. And worst of all, from our perspective, is that it does not really solve the challenges that need to be solved to get this economy growing again and get jobs being created. If we can bring up the first slide there. This is gross debt as a percent of GDP in the president's proposal, the president's budget. Always note, always staying above the 90 percent level throughout the entire budget window, the 10-year budget window. Now, you will recall, I know, from the Reinhart study that unless one gets below that 90 percent level, and many of us believe it ought to be lower than that, but unless one gets below that, then economies do not turn around. And sadly, again, the president's budget proposal simply does not address the challenges that we face.

There is all sorts of other misinformation that I would like to have time to correct, but I want to ask a couple particular questions. First, I assume that the president would like to see his budget passed by Congress, is that accurate?

Mr. ZIENTS. Yes. Do I have an opportunity to comment on the chart?

Mr. PRICE. At some point, I am sure that you will.

Mr. ZIENTS. Okay.

Mr. PRICE. That being the case, my time is very limited, that being the case, would the Administration be willing to submit in the form of a budget resolution the president's budget?

Mr. ZIENTS. I think that, right now, we have heard from all of you and we believe that you should return to regular order. And it sounds like from the opening comments like there is some progress in doing so, so I would defer to you, and regular order is the way to proceed here.

Mr. PRICE. The reason I ask is because in the past, we have attempted to allow the public to see the level of support for the president's budget, and have been accused of not writing it in the way that the president's budget would have been written. So we would love to see a budget resolution from the Administration. We would like to be able to have a vote on it in the House of Representatives.

Mr. ZIENTS. Again, we are respectful of what we have heard from all of you, which is return to regular order.

Mr. PRICE. We would love to have that be part of our regular order. The president has said oftentimes that he is meeting Republicans more than halfway. In fact, the Ranking Member said that just this morning. The president's budget increases debt significantly; we move it in the opposite direction. The president's budget increases the deficit significantly off current law; we move it in the opposite direction to balance within a 10-year period of time. The president's budget increases taxes; we do not increase taxes. That is hardly meeting Republicans halfway. So, as the Chairman said, it is wonderful rhetoric, but it simply is not true, is it?

Mr. ZIENTS. Well, by putting forward the compromise offer, which includes $1.8 trillion of deficit reduction, includes chained CPI, which is something the president would not do on his own; this is directly responsive to Speaker Boehner's request and Leader McConnell's request. The president is willing to do that as part of a balanced deficit reduction deal as long as we have those conditions that I mentioned earlier, protections for the vulnerable.

Mr. PRICE. This is an important point.

Mr. ZIENTS. But that is absolutely critical that we understand that that $1.8 trillion is a compromised offer.

Mr. PRICE. This is an important point, Mr. Zients, because chained CPI is not what we would select as a solution for the challenges that we face. It is the president's selection of what he thinks we would like.

Mr. ZIENTS. It is something that both Speaker Boehner and Leader McConnell have asked for several times. They have also asked, and you have asked, for Medicare age to be raised to 67 from 65. That is an example of something the president is not willing to do.

Mr. PRICE. Let me talk in my last 30 seconds, if I may, about Medicare, because your budget proposes $374 billion in gross reductions in Medicare spending, $307 billion of that is further cuts to providers. How low do you think that this Administration can cut payment to physicians and still have them see patients?

Mr. ZIENTS. Well, there are opportunities to make our care more efficient. There are opportunities to incent providers to not have readmissions. There are opportunities to bundle payments to align incentives. There are opportunities to make sure that we get the same prices on drugs in Medicare that we get in Medicaid. So there are opportunities to make our system more efficient, and we should be taking advantage of those opportunities to maintain Medicare as we know it, not turn it into a voucher system.

Mr. PRICE. My time is expired. But our proposal does not do that. In fact, it provides greater choices for patients. I now am pleased to recognize the gentlelady from Pennsylvania for five minutes.

Ms. SCHWARTZ. Thank you, and I appreciate the opportunity to follow-up on some of what was said. I do want to first say that I appreciate that the president's budget, unlike the Republican budget, does present a balanced approach and does seek that common ground, some credit for that. It certainly is moving towards reducing the federal deficit, and it does make important investments in strengthening this economy and moving towards economic growth.

Specifically, I want to ask a different question. I do want to acknowledge the language in the budget that both repeals the SGR and acknowledges that we are not going to cut physicians under Medicare. It is extremely important for us to finally get that done this year, and given that there is bipartisan interest in doing that, we should do it. This is not a point of disagreement, it is a point of agreement, so we should do that. I do appreciate the additional language on moving towards a new payment system, language I have written, and I appreciate that much of it has been picked up in the budget, and some language saying we should move to an improved system of paying physicians in a way that is flexible for them, but also does demand greater quality, improved outcomes, and cost savings, the right way to do physician payments. And, again, I believe we have some bipartisan support on that as well. I would like to see that done also.

I did want to highlight one particular aspect of the budget and the recognition of the investment in innovation and technology and research. The president has proposed a small increase in NIH funding, and I appreciate that. We now have a request of $31.3 billion in NIH funding. Of course, as you know, as a result of sequester, we are seeing quite a cut in scientific research in this country. NIH in particular fuels this growth of basic research funding that comes really, basically, from the government, from NIH, and not only does important medical research, but really is the beginning of the pipeline for new devices, new therapeutics, biotech, the industry's manufacturing and production of those very important lifesaving medicines and treatments, and that is extremely important to our economy.

From southeastern Pennsylvania, it is absolutely critical. Many of our research institutions, academic medical centers are seeing a dramatic cut, millions of dollars this year alone. They are laying off scientists. They are not hiring new scientists. They are discouraging those young scientists who might choose to go on to create those, not just new lifesaving medications and treatments, but that economy that is such a driver, certainly in Pennsylvania; it certainly is in many places across this country. You are talking about really tens of thousands of scientists and all of those who work with them, and how important that is. The sequester matters. Those cuts really are going to hurt not just scientific research, but, again, the economic growth in the future years that we may not ever be able to regain if we do not fix it.

I have introduced legislation, and I tried in the Budget Committee to reinstate $3 billion, which is essentially the 8 to 10 percent cut that NIH will see this year, and to reinstate that by repealing the tax provision on corporate jets. It seems like a good tradeoff by just your choices. And that special treatment of corporate jets, and use those dollars for medical research. So I want to tell you that I am working on that, and I am hoping we can get something done this year. But I wanted to just take a bit of time left to really talk about how important those dollars are to ongoing, consistent support for basic scientific research in this country, particular in the medical sciences.

Mr. ZIENTS. I could not agree more. And the president's budget on the domestic side increases R&D by 9 percent, consistent with the logic run you just did, so very important that we invest in R&D. Let me step back because you spotlighted a specific problem with the sequester.

The sequester was never intended to be implemented. It was meant to be a forcing function for balanced deficit reduction. Unfortunately, we find ourselves in a period where we are implementing a policy that was never intended to be implemented. And the consequences are negative throughout the government, throughout the economy, and the American people are feeling this every day. It will reduce our GDP by a half to a full percent this year. It will cost us hundreds of thousands of jobs. It is impacting research, as you said, and to lifesaving breakthroughs, potentially at NIH. It is impacting meals for seniors. It is impacting defense contractors. It is across the economy. It is costing us hundreds of thousands of jobs.

Ms. SCHWARTZ. Yeah.

Mr. ZIENTS. Hundreds of thousands. It is very important that we replace the sequester, and the president's budget does that with balanced deficit reduction, as soon as possible. These impacts in areas like R&D and on the American people are just unacceptable.

Ms. SCHWARTZ. Well, I appreciate that, and I appreciate the fact that the president's budget creates, I hope, the dialogue that we have to have, the Republican budget is one alternative passed here. The Democratic alternative that we put forward is another way to do it. This has got to be a serious conversation, otherwise the economy is going to get hurt, and so are real people. Thank you.

Mr. PRICE. Gentlelady, time has expired. Recognize the gentleman from California, Mr. Campbell, for five minutes.

Mr. CAMPBELL. Thank you, Mr. Chairman. Mr. Zients, does the president believe that deficits matter?

Mr. ZIENTS. Yes. The deficits do matter, and putting the country on a sustainable fiscal course is an important component of an economic plan, it is not an economic plan in and of itself.

Mr. CAMPBELL. Are deficits a bad thing?

Mr. ZIENTS. Deficits are not a bad thing in the abstract. Deficits need to be under control. Deficits need to be coming in. The president's plan has deficits going down each year.

Mr. CAMPBELL. But, Mr. Zients, the president's plan has deficits continuing forever, is that correct, even under your numbers. And, by the way, I think your numbers are garbage. I mean, I will use a rather strong term, and as a CPA looking at some of this stuff. But throughout this conversation, in the next four minutes, I am going to accept that your numbers are correct. And under your own numbers, the deficits continue forever, do they not?

Mr. ZIENTS. We are focused on the 10-year window.

Mr. CAMPBELL. Okay.

Mr. ZIENTS. I think going beyond 10 years is difficult.

Mr. CAMPBELL. Okay, the deficits continue throughout the 10-year window, do they not?

Mr. ZIENTS. Deficits are on a declining path, as is debt. That is the right deficit path for this point that we are in the economy where we also have to be focused on getting people back to work, investing in infrastructure, investing in R&D.

Mr. CAMPBELL. Mr. Zients. Mr. Zients, the deficits continue at roughly half a trillion or higher throughout the 10-year window. Did I say something wrong? Did I say something wrong? They do continue at half a trillion or higher, even under your numbers, throughout the 10-year window.

Mr. ZIENTS. Yeah, I would like to just make the point that I think the right way to think about deficits is as a percent of our economy, and our deficits as a percent of our economy come down quite a bit across this 10-year window.

Mr. CAMPBELL. So we do not have to make them go away.

Mr. ZIENTS. This is consistent with Bowles/Simpson and other groups that have looked at this. They have deficits on a declining path and debt on a declining path. The president's plan achieves that while also investing in our economy, creating jobs, putting people back to work.

Mr. CAMPBELL. Mr. Zients, it is my time. They are half a trillion or more throughout the 10-year window. Anything shows they continue forever. Obviously, the president does not believe that we need to get to a balanced budget, does he? We do not need to get to balance, do we? In the president's opinion.

Mr. ZIENTS. The president believes that we have to put the country on a sustainable fiscal path.

Mr. CAMPBELL. Which he thinks does not have to be balancing a budget.

Mr. ZIENTS. At the same time, even more important, is putting people back to work and getting our economy growing at its full potential. If you bear with me for one second, in the 1990s——

Mr. CAMPBELL. Let me get. I am sorry, I want to get to a couple other things. So, on the entitlements, now you mentioned the only change, I believe, really to any of the entitlement programs in here, are the ones that you mention the president put in that he really does not particularly like but he put in. So, therefore, the president believes that Social Security, Medicare, and Medicaid are on a sustainable path and they do not need to be reformed substantially, that they are not headed towards bankruptcy like the vast majority of analysts, economists on both the left and the right say the president does not believe that. Is that correct?

Mr. ZIENTS. Well, I think Social Security is not part of our immediate fiscal issue. Social Security is solvent through 2033. The president has put forth principles for Social Security reform. But let's be clear that that is not part of our immediate deficit set of issues.

Mr. CAMPBELL. Principles, but they are not in this budget. They are not in this budget.

Mr. ZIENTS. On Medicare, there is $400 billion of health savings, $370 billion in Medicare savings. That is the first decade. In the second decade, there is more than a trillion dollars of savings. That is significant reform to Medicare to make it sustainable, but also to keep Medicare as we know it so that we are honoring our compact with our seniors. We are not turning it into a voucher program, and we are not shifting costs to seniors.

Mr. CAMPBELL. When you look at the cost of Medicare over that period, that even with those numbers, which I do not agree, I do not think anybody is going to claim that that is going to get on a sustainable path, and in no way, shape, or form will that bring the taxes in line with the costs. One final question for you, really quickly, can people who make under $250,000 a year legally buy cigarettes?

Mr. ZIENTS. Yes.

Mr. CAMPBELL. Then you have a cigarette tax in here so you actually have a tax on people who make under $250,000 a year if they choose to smoke, do you not?

Mr. ZIENTS. People make a choice as to whether or not to smoke.

Mr. CAMPBELL. People make a choice to make income, and they get taxed on it. People make a choice to own a home and they get taxed on it.

Mr. ZIENTS. This has significant benefits for the middle class in terms of discouraging smoking.

Mr. CAMPBELL. Okay. Well, then, tell me this. Is this intended to raise revenue or to stop people from smoking, because it cannot do both.

Mr. ZIENTS. Yes, it can.

Mr. CAMPBELL. And you have the revenue raised in here, which indicates that you do not expect it to have anybody stop smoking. It cannot do both.

Mr. ZIENTS. I disagree with that premise. We can have this many people smoking and discourage new people from smoking.

Mr. PRICE. Gentleman's time has expired.

Mr. ZIENTS. Encourage some people to quit. That brings down the number of smokers, and, at the same time, those who continue to smoke will pay a tax.

Mr. PRICE. Gentleman's time has expired. Gentleman from Ohio, Mr. Ryan, for five minutes.

Mr. RYAN OF OHIO. Thank the gentleman, and thank Mr. Zients for your testimony here. I wish some of our colleagues on the other side were this excited when we were putting two wars on a credit card and having a prescription drug bill that was not paid for. I do not remember this level of excitement about deficit reduction and about balancing our budget. So, Mr. Zients, would you say that the Republican budget is an austerity budget? Deep, the deep cuts?

Mr. ZIENTS. Very deep cuts. We have been talking a little bit about the sequester, just to benchmark. On the domestic side, the Republican budget cuts domestic programs by 20 percent. That is three times deeper than the sequester.

Mr. RYAN OF OHIO. Okay. So we are in agreement, it is an austerity budget. I think most people would say that. I think probably many on the other side would say that. I know you are working on the American budget full time. What are the austerity budgets doing in Europe right now? How are they playing out?

Mr. ZIENTS. You are taking me beyond my area of focus, but I think it is clear that the austerity budgets are not performing well. We believe it is important to have responsible deficit reduction phase in across time, achieve the kind of results that we have talked about, and, at the same time, invest in jobs, invest in infrastructure, and that is the right way to grow our economy and put people back to work.

Mr. RYAN OF OHIO. I know you mentioned the research and development, and some of these public, private partnerships. My district has benefitted from the Innovation Institute for Additive Manufacturing in downtown Youngstown, Ohio. And it is a great partnership of public money from defense, energy, commerce, as well as private sector money from companies like Boeing and Lockheed to help spur innovation and additive manufacturing. How does this budget continue to try to promote initiatives like that, and the 15 other institutes that the president wants to get up and running, and other initiatives like that that will lead to economic growth in older industrial areas like mine?

Mr. ZIENTS. Now, I think the Youngstown is a great example, and building off of that, the budget proposes to do 15 more at a cost of about a billion dollars. But, again, that investment is directly offset. So I think we all would agree that those types of investments are good for the economy. We have created 500,000 or so manufacturing jobs across the last few years. We need to create more, bring more jobs home. And each of these investments are directly offset so they do not add a dime to the deficit.

Mr. RYAN OF OHIO [affirmative]. And investments in National Science Foundation and NIH, what do those look like in this budget?

Mr. ZIENTS. Well, those are on the discretionary side, so they all fit under the BCA cap. But the president has prioritized investment in R&D, and domestic R&D is up 9 percent under the president's budget. So, even with the tight discretionary caps, the president has prioritized R&D, and there is a 9 percent increase.

Mr. RYAN OF OHIO. And we are very thankful for that. The real question is, what is the roadmap for America in the future? And part of this roadmap needs to include the investments that are in sectors of the economy that are going to blossom in the next decade or two. We do not always know what those are, and I think when you say we are going to balance the budget in 10 years and somehow that is going to just turn the economy around, without looking at the history of our country and the big investments that we have always made, whether it was infrastructure, the space program, National Science Foundation, National Institutes of Health, investments in education, community colleges, Pell grants, student loans, bringing those rates down, putting more money in people's pockets, this is a recipe that has been very successful in the United States.

And although I do not agree with everything that is in the president's budget, and we will have plenty of time to discuss what those issues are, I want to say thank you for being, in my estimation, a voice of reason, and having a vision for what American needs to be like in the next decade. We cannot cut our way to prosperity, and we have seen, as I mentioned earlier, we have seen a lot of our friends on the other side, get very excited, and the first question from my one friend from California was, do deficits matter? If Dick Cheney was sitting in your seat, he would have had a different answer than you. Dick Cheney said deficits do not matter. And that was the prevailing wisdom coming out of the Republican Party for the first eight years of the new decade. So we will press you on the issues that we do not agree with, but I want to say thank you for making these long-term investments that will position the United States to be competitive in an increasingly competitive global economy.

Mr. PRICE. Gentleman's time has expired. Thank you, the gentleman's time is expired. We would also suggest that you cannot tax and borrow your way to prosperity. Gentleman from California, Mr. Calvert, for five minutes.

Mr. CALVERT. Thank you, Mr. Chairman, and thank you Director Zients, for testifying today. We certainly appreciate your insight. I want to bring a little perspective to this debate. Now, we are talking about some of the past. It may not seem like it, but Republican controlled a House and a Democratic president, in fact, they worked together to meet the complex challenges before us. President Clinton worked with Speaker Gingrich and the House Republicans in the late '90s to enact balanced budgets. We all know President Clinton raised taxes substantially when he first came into office, but in the final six years, he joined the Congress to address the spending side of the ledger, and that is how we balanced the budget. That is how we produced a surplus.

However, President Obama continues to be consumed, in my opinion, by raising taxes. He refuses to address spending. Let us keep in mind he has already pushed through a $1 trillion in taxes will be phased in over the implementation of ObamaCare. And another $600 billion from the recent income tax hike, which was the largest tax increase, in real terms, in 65 years. The president's 2014 budget increases taxes by an additional $1.1 trillion to fuel spending. That is enough. The president got his higher taxes. They are now off the table. Now, we need to focus on the spending side.

Take into consideration the average spending per capita during the Clinton Administration was $6,809, excluding defense spending. By contrasting, spending per capita during Obama's tenure, when adjusted for inflation, and excluding defense, two wars, and the stimulus, has been $9,089. That is a 33.4 percent increase. With 315 million Americans, that is $630 billion more in spending each year. Now many talk fondly about returning to the Clinton-era tax policies, yet, with the recent tax hike, we need to talk now about returning to the Clinton spending levels. The reform of our automatic pilot spending programs, further spending restraints, which would enable us to eliminate yearly deficits and address our long-term debt.

Of course, today's population is older today than it was in the '90s, so we spend more on Medicare and Social Security, but the bigger issue is that we cannot sustain the current growth projections of these programs. I think everybody agrees to that. This puts us even more pressure on us to reform retirement programs for current beneficiaries, and to ensure that they exist for future generations. We can also use the lessons learned from working together in the '90s on welfare reform, and to apply them to other programs. Prior to leaving office, president Clinton lauded the benefits of balancing the budget. As stated in a report to Congress, "By reversing the earlier trend of fiscal responsibility, using conservative economic estimates, balancing the budget, and producing an historic surplus, we have helped restore our national spirit and produce the resource to help opportunity and prosperity reach all corners of the nation." On the other hand, President Obama recently stated in an interview, "My goal is not to chase a balanced budget just for the sake of balance." Director, in the 1990s, it was such a golden era, why can't we return to the Clinton-era spending levels? You agree with President Obama that a balanced budget is not a worthwhile goal?

Mr. ZIENTS. So let us actually go back to the 1990s. Let us go back to the early 1990s, when we had 4 percent GDP projected deficits, according to CBO. We did balance deficit reduction. The projection after that was 2.5 percent, not that different than where we are today, where, at the end of this window, we are at 1.7 percent, so we are a little bit below. So the forecast at the time was 2.5 percent deficits. What did we end up with? Surplus. How did that happen? Economic growth. That is exactly why we need a plan here that gets us on a fiscally-sustainable path.

Mr. CALVERT. That economic growth happened in the private sector, not in government.

Mr. ZIENTS. Of course.

Mr. CALVERT. It seems to me that the budget that is before us is to grow government, not to grow the private sector.

Mr. ZIENTS. Let's stick with the statistics. The projected deficit for the federal government was 2.5 percent. We are lower than that in the president's plan. What took us from negative 2.5 percent to a surplus was economic growth, absolutely the private sector growth. So we need to do both here. We need to get ourselves on a fiscally-sustainable path, downward deficits, downward debt as a percent of GDP, but we also have to invest in our economy and get people back to work, and that is very similar, or is similar, to what the plan was in the 1990s, to get the economy growing to its full potential.

Mr. CALVERT. It seems to me, by the numbers, we have increased government spending by 33 percent.

Mr. PRICE. Gentleman's time has expired. Gentlelady from California, Ms. Lee, for five minutes.

Ms. LEE. Thank you for your service, and during these very difficult times, also let me acknowledge the hard work and commitment of everyone at the Office of Management and Budget. Just very briefly, going back to the Clinton era, from what I remember, there was a surplus at the end of president Clinton's term, and the Bush Administration squandered that surplus. And many of those economic policies are responsible for the recession and for the hard economic place where this country is at this point. Now, that is what I remember during the following eight years of the Clinton Administration.

Let me just also say that when we talk about a budget, we have to also remember it is not only a plan for raising revenues and spending federal funds, but it is also a moral document that is a statement of our nation's principles and values. So while there are some parts of the president's budget that I find very troubling, I am very pleased to see that the president clearly understands the need to make vital investments in our economy and in job creation, and it is a balanced approach, which, again, president Clinton, talking about the Clinton era, he did create a balanced approached, reduced the deficit, and created a surplus, which, once again, was squandered during the subsequent administration.

I am very pleased to see the investments in mental health, HIV and AIDS, and education, including Promise Neighborhoods and in universal pre-K. The budget permanently extends these vital programs, such as the Child Tax Credit and the Earned Income Tax Credit. This helps millions of families across America in terms of a path, a ladder, from poverty into the middle class. And so let me just say, this is a real contrast to the Ryan budget, where the Republicans proposed another $6 trillion tax cut for the wealthiest, while focusing 66 percent of their draconian budget cuts on shredding our nation's safety net. Now, in this committee, we have held some pretty, I think, productive discussions on eliminating poverty by reducing it in half during the next 10 years. Unfortunately, income inequality and poverty rates are rising.

But I wanted to just ask you how this budget puts us on that path of eliminating poverty by reducing it in half in 10 years, because I know Chairman Ryan and myself, and others on our side are very concerned as well as on the Republican side about poverty. When I looked at their budget, all of the paths that would lift people out of poverty were cut drastically. And so how does this budget begin to turn that around?

Mr. ZIENTS. Well, you know this is an area of very strong commitment from the president, and it is reflected in the budget. You mentioned some of the areas; I will mention a few more. Extending the EITC and the Child Tax Credit; also the AOTC, which helps families go to college; a centerpiece that we have talked a little bit about already, but that I want to emphasize of the president's budget, is this landmark initiative for early childhood, pre-K, paid for by the tobacco tax; ladders of opportunity, including Promise Zones, 20 neighborhoods. We are going to really work on bringing education resources, housing resources, private sector resources, local resources, together to lift up these neighborhoods. The minimum wage; the president, in his state of the union, announced his support for the minimum wage. So there is a lot of progress in this budget on what has been an important initiative from of the president's from the beginning, which is helping lift people out of poverty, into the middle class, creating ladders of opportunity.

Ms. LEE. I have a few more minutes, and I would just like to ask you if it is possible for OMB to produce an appendix to the budget, or to present to this committee a list of programs that have helped low-income families, you know, move from poverty into middle class, so we can understand how they work and what they have done over the years, and how to track our decisions as it relates to these programs. I do not know if you have that or if you could organize that for us, or where we would go to look at that as it relates to the federal government.

Mr. ZIENTS. We will certainly pull something together.

Ms. LEE. Okay. Thank you very much. Thank you, Mr. Chairman.

Mr. PRICE. Thank you. The gentleman from California, Mr. McClintock, for five minutes.

Mr. MCCLINTOCK. Thank you, Mr. Chairman. First, I find myself in rare agreement with my friend from Ohio when he says Republicans should have been far more excited about the Bush Administration that was placing two wars on the credit card, massive expansion of entitlements. He is absolutely right, some of us were very excited about it. George W. Bush was one of the most fiscally irresponsible presidents in our history. In his eight years in office, he increased spending by a whopping 2 percent of GDP. The problem is, the budget that you are presenting today, in five years, has increased it by another 2 percent of GDP. My problem with the Obama Administration is not that he has reversed Bush's spending patterns, but he has taken the worst of them and doubled down on them.

You called the House budget plan an austerity program in the European model. Actually, it seems to me that your plan is far more in the European model. European austerity programs are heavily weighted toward tax increases. That is the problem. And, in fact, the countries in the most trouble in Europe are those with the highest marginal tax rates, including Italy, Spain, and Portugal. The European nations that relied on spending cuts have done very well. Take Sweden: Between 1993 and 1997, its spending-to-GDP ratio declined from 71.5 percent to 51 percent. Its average rate of growth doubled in that period relative to the prior decade. Finland, Denmark, and Norway saw the same results. So I appreciate the analogy with austerity programs. The austerity programs that work are those that reduce spending, which is what the House Republican budget does. Those that have created additional problems are those that are weighted toward tax increases, which is the budget that you are now presenting.

My first question, however, it's a very simple question: Why are you here exactly 65 days after the budget deadline? Our whole system is designed to assure that the president, as the chief executive officer of our nation, comes to Congress with his estimate of what it will take to implement the laws over the next year. Then Congress has a timeframe in which it has to develop a budget. You did not do that. In Congress, both the House and the Senate, were left to act on their own without a presidential budget. Now, when that train has already left the station, suddenly you show up with this budget. I find that appalling.

Mr. ZIENTS. Well, unfortunately, due to Congress's inability to act, we have had manufactured crisis.

Mr. MCCLINTOCK. Congress has acted. Congress has adopted a budget on schedule, but that process was supposed to begin with the president presenting one, and he did not.

Mr. ZIENTS. Right.

Mr. McCLINTOCK. That is more a rhetorical question, frankly, because I do want to get to, my time is very limited, an Investor's Business Daily editorial today, which absolutely excoriates the budget. Let me walk you through the points. This is where I would like to get your responses. First, they criticize it for boosting spending and deficits over the next two years. Over the next two years, they say it increases spending by $247 billion above the baseline. It increases the deficit by $157 billion above the baseline. Is that correct?

Mr. ZIENTS. So in terms of the timing of the budget, what I was talking about was the fiscal cliff crisis followed by the sequester. That made it very difficult to deliver to budget until the numbers settled in. So once the numbers settled in, we are happy to be here today.

Mr. McCLINTOCK. Pardon me, sir, the House and the Senate were able to act. What I would like right now is to get you to either confirm or deny the figures in "Investors' Business Daily" today. Does the budget over the next two years increase baseline spending by $247 billion and increase the deficit by $157 billion?

Mr. ZIENTS. We have made progress on the economy, 36 months of job growth, 6.5 million private sector jobs, 14 straight quarters of GDP growth. We have a ways to go. We need to continue to invent in jobs, and, at the same time, put ourselves on a fiscally-sustainable path.

Mr. McCLINTOCK. Are the figures accurate? Are these figures accurate or not accurate? All right, let me see if I can get you to answer their second point, which is that the president vastly exaggerates the spending cuts. $1.2 trillion are claimed, yet the actual budget on Pages 187 through 190, actually cuts only $186 billion.

Mr. ZIENTS. Well, again, we are back to our baseline set of issues.

Mr. McCLINTOCK. Their criticism is that you cancel the sequester and then reclaim that as new savings.

Mr. ZIENTS. That is right. We are very clear in our tables how we are doing this. In the baseline is the sequester, which was never intended to be policy. That is spending cuts across the board. We replace it with balanced deficit reduction. In total, the president's plan has $4.3 trillion of deficit reduction and reduces the deficit to below 2 percent.

Mr. McCLINTOCK. I can't get to all six of the charges, but the third one was, that it relies entirely on tax hikes, $6 in new taxes for every dollar in spending.

Mr. PRICE. Gentleman's time has expired. Gentleman's time has expired. The gentleman from Rhode Island, Mr. Cicilline, for five minutes.

Mr. CICILLINE. Thank you, and I thank you, Mr. Zients, for being here and for your service to our country. You know, sometimes if you listen to these budget committee hearings, you would consider that our only objective is deficit reduction, and that that, in and of itself, was an economic strategy for economic growth for this country. And I think you said at the beginning that the objectives are, of course, responsible deficit reduction, but also economic growth for our country. And we do not have to go back as far as my friend from Ohio suggested to the times that my friends on the other side of the aisle did not speak up for two wars that we did not pay for, and tax cuts for the richest 2 percent of Americans that we did not pay for, but just in recent hearings, proposals to provide another gigantic tax cut for the richest people, the top wage earners in this country, and a refusal to close a single tax loophole. So it is hard to understand where this notion of deficit reduction is something that only that other side of the aisle cares about, because that is what we heard about here.

And so what I really want to talk about is what I think is the real crisis facing this country. I think we have got to deal with the debt, and I think we have to do that in a responsible and balance way. But I am from a state that has, I think, the highest, or second or third highest unemployment rate on the country, depending on what month you look at, and I think what we have to be looking at is the job crisis in this country and how we invest in growing the economy, getting people back to work, because I consider the single best way we can deal with the deficit is by getting people back to work and growing the economy. That is what our history has shown us. That is what we need to do. And there are some things in this budget I strongly oppose, but I think when you look at the investments that the president is proposing in infrastructure, in workforce training and development, in education, in science and research, and rebuilding our own country, and in manufacturing, those, I think, present some exciting opportunities to really jumpstart job growth and our economic recovery.

And I would like you to talk in particular about what you see as the most valuable of those investments, and I am particularly interested in manufacturing, which I think the president has articulated an exciting vision for a set of manufacturing centers. But speak to this notion of the importance of creating jobs as a way to deal with our deficit in the long term, and dealing in a responsible way in the short term with promoting real growth, and, particularly, job growth in those sectors.

Mr. ZIENTS. No, I think you are absolutely correct, that putting people back to work, getting this country performing at its full economic potential, is the most important priority for the president. So the fiscal sustainability is important, but it is a component of an economic plan. It is not an economic plan in and of itself. I think you hit on the main areas. I think infrastructure, which we talked about earlier, is really important, the $50 billion immediate investment, working closely with states and local governments and the private sector to put people back to work, but also position ourselves much better in terms of global competitiveness by having 21st century infrastructure. So infrastructure is a great example of getting people back to work, which helps the economy and individuals in the short term, but also sets us up for medium and long-term growth. The investment in education, the focus on community colleges, helping people develop the skills, working closely with businesses to make sure the people are getting the right skills. There is an $8 billion investment in community colleges. We talked about R&D earlier; very important for our long-term competitiveness and for creating jobs.

Mr. CICILLINE. And I think the other important thing to note is that when we think about the long-term challenges we face in reducing health care, or in developing new and renewable sources of energy, those require investments. The real way we are going to bend the cost curve on health care is discovering new cures for diseases, discovery new technologies and new treatments, modernizing our electronic medical records system, and those require investments. And so one of the things I am particularly concerned about, and I think this budget addresses, is the sequestration. The kinds of reductions in science and research that are going to really provide the key to reducing energy costs and making energy more available and to reducing health care costs are at risk with sequestration. And that we want to be a country that has pioneering research, groundbreaking research which is happening, a well-trained and educated workforce. We want to develop new and clean energy sources. We want to rebuild the infrastructure of our country. All those things are not only necessary so that we can remain competitive and grow this economy, but they are also the key strategies, I believe, to address our deficit over the long term. I think this budget reflects that, and I applaud you for that.

Mr. ZIENTS. The sequester is devastating for these priorities. Take NIH, the Bush NIH director, so president Bush's NIH director, said sequester will set back medical science for a generation. Contrast that with the president's budget, which actually increases off of the pre-sequester level of NIH funding by over a half billion dollars.

Mr. CICILLINE. Thank you.

Mr. PRICE. Gentleman's time is expired. Gentlelady from Tennessee for five minutes. Ms. Black.

Mrs. BLACK. Thank you, Mr. Chairman, and thank you, Mr. Zients, for being here today. I want you to answer this really briefly for me because I have other detailed questions that I want to ask you. But you made mention when you were in the dialogue with the Chairman related to the program that we have, the Medicare program that we have, in reforming the program, that it includes a voucher program. Would you give me a definition of what you think is a voucher program?

Mr. ZIENTS. A voucher program is giving seniors a certain amount of money and having them be responsible for purchasing their health care. And then if there are cost overruns, or costs beyond that voucher, the seniors bear the responsibility for that.

Mrs. BLACK. Now, I am sure you have read the Path to Prosperity. And what is recommended in there is premium support. Do you think that premium support and voucher are the same? Are they the same? You said—excuse me, reclaiming my time—you said in a voucher program you give the recipient money to allow them to go out and find their insurance. Premium support, and I will define it for you as defined in our program so that we get this straight and we do not keep calling something incorrectly. And premium support is a guaranteed program that is run by the government and it is guaranteed to the recipient. They do not get the money. The money is not given to them. It is a program.

So, I am reclaiming my time, once again. I just want to set this straight. I want to set the record straight. There is a difference between a voucher program and the premium support. Now, let me go to something that I want to go to that is a little more detailed in your budget. I note that in your budget you include $1.4 billion in discretionary spending increases for personnel. And in particular, this funding would finance about 712 new bureaucrats within CMS. And this is a massive increase compared to the request last year of 256 new positions. What I want to know is why the significant increase? Where are all of these positions needed?

Mr. ZIENTS. Well, first, I would like to set the record straight on what the president's belief is on Medicare. The president believes in reforming Medicare so we can protect Medicare as we know it, and not move it toward a premium assistance plan or a voucher system.

Mrs. BLACK. We will disagree on that.

Mr. ZIENTS. So I want to be clear on the record.

Mrs. BLACK. If you will just answer this question, because we both have the same idea that we want to preserve it for those that are in it and protect it for future generations. But I just want to set the record straight that you cannot keep calling it something that it is not.

Mr. ZIENTS. Okay.

Mrs. BLACK. So I appreciate that.

Mr. ZIENTS. And from my perspective, we cannot shift costs to seniors.

Mrs. BLACK. Look, we agree on that. We agree on the cost shifting. But what we do not agree on is the way in which we get there, and you and others keep confusing that. And so I just want to set it straight, so now if you will answer my question on this. Thank you.

Mr. ZIENTS. We will work on the vocabulary. At the same time, I think there is a fundamental difference, and if the president wants to reform Medicare to maintain Medicare and sustain Medicare as we know it.

Mrs. BLACK. Sir, I am not arguing with you on that point. What I am trying to make clear is there is a definition that is very clear, and it is in literature that it is clear. The difference between a voucher and a premium are different, and I just want to make clear, one more time, that what is being represented about what we have in our plan is absolutely a premium support and not a voucher. So if you could answer me about why these additional positions are needed.

Mr. ZIENTS. So on specific positions, I am not sure exactly what you are looking at. What I will say is that the Department of Health and Human Services is very focused on implementing the Affordable Care Act, which will provide insurance for 30 million Americans who do not have it today, and will, according to CBO, save $100 billion in the first decade, a trillion in the second decade. So there is a focus on implementation of ACA within the HHS budget. On the specific numbers, my staff will follow-up with yours.

Mrs. BLACK. Okay, great. And in addition to that, what I would really like to know, is you talk about it as the implementation, but once it is implemented, are these going to be permanent positions? Because if they are there for implementation, then I want to know, are these permanent positions that we are going to have to on funding year after year after year? And so I appreciate your getting back to me on that.

Mr. ZIENTS. We will do so.

Mrs. BLACK. Thank you, Mr. Chairman. I yield back.

Mr. PRICE. Thank you for yielding back. The gentleman from Wisconsin, Mr. Pocan, for five minutes.

Mr. POCAN. Thank you, Mr. Chairman. And thank you, Mr. Zients, I appreciate you being here. I am one of the new folks around here, which I think for this discussion I want to translate to I have spent a lot more time in Wisconsin than I have in Washington, and maybe I can look at things a little differently. You know, when I talk to the small business owners and folks back home, you know, the economy and getting jobs is still the biggest focus. And when we are here doing our training, we find out from the Congressional Budget Office that three-quarters of our deficit next year, the country's deficit, is due to economic weakness, needing to deal with unemployment and underemployment. So I think the fact that your budget is doing that, I do not care if it is on time, or if it just addresses the Holy Grail of deficit reduction without dealing with the economy or anything else, you are dealing directly with the economy while you are doing the deficit reduction that is responsibly laid out.

Specifically, a couple programs I just want to highlight that I really appreciate from people back home I am talking to, the increase in funding for non-defense research and development. The University of Wisconsin just was out there last week. We had a lot talks with folks. The sequester is killing them on the NIH funding. The jobs lost and the programs, we appreciate that. The $50 billion for infrastructure: I was on our Joint Committee on Finance, and we had to approve every single dollar of the last recovery dollars. We had a report just from our road-building industry that 54,000 jobs were saved or created in Wisconsin back when that happened, so we know that that has got the potential. The small business tax credit for hiring new workers is going to be very valuable. Focusing on advanced manufacturing and keeping those jobs in America, and then finally replacing the job-killing sequester.

So, there is a lot of really sound, solid, good measures, I think, that much like our House Democratic budget proposal really deals with stimulating the economy and creating jobs. I do have to say, though, there is one part that kind of takes a little bit of a negative turn in the budget proposal, and I think that is the chained CPI proposal. I just have a couple questions around that.

You know, I think, as you can tell from today, that you put forth a budget that offered a compromise before you have actually sat down to compromise with folks. So I think you have already seen some of the reaction on that. And, you know, I look at this, and I called my mother and woke her up this morning to ask her exactly what she makes on Social Security per month. She is 84. I grew up in a lower middle class family. They have a modest home. But she gets $1,101 a month at 84. And then I went through some of her bills with her and where she is at in her savings. It is just not a lot. And to try to address Social Security in that way, to me, seems to be breaking our promise to seniors.

But let me ask you this specifically, because this is an alternative proposal that none of us have looked at, which is if we lifted the cap on revenue in Social Security taxes, it is currently at

$1,137. I guess the question is, one, do you know how much that would generate if we did lift the cap entirely. Two, what longevity that would have, because, as I understand it, it could about 75 years longevity. And just three, where the White House would be on a proposal like that, because, again, I think you have compromised before we have had a chance to sit down and compromise.

Mr. ZIENTS. Let me first address chained CPI. The president has put it into the package because Speaker Boehner and Leader McConnell asked for it. He was not willing to do age 67. The president, as part of a balanced, comprehensive deficit reduction package, included CPI. The other condition, however, is to protect the most vulnerable, including people like your mother, older, Social Security beneficiaries. So there is a provision: At 76, there is an increase that goes from 76 to 85 to protect older beneficiaries. So the president is only willing to do CPI as part of balanced deficit reduction, the full package, the $1.8 trillion, and with these protections for older beneficiaries and other vulnerables, the people that are vulnerable in our society.

On your specific ideas, I said earlier the president has set out principles for Social Security reform. It is not the driver of our current deficit issues. At the same time, we should address Social Security reform, and in doing so, he will insist upon a balanced approach in terms of any benefit changes, would have to be balanced with significant revenue increases. But, again, Social Security is not a driver of our current fiscal situation. It is solvent through 2033.

Mr. POCAN. And I could not agree with you more on that issue, and I think I just would close with saying perhaps, then, we should not have Social Security part of the budget. I agree it is a separate discussion, and there are a lot of things we could do to extend Social Security, but by including it in this discussion and compromising before we have had a chance to compromise, I think has somewhat muddied the waters.

Mr. ZIENTS. I think we have had one crisis after another. We need to get deficit reduction behind us. The president is serious about it. He included the compromise offer with Speaker Boehner as part of his willingness to do hard things and get deficit reduction accomplished so we can focus on the economy and creating jobs.

Mr. PRICE. Gentleman's time has expired. Just by way of clarification, the chained CPI, that is in your budget proposal, correct? So, it is your proposal, the Administration's proposal.

Mr. ZIENTS. It is part of the $1.8 trillion compromise offer.

Mr. PRICE. Included in your proposal?

Mr. ZIENTS. Absolutely, as part of the Speaker Boehner compromise offer. And both Speaker Boehner and Leader McConnell have asked for chained CPI on multiple occasions, as they also asked for age 67. Age 67 is not in our budget.

Mr. PRICE. Not in the context of the budget.

Mr. ZIENTS. I believe age 67 is part of the House Republican budget.

Mr. PRICE. Those discussions were not in the context of the budget, were they?

Mr. ZIENTS. The Speaker Boehner and McConnell? They were in the context of deficit reduction talks. We have had many rounds of those across the last few years.

Mr. PRICE. Yes. Gentleman from Texas, Mr. Flores, for five minutes.

Mr. FLORES. Thank you, Mr. Chairman, and thank you, Mr. Zients, for being here. I have some information—I am going to have a lot of questions, and so you probably will have to provide us the information supplementally, if you would. You know, as a CPA, you have to look at the underpinnings of the budget because they are what drive the outcomes in many cases. And so the important attributes to the federal budget would include GDP growth estimates. It would include unemployment estimates. It would include inflation estimates, and also interest rate estimates. And I have reviewed your budget, the president's budget, vis-a-vis the CBO and vis-a-vis Blue Chip forecast. And in most cases, it seems like the president's budget uses much more optimistic scenarios.

And so, supplementally, what I would like you to provide is two things. One is, how did the president arrive at the underlying numbers that he used for his growth forecast in inflation, unemployment, interest rate forecasts. And then secondly, what would happen to the president's budget if they were reset at the CBO numbers? So that is the first thing.

Mr. ZIENTS. May I respond to that?

Mr. FLORES. No, I need to get through the rest of the questions, and if we have time toward the end, we will try to do that. But, again, supplemental disclosure would be helpful. The goal here, I think, I think you and the president, and we, in the House of Representatives, all share the same goal, and that is to make the economy grow more quickly. I think we have dramatic differences and opinion as to how we get there. And so what I would like to see from the president is, how do we grow the economic pie in opportunity when we are raising taxes on the economy? You know, we are taking tax revenues as a percentage of GDP to levels that have not been seen before in the economy over the long term. They even, as best I can tell, exceed the rates during the Clinton Administration. So how do higher taxes generate this economic opportunity?

The second component is, in particular, if you raise the tax on a business, how does that help that business to have more capital to invest in people, to invest in R&D, to invest in their capital assets, their fixed assets? How does it help them to produce more products at a lower cost? How does it help them to produce better products at a lower cost? How does it help them to produce better services at lower costs? I think about the small business woman in Bryan, Texas, who owns a chain of laundries, and I think, okay, if we raise the taxes on this lady and her business, you know, after ObamaCare is already crushing her, and she is not hiring today because of the pending implementation of ObamaCare, how is she going to be better off, and to be able to hire more employees and pay them a better wage, and to invest in a new location, if we are raising taxes on her? Let's say that, you know, we tell Apple, we are going to raise taxes on you, but we want you to produce more of these iPads, and we want you to produce them at a lower cost.

Now, your budget, the president's budget, is basically saying that to the oil and gas industry. We are basically saying, "You know, the oil and gas industry, you are a targeted bad boy, and so we want to raise the taxes on you, but yet, we are going to demand that you produce more gasoline at cheaper cost so that Americans can have a better energy supply." Now, the other goal we ought to be looking at as a government is to reduce, well, let's rephrase that, let's put the positive spin on it. The government ought to be more accountable. It ought to be more effective. It ought to be efficient.

And so, you know, we got a report here from the GAO that came out a few days ago. It identifies scores of problems, and waste, and fraud, and abuse, and ineffectiveness, and duplication, and overlap in the federal government. And so supplementally, I would like for the president to produce a report about what he intends to do about this. What are the things that he would like to do? The other things, let us look at the Solyndra-type program, in light of the news about Fisker that came out this week. Why do we not have a supplemental report from the Administration that talks about the effectiveness and the return on taxpayer dollars that came out of the Solyndra and its brothers and sisters and siblings. It is up over $2 billion now. But why do we not talk about the effectiveness of our poverty programs. We have spent $19 trillion on poverty programs since the war on poverty started, but yet we have got more people in poverty today, more people on food stamps today.

So if you could provide that supplementally, I would appreciate it. Thank you, I yield back.

Mr. PRICE. Thank you, the gentleman's time has expired. Gentlelady from New Mexico, Ms. Lujan Grisham for five minutes.

Ms. LUJAN GRISHAM. Thank you, Mr. Chairman. And thank you, Director, for being before us today. And like many of my colleagues, I agree that this budget provides yet a renewed opportunity to reinvest in this country, put the economy on a positive path. And like my colleague, Mr. Pocan, I am spending a lot of time in my home state and district in New Mexico, and the sequester hits us especially hard. We were identified as being one of the worst states to see sequester effects. I have to talk to the 2,000 people who have already been furloughed, and the countless number of defense contractors and related research businesses that are not hiring, that are also continuing to lay off, and I think today in our newspaper, we are talking about additional layoffs at one of our hospitals. We have negative job growth. Stopping the sequester is a clear and direct productive impact in a state that does not have any other opportunities for fiscal growth, unless that immediately is removed from the fiscal equation. So, I am very grateful for this effort and this leadership by the Administration, and also appreciate that we are looking at health care, and taking care of the SGR, and making sure that our safety net programs are here for the long haul.

I also want to clarify that I have a different sense about the Republican proposal on Medicare. A voucher is, in fact, defined as a record of disbursement or expenditure, and whether the public sector, the government in this case, or the private sector, has a fixed reimbursement of expenditure tied to a premium, is, in fact, a voucher, and it does cost you absolutely inappropriately. And my mom, who lives on $1,300 of Social Security and relies on Medicare, who just paid nearly $200 out of pocket for a prescription drug that is lifesaving for her as she leaves the hospital, again, I can assure you that these are important investments to maintain.

I do want to talk a little bit about how we are looking at bending the health care cost curve in the president's proposal, and I am a little confused about the reduction, the $63 million from post-acute care, and recognize that we are concerned, maybe, about some of those cost centers for home health and related health care services. But without those rehab, and therapeutic, and home health care services, you will be readmitted to the hospital for this population, or you will have longer stays in the hospital, and that is clearly more expensive per beneficiary. Can you talk to me about what the thinking was about this particular proposal, and why the Administration might think that this is an effective way to save money in Medicare?

Mr. ZIENTS. I think that we, across the budget in Medicare, wanted to make sure that we are taking advantage of the best practices that exist across the country. There is a tremendous variation in care. Oftentimes, higher cost does not mean higher quality. In fact, there tends to be a correlation between lower cost and higher quality. Those are the practices we are looking for, those are the providers that we want to make sure are rewarded in the system; providers that have high readmission rates or quality problems should receive less reimbursement than high-quality providers. So what we are trying to do here is drive toward that quadrant of high-quality outcomes at a lower cost, and, fortunately, there are lots of best practices that we have in the country that do just that, and the budget is encouraging us to move toward those best practices.

Ms. LUJAN GRISHAM. Well, I appreciate that and I could not agree more that this has to be an investment in outcome and quality. When we pick any area of expenditure in the health care system and tie that back to a beneficiary, you know, we are just trading. You are not really focusing on quality. And to say post-acute care needs these reductions is the same as saying for the providers who are doing an effective job and the whole reason to have that.

Mr. ZIENTS. So within post-acute care, there are strong providers who are providing high-quality care at a reasonable price. There are providers who are not performing as well, so want to make sure that the strong providers are reimbursed appropriately.

Ms. LUJAN GRISHAM. And I appreciate that. So what I am hearing is, and I would love some additional information from the Administration, that these are not blanket cuts to areas of care that are critical, but these are accountability measures that I would like lots more information on because the danger is, is that you create a categorical reduction, not an investment in high-quality, accountable, efficient patient-centered care. And I would urge you to be clear and careful about those kinds of proposals.

Mr. ZIENTS. We will follow-up and make sure we provide the rationale behind the policies.

Ms. LUJAN GRISHAM. Thank you. Yield back.

Mr. PRICE. Gentlelady's time has expired. Thank you. Gentleman from Indiana, Mr. Rokita.

Mr. ROKITA. I thank the Chair, I thank the gentleman for being here today. There has been a lot of talk this morning about Social Security and the president's ideas around chained CPI, and he recently just said that that was put in at the request of my leadership and Senate leadership, but I want to focus on that a bit because the impression could be left that Social Security is not part of our debt problem.

And I will start off by first acknowledging that there are several reasons for our debt problem. Three main drives are Medicare, Medicaid, and Social Security. Now, a fourth driver is the net interest that continues to grow and that we continue to owe ourselves and other countries, countries that do not necessarily have our best interests in mind, but theirs. And I just read this morning that over the next several decades, Mr. Zients, that interest payment, okay, money that we cannot spend on anything else but give it away contractually for the money we are getting now in credit, could reach $900 billion. Mr. Doug Elmendorf, director of the CBO, I know you know was here in your seat a couple weeks ago, and we talked about whether or not Social Security was actually driving any of these deficits or debt, and I want to quote for the record, and then have you respond to it.

In responding, I believe to the Chair, Mr. Elmendorf said, "Well, again, Congressmen, on a unified budget basis, taking account of just the tax revenues, the dedicated tax revenues, and the benefits, it is contributing to the deficit now. If one instead looks at just the balance in the Social Security Trust Fund, that balance is the annual balance is positive now, but will be negative within about a half dozen years. Do you acknowledge that? Do you agree with it?

Mr. ZIENTS. No, I think that Social Security is not a driver of our near-term fiscal situation.

Mr. ROKITA. It is not near term fiscal situation of our deficits and debt.

Mr. ZIENTS. The trust fund is solvent through 2033, and the trust fund is acting exactly as it was designed to do.

Mr. ROKITA. But you talked earlier about manufactured crises and crises that you had to deal with. Why wait for this crisis to occur?

Mr. ZIENTS. I think the president has reiterated in budget after budget his desire to do Social Security reform. But let's be clear: That is a different path, a different track from our current deficit discussions. Right now we should be doing the $1.8 trillion deficit reduction package that is in the president's budget, and once we get that behind us, Social Security reform could be part of the next conversation.

Mr. ROKITA. While we are talking about the drivers of our debt, let me ask you about Medicaid. You talked about Medicaid in the budget, and at least you acknowledge that there can be some reforms made there. And I think you focus most on the waste, fraud, and abuse, which I would agree with you is important. But that is about all you do. Do you think that Medicaid is part of our deficit and debt problem?

Mr. ZIENTS. Medicaid provides needed health care to tens of millions of people. As you know, it is a partnership with the states. It works well.

Mr. ROKITA. Let me stop you there. It works well?

Mr. ZIENTS. Meaning it provides a much-needed care.

Mr. ROKITA. You want to increase it by a third, I think you said.

Mr. ZIENTS. Well, as part of expanding coverage of the ACA, absolutely. Now, the cost per Medicaid beneficiary on a per capita basis, the increase has been quite low. So, the increase you see here is the expansion to give people who do not have health care coverage health care coverage through the Affordable Care Act.

Mr. ROKITA. Are you aware that if you go under the knife as a Medicaid recipient, you are 13 percent more likely to die than if you had no insurance at all?

Mr. ZIENTS. I do not know that statistic.

Mr. ROKITA. Do you think that is a program that works well? Medicaid, this is the program that is supposed to provide health care for the poor. Excuse me, reclaiming my time. It is the core of our social safety net. If anyone needs health care, it is people who cannot do it for themselves, who are destitute, and they are 13 percent more likely to die if they have a surgery.

Mr. ZIENTS. So your budget would kick 20 million or so people off of Medicaid, would deny coverage for 30 million Americans that will receive it through the Affordable Care Act.

Mr. ROKITA. No, no, no, that is not right. Reclaiming my time. Chairman, can I have order, please. Chairman, can I have order? Reclaiming my time.

Mr. PRICE. Gentleman from Indiana reclaims his time.

Mr. ROKITA. What we do is give flexibility for the states so that they can determine who is poor. What ObamaCare does is make the middle class take Medicaid. Middle class, by even your definition, sir, is not poor. These programs have to be around for those who need it, and you are doing exactly the opposite. I yield back.

Mr. PRICE. Gentleman's time has expired. Gentleman from California, Mr. Cardenas, is recognized for five minutes.

Mr. CARDENAS. Thank you very much. I would like to ask you a question about the tobacco tax, and the purpose of having that increase in tax. Would we provide more preschool to more children with or without an increase in cigarette smokers if we include this tobacco tax? Do you understand my question? So say this tobacco tax is implemented, and we raise the tax on cigarettes; now whether or not we have an increase in cigarette smokers or not, with that increased tax, are we likely to educate more preschoolers?

Mr. ZIENTS. So let me step back and explain what the tobacco tax is about. It is adding 94 cents to a pack of cigarettes and to other tobacco products of a proportionate amount. What this does is it raises revenue. It also discourages teenagers from taking up smoking, and encourages people who are smokers to quit. So we will have fewer smokers. At the same time, we will continue to have some people who decide to smoke, will pay the tax, and therefore we will have pre-K for many millions of American children who do not receive it today.

Mr. CARDENAS. Yeah, so, now to my question, so therefore with that increase in that tobacco tax, we are likely to see more preschoolers get educated?

Mr. ZIENTS. I do not think likely; we will.

Mr. CARDENAS. Okay. Thank you for pointing that out. I did not want to put words in your mouth.

Mr. ZIENTS. I absolutely understand. Millions of American kids will receive pre-K, and pre-K is a fabulous investment. Study after study shows the positive impact of pre-K education on children.

Mr. CARDENAS. And if we are going to educate our workforce, is it not great to start in pre-K?

Mr. ZIENTS. Absolutely.

Mr. CARDENAS. Yes, the benefits are tremendous. As a former employer myself, I agree with that 1,000 percent. If you were to witness the legislative bodies go to conference on the budget, do you think that is a good thing?

Mr. ZIENTS. Absolutely. I think we should return to regular order and go to conference.

Mr. CARDENAS. Okay, thank you. As a former chairman of the budget conference committee in the state of California, I think that it is a wonderful part the legislative process. It is unconscionable that a legislative process would do without that, and I hope that we do get back to that here. When it comes to infrastructure investment, is it more cost effective for us to fix our infrastructure now or just put it off until later?

Mr. ZIENTS. Well, I think that it is always better to it now.

Mr. CARDENAS. But why, does it cost more later?

Mr. ZIENTS. In this particular moment, we have high unemployment, particularly amongst construction workers. We have an opportunity to put people back to work. And then we start to get the benefits from having the improved infrastructure in terms of small, medium, and large businesses competing, serving not only consumers in this country, but throughout the world.

Mr. CARDENAS. Yes. So to my point on the infrastructure investment, on top of what you just said, which I agree with, you are absolutely accurate, is if we need to fix a bridge or a road today, it is eroding every day, every month, every year, and if we put it off, to fix that same road or that same of a bridge, there is no question, it is more expensive to do it later, just on the cost outlet.

Mr. ZIENTS. Yes. Absolutely.

Mr. CARDENAS. And also on the benefit factor, it is more expensive to put it off, because, as you pointed out, business, which we all care about here, gets less benefit, and they tend to have to deal with that lagging of the structure longer.

Mr. ZIENTS. We should immediately invest in infrastructure to improve our competitiveness and put people back to work.

Mr. CARDENAS. Well, if you could please thank the president on my behalf for the budget that he has put forward, because I think the president's budget, unlike the Republican strategy, the Republican budget seems to focus on deficit reduction and not on investing in creating more jobs, and the president's budget focuses on educating our children and making sure that we are strengthening our workforce, which, as a result, grows our economy today going forward. The president's budget is actually brave enough to invest in our American children and our American workers today, rather than putting it off for focusing almost exclusively on deficit reduction. And I think the best way for us to reduce the deficit is to actually get back into making sure that we are educating our workforce, we are creating a workforce of tomorrow that is better prepared to compete in the world, and then for us to regain our position as the power base of, you know, production on this planet. So thank you so much.

Mr. ZIENTS. Well said.

Mr. PRICE. Gentleman's time has expired. Gentleman from South Carolina, Mr. Rice, five minutes.

Mr. RICE. Thank you, Mr. Chairman. Thank you, Mr. Zients, for being here. I appreciate very much your willingness to come and put your light on the president's budget for us. I want to start out with a definition of terms. When I say "balance," I mean the revenue should be equal to the expenses, or expenses should be less. And when you say "balance," you mean we need to have a tax increase.

Mr. ZIENTS. When I say balance, I say that we should have spending cuts and revenue. That is a balanced approach.

Mr. RICE. Where you are saying revenue, you mean a tax increase?

Mr. ZIENTS. Yes. Not a tax rate increase, tax reform.

Mr. RICE. Yeah, but we are talking about more tax dollars paid in by taxpayers, that is what you mean?

Mr. ZIENTS. By closing loopholes and getting rid of unnecessary tax expenditures.

Mr. RICE. So when listeners hear you say "balance," they need to think tax increase, because that is what we are talking about.

Mr. ZIENTS. I think the right way to think about it is a balanced approach, which is spending cuts and tax increases.

Mr. RICE. The right way to think about it, wrong way, or whatever, it is a tax increase.

Mr. ZIENTS. And just to review the record, we have had $2 dollars of spending cuts for every dollar of revenue.

Mr. RICE. Two years ago, the president, with ObamaCare, achieved a balance, I mean a tax increase, most of which has not hit yet. It is going to hit beginning of next year. And a lot of those taxes hit what he calls middle class families and everybody else. Now, three months ago we had a balance, I mean a tax increase, under the fiscal cliff arrangement, and now we sit here with this budget, which imposes another balance, not balance, I meant tax increase over the next 10 years, and you just said a minute ago that even under this proposal that we are not making entitlement programs sustainable, but, in fact, we need to have another conversation after this balance, I mean tax increase, gets done. And I assume that we are going to balance again and increase taxes to make our social program sustainable. I assume we are talking about doing that this year as well.

So, we are going to have the ObamaCare tax increases hit. We are going to have the fiscal cliff tax increases hit. We are talking about more tax increases right here. And when we get down to entitlement programs, which is really where we need to start, we are going to have another conversation about more balance or tax increases, and I assume we are talking about all of this this year. This is a mighty, mighty broad-reaching balance for this year, is it not? I have been a tax lawyer for 25 years. I have never seen anything like this. This is not leadership. I mean, we need to have a long-term plan. We have got to stop this piece-meal, small bites, you know, no long-term thought. We have got to give businesses certainty. Is there any wonder why the economy is limping along when nobody knows what the rules are or what the rules are going to be? And in this plan, we are talking about putting the debt tax back to where it was, what, three years ago? We have got to have a long-term vision, we have got to come to some kind of agreement on it, and we have got to move forward, or we can expect that the economy will continue to limp along, that employment will continue to lag, and that our competitors worldwide will continue to get an advantage over us.

Now, one question. We have already had our credit rating decrease once because we have been unable to sufficiently deal with our debt problems. And under your scenario, the deficits continue, and the amount of our debt as a percentage of GDP, I think out of the chart that has been up earlier, remains at 90 percent throughout this 10-year period. I promise you that our creditors around the world are watching us, and I promise you that the credit agents, the credit rating agencies are watching us. Let us just assume the president did put this thing forth in front of a resolution, and by some miracle, it got passed; what do you think that would do to our credit rating? Do you think it would be downgraded again, because I am afraid it would be the next day.

Mr. ZIENTS. Absolutely not. First of all, the 90 percent chart is not the right way to look at debt; the right way to look at debt is debt held by the public.

Mr. RICE. I thought you said percentage of GDP is the way you wanted to look at it.

Mr. ZIENTS. That was gross debt, so that includes intra-governmental debt. I do not think that is the right way to look at debt. CBO, others would agree the right way to look at debt is debt held by the public. That is not at 90 percent for point number one. Point number two, debt on a declining path is exactly what the credit agencies are looking for. What will potentially put, potentially put, our credit rating at risk would be a manufactured crisis around the debt ceiling.

Mr. RICE. Well, we will manufacture them every three months. We do not have any long-term plan.

Mr. ZIENTS. The president is very clear, he will not negotiate around the debt ceiling.

Mr. PRICE. Gentleman's time has expired. Gentleman's time has expired. Gentleman from New York, Mr. Jeffries, for five minutes.

Mr. JEFFRIES. Thank you very much, Mr. Chairman, and thank you for your testimony to date. I want to spend some time talking about the president's proposal, but on this question of debt and how we arrived at this moment in time, am I correct, or is it fair to say that the 2001 Bush tax cut that was not paid for at the time by this Congress added to this country's debt burden?

Mr. ZIENTS. Well, what you have cited, there were two wars that were not paid for and a prescription drug plan that was not paid for.

Mr. JEFFRIES. And as a result of the collapse of the economy in 2008, we took a $22 trillion hit, by some objective estimates, then necessitating a substantial bailout by this Congress of financial institutions, and then a stimulus package, both of which presumably also added to our debt burden. Is that correct?

Mr. ZIENTS. Yes.

Mr. JEFFRIES. Now, as it relates to the forward-looking plan for the future that you have articulated that I believe would, total, $4.3 trillion in deficit reduction over the next 10 years. That does seem to me to be a forward-looking plan despite suggestions to the contrary. We are at a very peculiar situation as it relates to our recovery under the president's administration. We have gotten 6 million private sector jobs that have been created. We have got corporate profits at a record high. We have got the stock market at near all-time highs. The productivity of the American worker is at an all-time high, certainly has increased over the last several years, yet unemployment remains stubbornly high itself. It has gone down, but remains stubbornly high. Why is it that we have got some economic indicators that seem to suggest we are doing well, but others that suggest we still have a ways to go, and how does the president's plan deal with this circumstance?

Mr. ZIENTS. I think we are making progress. It is 6.5 million jobs, 14 straight quarters of GDP growth, but we need to do more. Unemployment is, as you said, stubbornly high. We need to make the investments in infrastructure that we have talked about, in education, in R&D. At the same time, it is important that we put the country on a sustainable fiscal path. So the president's plan is first and foremost about getting people back to work, ensuring that we make the appropriate investments, that our economy performs at its full potential. We need to turn off the sequester as soon as possible. That is costing us hundreds of thousands of jobs, it is a self-inflicted wound. We need to stop manufacturing these crises, that when you meet with CEOs of small companies, medium-sized companies, large companies, they are weary of investing because they do not know what next is going to come out of Washington. So we need to deal with our fiscal situation, get something done. The return to regular order is a good development, and let this economy work, and let people work, and let America live up to its full potential.

Mr. JEFFRIES. Well, I commend the president for putting forth this budget, as well as his effort to, in good faith, I think, present a plan that both sides might take issue with in different areas, but it is designed to create common ground. As it relates to this issue of manufactured crises, is the problem that if our creditors conclude that we do not have the ability in the United States of America to manage our affairs in an orderly fashion, that that loss of confidence at some point may result in an increase in the interest that we are paying on our debt moving forward?

Mr. ZIENTS. Well, it is picking up where I left off over here, when we talk about a downgrade. The downgrade happened because of a manufactured crisis around the debt ceiling. The president has been very clear that we are not going to negotiate around the debt ceiling. If the debt ceiling needs to be increased to take care of spending that has already been passed by this Congress, and therefore, we should be not manufacturing crises like the sequester, we should be turning the sequester off. We should be making sure that we do not lose hundreds of thousands of jobs. Washington should return to regular order, and we should let businesses and the American consumer have the confidence that Washington is not going to manufacture a crisis and get in the way.

Mr. JEFFRIES. Thank you. Yield back the balance of my time.

Mr. PRICE. Thank you, sir. The gentlelady from Tennessee, Ms. Blackburn, for five minutes.

Mrs. BLACKBURN. Thank you, Mr. Chairman. Mr. Zients, thank you for being here. I will tell you, some of us like regular order and we like the rule of law. And I have got four quick questions for you. Let me ask you first, Section 49903(a) of Title 49 in the U.S. Code statutorily defines law enforcement personnel as individuals authorized to carry and use firearms are vested with the police power of arrest and are identifiable by appropriate markings of authority. So, with sequestration and our debt crisis in mind, and you have talked about sequestration a lot today, should federal agencies spend federal funds on law enforcement uniforms for federal employees that do not meet this definition in our law, yes or no?

Mr. ZIENTS. I do not know enough about the topic. We can follow up.

Mrs. BLACKBURN. You need to follow up. Well, do you believe that the federal agencies should follow the law?

Mr. ZIENTS. Absolutely. I think federal agencies are following the law in how they are implementing the sequester.

Mrs. BLACKBURN. Okay. Should their spending practices be consistent with federal law?

Mr. ZIENTS. We have worked with agencies, agency leadership. The guiding principle here is mission first. So as agencies implement these difficult sequester cuts, they are putting their mission first and foremost.

Mrs. BLACKBURN. Okay.

Mr. ZIENTS. Individual decisions are up to the agency leadership. So if there are specific questions you have for a department, we can direct that to the secretary of that department.

Mrs. BLACKBURN. Okay, well, I know you have a business and a consulting background. So let me ask you this. Based on your training and your work history there at OMB, should they provide you with a federal law enforcement uniform even though you have no federal law enforcement training?

Mr. ZIENTS. I do not think I would do very well in a federal law enforcement uniform. So, no, I do not think I need the uniform.

Mrs. BLACKBURN. Sounds good. All right, airline industry, let me ask you about this. They have lost about $50 billion and a third of their workforce over the past decade, but looking at TSA since '07, their budget has increased 18 percent. So that is a double digit increase, despite the fact that in 2012 U.S. airlines and passengers paid that agency $2.2 billion in taxes and fees. That was a 50 percent increase over what had been collected in '02. So should TSA receive increased funding when passenger traffic over the past decade has declined by 30 million passengers a year?

Mr. ZIENTS. Well, TSA obviously provides an invaluable service. As to specifics around the TSA budget, the volume I would defer to Secretary Napolitano.

Mrs. BLACKBURN. Okay. Let me ask you this, too. I received the budget yesterday on behalf of the House, and, you know, it was late. You had said in your January 11th letter to Chairman Ryan that you were going to have it done as soon as possible. Well, it was 65 days late, 65 days and 45 minutes exactly from the deadline that it was to be here, but at 98 days later, do you consider that to be as soon as possible considering that the House has already done its budget, the Senate has done theirs.

Mr. ZIENTS. As you know from having received our budget, it is extremely detailed. It is thousands of pages, a different exercise than your budget exercise by design. Given what happened with the fiscal cliff crisis at the end of the year, and then the sequester, those had major impacts on our budget process. I will assure you that the people at OMB worked very hard to deliver the detailed budget that you received yesterday, and we are happy to be here today to talk about it.

Mrs. BLACKBURN. And 98 days was as soon as possible as it could get here?

Mr. ZIENTS. Absolutely.

Mrs. BLACKBURN. And they know they are going to have to do this every single year.

Mr. ZIENTS. We do the budget every single year. I hope we do not have a fiscal cliff negotiation and a sequester negotiation every year.

Mrs. BLACKBURN. If we did a better job managing our funds, we probably would not have those negotiations. Let me ask you about the Department of Commerce. You requested $8.6 billion in discretionary spending for them for fiscal year '14, and it is a 26 percent increase since Obama first took office. So knowing that we have got these difficult fiscal environments, and you are talking about the fiscal cliff issues and the difficulty of sequestration. So why can we not support a simple 2 percent reduction?

Mr. ZIENTS. Overall discretionary spending with the BCA cap is being driven to the lowest level since the Eisenhower administration.

Mr. PRICE. Gentlelady's time has expired.

Mrs. BLACKBURN. And I thank the gentleman. I yield back.

Mr. PRICE. Gentleman from Oregon, Mr. Schrader, for five minutes.

Mr. SCHRADER. Thank you, Mr. Chairman. I appreciate it. Well, I want to thank you for being here, Mr. Zients, you are going to be sorely missed. Moving on here, I would also like to congratulate the president for being the adult in the room. We do not have, as I look at his budget, a purely Democrat budget or a purely Republican budget. We have a budget that tries to bridge the gaps, something this country sorely needs. More specifically, does the president go after deficit reduction by doubling down on the domestic sequester like the Republican budget does, that would cost 750 jobs?

Mr. ZIENTS. Absolutely not. The sequester is a terrible policy. It was never intended to be implemented. It was meant to be so terrible that it would force balanced deficit reduction. The president's budget has more than enough balanced deficit reduction to replace the sequester. The sequester is hurting our growth by anywhere from a half to a full percent of GDP, and will cost us hundreds of thousands of jobs.

Mr. SCHRADER. Does the president's well-meaning attempt to reduce our deficits, national deficits, cut Pell grants or double student interest loan rates like the Republican budget does?

Mr. ZIENTS. No, the president has put forth a permanent fix to the student loan program.

Mr. SCHRADER. Does the president try and reduce our national deficits by block granting Medicaid not adjusted for medical inflation or actual case load?

Mr. ZIENTS. No.

Mr. SCHRADER. Like the Republican budget does?

Mr. ZIENTS. No, the president does not believe in block granting Medicaid and the Republican budget also cuts Medicaid by a third, resulting in more than, I think it is close to 20 million people losing Medicaid.

Mr. SCHRADER. Tell you what I would commend the president's notice is an effort out in Oregon where we are actually doing an outcome-based approach to Medicaid reform, where we are, you know, frankly saying we are going to reduce Medicaid inflation rates by 2 percent without cutting benefits.

Mr. ZIENTS. And I do want to say, per an earlier conversation where we ran out of time, the Administration is supportive of waivers, demonstrations to improve Medicaid. Like any health system, it can get better, but I do think we have to recognize the importance of Medicaid for a very vulnerable population that without Medicaid would not get help.

Mr. SCHRADER. I think incentivizing the states like the president is doing is a really smart way to get savings and make sure states have that flexibility, just like you indicated. Does the president try and produce national deficits by entertaining Medicare reforms that rely on the voucher? And it is a voucher program. If it looks like a duck, quacks like a duck, it is a duck. It is a voucher program, however you want to slice it, that shifts two-thirds of the cost to seniors that can ill-afford it being on fixed incomes.

Mr. ZIENTS. No, the president's budget has sensible reforms to Medicare, but maintains the program as we know it.

Mr. SCHRADER. And is it not true that knowledgeable economists want deficits to be actually manageable given the state of the country's economy, and that abruptly balancing the budget in a short window like the Republicans do actually is harmful to the recovery, and causes problems, and cuts jobs in this country?

Mr. ZIENTS. We talked about Europe before and austerity budgets. Also, if you look at Bowles/Simpson and the other groups, there is a balanced deficit reduction that phases in across time as the economy recovers.

Mr. SCHRADER. I mean, in the real word, colleagues, in the real world here we need to compromise. We are actually going to have a budget deal at the end of the day here. We actually have to compromise, and look at each other's opinion, and validate the fact that this is a big country, everyone has a different view of the world. You know, moms and dads across this country have to figure out what to do and come to reasonable accommodation. Business men and women come to a deal every single day. I think in the real world we need to get past these talking points. You know, it is time for this adult conversation, actually deal with our rising health care costs, and the fact that we have an aging population in this country that is putting a burden on our revenue system like we have not seen in a long, long time.

I think the president has laid down a very, very reasonable compromised marker, one that he and the speaker had nearly worked out to completion last summer. I hope the conversation picks up from here. We go to conference, and the cooler heads prevail, and we actually, like the folks in the no-labels group do, try and understand one another's problems, and fix this country once and for all. It is time to save our country, folks, and I yield back.

Mr. PRICE. Wish to commend the gentleman from Oregon for yielding back with 45 seconds left. The gentleman from Texas, Mr. Williams, for five minutes, please.

Mr. WILLIAMS. Thank you, I am a small business owner, still own a business, 41 years, and I ran because I did not think that there was a lot of people defending small business entrepreneurships in competition, and I have got to say after hearing this testimony today, I am glad I ran. And I will tell you, I come from Texas. And in Texas we always thought President Obama, that sequester was his program. We talk about how bad it is. I think that that is where it started. A couple of questions real quick, they will be easy to answer. Why does your budget not balance?

Mr. ZIENTS. Our budget is the right fiscal path for this period of time, because it supports jobs and the economy, while at the same time bringing our deficits under control.

Mr. WILLIAMS. So that is your reason it does not balance, okay. Tax increases, as a business owner, I can tell you, tax increases have put us further in debt. That is just any way you want to look at it. Why not tax reductions across the border to create more revenue, and have the private sector and small businesses grow? In other words, why should America have one of the highest tax rates in the world, when we are trying to be competitive? Why should the highest tax rates be something we are happy with?

Mr. ZIENTS. Let me say a few things. First of all, I, too, come from the private sector. I was in the private sector for 22 years, and much of that time was during the Clinton period of time.

Mr. WILLIAMS. You are cutting into my time. I want to ask you the questions.

Mr. ZIENTS. Okay, 97 percent of businesses are not impacted by any of the president's tax reform proposals, 97 percent. For corporations, the president does favor tax reform, tax reform that encourages investment in this country like the RNE tax credit, where it is only given for investment here.

Mr. WILLIAMS. Do you not think we ought to have lower taxes to compete?

Mr. ZIENTS. The president has put forward tax reform where his target tax rate is 28 percent for corporations, 25 percent for manufacturing. So the president is in favor of tax reform, getting rid of loopholes and expenditures that encourage or give awards.

Mr. WILLIAMS. You might want to get that word out to the small business owners because they are not getting it. They are scared to death. The next question I have is has any budget the president prepared ever been ahead of vote of confidence or had a vote to support it?

Mr. ZIENTS. Well, as we talked a bunch, we are all excited about getting back to regular order.

Mr. WILLIAMS. I was just asking, has he ever had a budget that anybody supported?

Mr. ZIENTS. People support his budget, yes.

Mr. WILLIAMS. Okay. Now, you are going to the private sector. You started talking about your private sector experiences. If you believe so much in this budget and this accounting, are you going to use that accounting when you go in the private sector, and will you borrow more in your new business than you take in?

Mr. ZIENTS. Well, I will go to the bottom line, and the bottom line in this budget is that we have deficits on a declining path, debt is on a declining path. At the same time, we make important investments to create growth.

Mr. WILLIAMS. But I am talking about your future career. Are you going to deficit spend? Are you going to go to your banker and say, "I am losing money, but I need more money"? I mean, are you going to do that?

Mr. ZIENTS. What I am going to do is I am going to try to grow my business, same way we need to grow this economy, create jobs, be competitive, make important investments in things like infrastructure and R&D.

Mr. WILLIAMS. Well, that is fine. What is the threshold of tax that this president thinks the private sector convey? How high is it?

Mr. ZIENTS. Well, I want to be clear that there is no tax rate increase in the president's budget. There is no tax rate increase. There is tax reform.

Mr. WILLIAMS. Well, you are not doing a very good job of telling the small business owners that.

Mr. ZIENTS. Ninety-seven percent of small businesses are under $250,000 in income, and there have been no tax increase.

Mr. WILLIAMS. You know what? And they want to be more than 250,000. Your situation is making it so people cannot make more. Now, they are trying to make 249 instead of 251. It is a bad situation.

Now, we talked about eliminating poverty, but to eliminate poverty by putting people to work through the private sector. Regulations are killing the private sector. And I am going to ask you a question: 7.8 percent unemployment, is it the norm now? Is that the new norm? Is 15 percent poverty the new norm? Is 18-year-olds to 64 that have not worked one day in a year, is that the new norm? Is 15 percent underemployment the new norm? Is 99 weeks of unemployment compensation, is that the new norm?

Mr. ZIENTS. No, it is not new norm. What we are trying to do in this budget and what we will accomplish in this budget is get people back to work and grow this economy. We have made progress, 6.5 million jobs created by the private sector across the last 37 months, 14 straight quarters of DGP growth. We have got a lot of work ahead of us.

Mr. WILLIAMS. The other question is, I went to school in Texas, so pardon my simplicity here, but how can you say that you have had new job creation when unemployment has gone up, when this administration has been, how can you have job creation when unemployment continues to go up?

Mr. ZIENTS. The unemployment rate is lower than when the president came into office.

Mr. WILLIAMS. I do not believe it is.

Mr. ZIENTS. It is 7.6 percent.

Mr. WILLIAMS. I do not believe it is. Mr. Chairman, thank you. I yield back.

Mr. PRICE. The gentleman yields back. The gentleman from New Jersey, Mr. Pascrell, for five minutes.

Mr. PASCRELL. Thank you very, Director Zients, thank you for your testimony today. I find interesting questions, interesting responses, but I do know, and I am pretty positive since I checked it with three different sources, that the unemployment rate, which is too high, is lower than when this president raised his hand.

Mr. ZIENTS. Yes.

Mr. PASCRELL. Am I correct, Mr. Zients?

Mr. ZIENTS. That is consistent with what I just said, yes.

Mr. PASCRELL. Okay. I think that the president should be applauded for his proposals to not only invest in science, but his proposal to make sure that we reward those corporations and companies who want to bring jobs back to the United States of America. I am glad that he has stuck with that proposal which he made in the state of the union address last year, and he has repeated it this year.

But we are kidding ourselves if we think that any sort of a decrease in Social Security payments is a good idea. This program was intended to be just one of the ways in which people were insulated from poverty in their old age. But pensions and savings have eroded dramatically. We all know that. According to the Social Security Administration, 51 percent of the workforce has no pension coverage whatsoever, none, and that number is going to increase, we do know that. And 34 percent of the workforce has no savings set aside for retirement. I think we know that wages today do not keep up with costs, and that is why our president included a raise to the minimum wage. And we can debate that, but I think he is sensitive to the fact that wages are not keeping up to the increase in certain costs.

Cutting the benefits our seniors rely on is not how we should balance our budget, or try to balance the budget. The average retired worker is receiving $1,262 a month. That benefit is critical to a livelihood. They have worked for it, by the way. Among elderly beneficiaries, 74 percent of unmarried people rely on the check for either half or more of their income. I mean, that is a fact. We can cite many other facts. But why in God's name would we lead this budget in determining that we are going to cut benefits in order to reduce this deficit? With the current economic difficulties facing seniors, what specific protections will the budget include to ensure that those seniors who rely primarily on Social Security benefits, and more and more do that every year, Mr. Director. So how are we going to protect these seniors? You tell me.

Mr. ZIENTS. Well, first of all, the chained CPI was included in the compromise package.

Mr. PASCRELL. Yeah, I heard you say that before. Let's not blame the other side. This is our budget.

Mr. ZIENTS. I think it is also important, this is a cut in benefits.

Mr. PASCRELL. It is a cut in benefits.

Mr. ZIENTS. It is not a cut in benefits. It is a decrease in the annual increase of inflation to a benefit.

Mr. PASCRELL. But you are recalculating. Let's go to point one that you just made.

Mr. ZIENTS. The benefit, when you go on Social Security, starts at the same level. The annual increase will be pegged to chain CPI, which could result in a lower increase.

Mr. PASCRELL. But senior inflation is very different than inflation for you. Do you recognize that in chained CPI?

Mr. ZIENTS. Let me go to a second important point. The president is only willing to do this if there is protection for older beneficiaries. So at age 76, there is a bump up that will equal to 5 percent of the benefit for all seniors. So there is an older beneficiary increase to protect older beneficiaries. This is consistent with Bowles/Simpson and other groups.

Mr. PASCRELL. Thank you, Mr. Chairman. I had a lot of other questions.

Mr. PRICE. The gentleman's time has expired. The gentleman from Wisconsin, Mr. Duffy, for five minutes.

Mr. DUFFY. Good afternoon, Mr. Director. I was not sure if it was morning or afternoon. I know you were talking a lot about chained CPI. When does Social Security go insolvent?

Mr. ZIENTS. Social Security solvency is through 2033.

Mr. DUFFY. 2033, and Medicare solvency goes to 2023.

Mr. ZIENTS. I do not think so with the president's budget.

Mr. DUFFY. Per CBO, currently, it is 2023 for solvency of Medicare, right? Does CBO say that? Yes, right, it is 2023 for CBO solvency for Medicare.

Mr. ZIENTS. Right, but we are here talking about the president's budget, which extends that late into that decade.

Mr. DUFFY. That is right. So I am going to get to that. So in your budget, you are proposing a change to Social Security that is solvent for 10 years longer than Medicare. And what changes you make in Medicare? No structural changes really.

Mr. ZIENTS. Oh, absolutely.

Mr. DUFFY. You are cutting benefits to providers, doctors, hospitals, and clinics, but you are not structurally changing Medicare that really fixes the problem, are you?

Mr. ZIENTS. Well, first of all, chained CPI does not just apply to Social Security, it applies to many government programs, point number one.

Mr. DUFFY. But it does involve Social Security, right? Does it involve Social Security?

Mr. ZIENTS. Yes.

Mr. DUFFY. Yes, and does it affect Medicare? Listen, I am asking the questions. Does it affect Medicare?

Mr. ZIENTS. At a very small basis, yes.

Mr. DUFFY. Right. And so why are you not focusing on fixing Medicare?

Mr. ZIENTS. Well, that is what I wanted to explain.

Mr. DUFFY. Great.

Mr. ZIENTS. We have $37 billion of savings, including increased premiums for high income beneficiaries.

Mr. DUFFY. Great. So, now, hold on.

Mr. ZIENTS. It saves a trillion dollars in the second decade.

Mr. DUFFY. That brings you to solvency to what year?

Mr. ZIENTS. Late into the 2020s.

Mr. DUFFY. I thought it was an additional four years, right?

Mr. ZIENTS. That is late into the 2020s, yes.

Mr. DUFFY. Okay. So if this is your proposal, to say this is our plan, these are our priorities, you really have not protected our seniors, have you? You have not put out a plan besides cutting reimbursements that go to the benefit of our seniors to actually save the programs.

Mr. ZIENTS. To your point, we have extended Medicare solvency, and most importantly, we have protected Medicare as we know it.

Mr. DUFFY. Mr. Chairman, could the witness answer the question?

Mr. PRICE. The gentleman from Wisconsin controls the time.

Mr. DUFFY. Do you care about fixing Medicare and saving it?

Mr. ZIENTS. Absolutely. We want to save Medicare as we know it. We do not want to turn Medicare into a voucher system. We do not want to cut cost.

Mr. DUFFY. Then why do you not put out a plan that saves Medicare?

Mr. ZIENTS. We do.

Mr. DUFFY. No, you do not. You have solvency, but you don't save it.

Mr. ZIENTS. We put forward a plan that saves $370 billion in this period of time, extends solvency, and saves over a trillion dollars, but most importantly, it means Medicare as we know it. It does not turn Medicare into a voucher system.

Mr. DUFFY. Listen. No, no, hold on a second. No, no. You cut a trillion dollars in reimbursements for Medicare.

Mr. PRICE. Gentlemen, suspend. If the gentleman desires to speak instead of the witness, please reclaim your time.

Mr. DUFFY. Very well. You cut a trillion dollars, $716 billion in Obama care, $300 billion in your budget, and it is still not solvent. It still goes broke in 2027. So do you have a plan that saves Medicare, protects our seniors, not just current retirees, but the next generation retirees? Do you have a plan that does that to keep it solvent?

Mr. ZIENTS. We continue to make reforms to Medicare.

Mr. DUFFY. That is not my question. Do you have a plan?

Mr. ZIENTS. What we do is we protect Medicare as we know it.

Mr. DUFFY. I will reclaim my time. This is a yes or no. Do you have a plan that saves Medicare, not just cut reimbursements, but save it long term?

Mr. ZIENTS. Yes, the president's plan saves Medicare as we know it.

Mr. DUFFY. I will reclaim my time. In 2030, Medicare is solvent under your plan?

Mr. ZIENTS. We will continue to make reforms to Medicare.

Mr. DUFFY. I will reclaim my time. In 2030, is Medicare solvent under your plan? Yes or no. The answer is no, is it not?

Mr. ZIENTS. It is not the right way to look at the problem.

Mr. DUFFY. Yes, it is the right way.

Mr. ZIENTS. The right way to address Medicare is to reform it and to maintain Medicare as we know it.

Mr. DUFFY. I reclaim my time. I want to look at job growth and investment in infrastructure, okay? This is an important part of growing our economy, putting people back to work, right, and more people working brings more revenue into the federal coffers. We all agree on that. I was reviewing the budget, and nowhere in the budget did I see that the president was going to support the Keystone Pipeline. Twenty thousand direct jobs, 100,000 indirect jobs, infrastructure spending; I don't see that support. So if you care about jobs, putting our private sector unions back to work, why, in this budget, if you care about infrastructure spending, if you care about jobs, why are you not supporting the Keystone Pipeline?

Mr. ZIENTS. The Keystone Pipeline decision is at the State Department. So I defer you to the State Department. I will also point to you the $50 billion immediate investment in infrastructure.

Mr. DUFFY. I reclaim my last 10 seconds. In 10 years from now under your proposal, you have spent $750 billion to pay the interest on the debt, $750 billion. That is $100 billion more than you plan on spending on your military. This is exploding.

Mr. PRICE. Gentleman's time has expired.

Mr. DUFFY. I yield back.

Mr. PRICE. The gentleman from Kentucky, Mr. Yarmuth for five minutes.

Mr. YARMUTH. Thank you, Mr. Chairman. What I thought I would do, since I am the last questioner on our side of the aisle, is just make a couple of comments, and then offer you the time to finish your answers, or respond to things that you may have not been able to respond to during the course of the morning.

The first thing I wanted to say is that it is very frustrating to me to hear Speaker Boehner and Leader McConnell talk about the fact that they, they being democrats or the Obama administration, got their tax hikes in January, and that is it. Now, they are asking for more. Would it not be fair to say by the same logic because of the sequester, because of the Budget Control Act, the roughly $2 trillion worth of cuts that we have enacted over the last three years, that the Republicans got their cuts, and yet they still ask for more cuts in the Republican budget?

Mr. ZIENTS. If you look at the deficit reduction achieved to date without the sequester, because the sequester was never intended to be policy, that 2.5 trillion, $3 in spending cuts for every dollar of revenue.

Mr. YARMUTH. So Republicans have gotten lots of cuts.

Mr. ZIENTS. Yes.

Mr. YARMUTH. And yet they have asked for more in their budget?

Mr. ZIENTS. Yes.

Mr. YARMUTH. Yeah, I thought that was fair. Secondly, Mrs. Black spent a lot of time trying to distinguish between premium support and voucher, the description or characterization of the Republican plan, and I would just like to note that the difference between those two characterizations is a lot smaller than the difference between calling what we did in the Affordable Care Act, allowing doctors to be paid for end-of-life decisions, calling that death panels. I would say there is a greater distinction in that vocabulary, but that is just fun. I am just having fun. And I do want to say one other thing, just to clarify. When we talk about solvency with Social Security, we are not necessarily talking about a bankruptcy type of solvency. We are talking about how long Social Security can continue to pay 100 percent.

Mr. ZIENTS. That is right, then it becomes 75 percent after 2033, but again, we will reform Social Security so that does not happen.

Mr. YARMUTH. Right, I just wanted to get that on the record. So from now on, I would just like to offer you the remainder of my time, if you want to talk about the 90 percent debt levels, or some of the other things that were brought up during the discussion that you were unable to respond to.

Mr. ZIENTS. I think that, just because it is so important to emphasize the sequester, we heard from many of you in your constituencies what is going on, and it is impacting people across the country. It is going to cost us anywhere from a half to a full percent of GDP. Hundreds of thousands of jobs at a time when we need to be adding hundreds of thousands of jobs, not subtracting. Therefore, I think it is really important that a policy that was never, ever intended to be implemented, it was meant to be a forcing function for balanced deficit reduction, that we immediately turn off the sequester and replace it with balanced deficit reduction.

Mr. YARMUTH. I appreciate that, and just to segue from that just a moment, there is a lot of conversation, there was some conversation earlier about this notion of public expenditures and the public economy versus the private economy. And I reviewed our employment situation in my district of Louisville, Kentucky, and seven of our largest nine private sector employers rely to a significant extent on government spending. That is everything from UPS, we are the global hub of UPS, they have $1 billion contract with the federal government; to our hospital systems; to Humana, which, right now, realize 80 percent of Humana's business comes from the federal government. So when we are talking about these cuts in federal spending, we are not talking about just government bureaucrats who are paying the price. We are talking about a significant portion of the private economy and private employment.

Mr. ZIENTS. Just taking advantage of your generosity in giving me a little bit of time, I never really had an opportunity to comment on the one chart that went up, which showed gross debt, which is not the right way to look at our debt. It is publically-held debt; publically-held debt is on a declining path starting 2016 in the president's plan. That is a clear milestone of fiscal sustainability. The second thing is on this Medicare solvency issue. The president has done a lot to improve our situation on Medicare cost. Our cost per capita are now growing less than GDP. CBO adjusted their baseline by over $200 billion to reflect the slowing of Medicare on a per capita basis that has occurred during the president's term.

Mr. YARMUTH. Thank you.

Mr. PRICE. Gentleman's time has expired. Just for the record, the public debt remains in the low 70s the whole time, and under the president's plan.

Gentleman from Oklahoma recognized for five minutes, Mr. Lankford.

Mr. LANKFORD. Thank you, Mr. Chairman. Thank you for being here. A long day, I know, as well. You had mentioned before about cigarette tax and the increase of cigarette tax. It has a dual purpose. It is bringing in more revenue, and also decrease the usage. Is that correct, based on your comment earlier?

Mr. ZIENTS. Yes.

Mr. LANKFORD. Right, so if a cigarette tax goes in place, it decreases the usage of the cigarettes. There is also a proposal that you have in there in the budget as well that basically removes an incentive to continue to add to an IRA if you get past $3 million in an IRA. Do you assume from that that if people get to a $3 million capping area they will stop putting money into an IRA, they will invest in other areas, they will move away from that? I am sorry, I am just trying to set up something. Is that a yes or no? Do you think people will continue to add to it?

Mr. ZIENTS. If the tax advantages of contributing should stop at the 3 million level.

Mr. LANKFORD. Right, I understand, but do you think people will stop putting into an IRA as much at that point, that they will invest in other areas because they do not have the tax advantage?

Mr. ZIENTS. It depends on what their alternative investments are.

Mr. LANKFORD. If it actually costs more, then they probably will. And so a cigarette tax, hold on just a second, let me talk about this real quick. A cigarette tax will probably decrease the use of cigarettes, and if you remove all the tax incentives for an IRA at a certain level, it will probably decrease the use of an IRA. The question I have is, there is also a significant portion in here that says that they are going to remove all the normal business expensing for traditional energy production, so oil, gas, coal, that all of those normal business expenses for them will go away. Do you think we will have more or less energy production if you remove all the normal business expensing away from energy companies?

Mr. ZIENTS. I think that we have had a big increase in production, and I think we will continue to have an increase in domestic production, particularly in natural gas.

Mr. LANKFORD. So it will be the opposite effect. Well, actually, right now, we are at the lowest drilling that we have been in natural gas since 1999.

Mr. ZIENTS. Our natural gas productions are record high.

Mr. LANKFORD. I understand, but the actual drilling and expiration, that the business expenses deals with expiration. It is not dealing with the production, right? Are you aware of that?

Mr. ZIENTS. Yes.

Mr. LANKFORD. Okay, so, when we are talking about the expiration and adding new amounts of inventory on there, do you think we will increase inventory if we raise taxes on energy production?

Mr. ZIENTS. I think that we need to have an all-of-the-above energy strategy, where we are encouraging renewable energy, solar, geo-thermal.

Mr. LANKFORD. I think you know where my questions are. You are answering a question I am not asking. I am asking, do you think we will increase production of traditional energy by increasing the tax burden on traditional energy producers?

Mr. ZIENTS. I think we will have our incentives appropriately aligned with an all-of-the-above energy strategy, which encourages efficiency, includes alternatives, and has a fair tax code.

Mr. LANKFORD. Actually, hold on, no, let me reclaim my time. The Greenbook, the Treasury, and the details of this actually uses the term that they want to have a neutral system, and that if you remove all the tax incentives for traditional energy production, oil, natural gas, and coal, and the move is to a neutral position, is it the president's position that we should be neutral on energy?

Mr. ZIENTS. The president believes that we should be encouraging alternative forms of energy, that we should be encouraging efficiency, and that we should also be encouraging domestic gas and oil production.

Mr. LANKFORD. I would have no problem encouraging efficiency in all different kinds of ways, but if we are going to be neutral, it is just interesting to me. In one of the books, it talks about how oil and natural gas, if you go to this one, it talks about oil and natural gas will be the energy for the future because it is what we are producing, but we hope to transition at some point to that. You go to a different page, and it says we are going to decrease the usage of oil and natural gas, and try to get us to a different one. And if I go to the Treasury book, it actually says we just need to be neutral on this. And so it is really interesting to try to figure out the tax policy and the energy policy of where we are headed on this. There is no question that if you raise taxes and you remove all the normal business expensing, that it is going to decrease production. My question along with that is, is there another industry that the president wants to remove normal business expensing from?

Mr. ZIENTS. Well, the president definitely wants to get rid of tax expenditures and loopholes that encourage companies to move overseas.

Mr. LANKFORD. Sure, I would agree with that, but he is unwilling to do a territorial tax system, am I correct on that?

Mr. ZIENTS. I'm sorry?

Mr. LANKFORD. A territorial tax system. I mean, that does not seem to be addressed.

Mr. ZIENTS. Again, you will have Secretary Lew at some point. But I do not think of it as territorial and global. The president has put forward principles for corporate tax reform, lowering the rates, particularly for manufacturing, and having a global minimum tax, which is really a hybrid system. It is not a territorial or worldwide system.

Mr. LANKFORD. Let me reclaim my time. If all the business expensing for energy production is taken away, I assume that is to incentivize that we go to, then, other forms of energy. The reality of that is the middle class will pay more for energy in the days ahead, and that will be a middle-class tax. It just shifted to a different area.

Mr. PRICE. Gentleman's time has expired. Gentleman from Georgia, Mr. Woodall, for five minutes.

Mr. WOODALL. Thank you, Mr. Chairman. Eric, if I could ask you to put our slide up. I feel less like we are having a hearing here, Mr. Price. More like you and I are just sitting around the dinner table together. And with that in mind, I do not know if you can read this.

Mr. ZIENTS. I actually cannot, can I get a paper copy of it?

Mr. WOODALL. I am not going to go deep into the weeds.

Mr. ZIENTS. Okay, because I literally cannot see any of it.

Mr. WOODALL. I am going to take you back about two hours. I am going to recommend a good ophthalmologist to you as well to spot that. Lasik is what solved my woes.

Mr. ZIENTS. I will take you up on that.

Mr. WOODALL. So I will take you back to what the gentleman from Maryland, I believe you all were talking earlier about, fundamental tax reform, and whether or not you have received proposals that could bring the rates down to 25 percent for high-income earners without raising the burden on middle- and lower-income Americans. And I will just refer you to a CBO report. They are doing an update right now, so these are actually old numbers that I have on the board, but what they show is that the effective income tax rate today for folks in the top 1 percent, the effective income tax rate for folks in the top 1 percent, which is for people who are earning \$1.7 million a year, is 19 percent. You go down to the top 10 percent, which is folks averaging \$366,000 a year or more, the effective income tax rate is 16 percent. So what I would just say, and I have been here for two years and it still surprises me how we argue about silliness all the time, if the effective income tax rate today is 16 percent, and if what we would like to do through fundamental tax reform is lower marginal rates and broaden the base——

Mr. ZIENTS. Could you give me a sense of some of the tax expenditures that you would get rid of?

Mr. WOODALL. I would say to the gentleman that you are absolutely right. That is the hard conversation. But to say it is not doable, to say it cannot be done without raising taxes on middle-income Americans, is nonsense. It cannot be done without restricting tax breaks for upper-income Americans, which is something the president has been very comfortable proposing, something that we have been very comfortable talking about.

Mr. ZIENTS. It is not restricting, it is getting rid of all of them and more. And more.

Mr. WOODALL. It is eliminating them altogether. Absolutely. But again, to say it cannot be done, say we disagree about the way it can be done, but let's not say it cannot be done. And that is where I want to spend the rest of my time. Again, I am disappointed. You are right to point out the frustration that all of America has with the brinkmanship and the last-minute deal making that characterize the fiscal cliff and so much of everything else that we do. Yet you look down the road just two decades away, before the time that I retire, and you still say there is no need to work on Social Security yet because that problem is far, far away. We will get to it then. Even Medicare, you said we solved it because we are going out four years, we are going to push solvency out four years.

Mr. ZIENTS. I fear that you have mischaracterized what I said.

Mr. WOODALL. Please.

Mr. ZIENTS. The president has put out basic principles for Social Security reform. I have said it is not a driver of our near-term fiscal situation. At the same time, the president is willing and would like to, once we get this set of situations behind us, discuss Social Security reform in balanced way. In a balanced way.

Mr. WOODALL. Again, let me make sure that I understand whether we are kicking the can down the road or whether we are taking these challenges on directly. I did not see a word in the president's budget about doing anything to extend the solvency of Social Security. Did I miss an idea that he has?

Mr. ZIENTS. Social Security is solvent through 2033.

Mr. WOODALL. We will stipulate that.

Mr. ZIENTS. It is not a driver of our near-term fiscal situation.

Mr. WOODALL. No, it is not. We will stipulate that. Did I miss a single idea for solving the Social Security shortfall long term?

Mr. ZIENTS. As I said, the president has put forward principles for Social Security reform.

Mr. WOODALL. Absolutely. And that is what I am saying, I am disappointed about that. But you say that is out 20 years, so we do not have to worry about it. What about the Social Security disability trust fund? Do you know when that trust fund exhausts its resources?

Mr. ZIENTS. I believe it is 2016. When I am citing 2033, it is the combination of the two trust funds.

Mr. WOODALL. Absolutely. So the Social Security disability trust fund, it is the fiscal year 2016. It is actually the calendar year 2015, within the president's term. I know we have one in 10 Americans who depend on that program. One in 10 insurance-paying Americans depend on the Social Security disability trust fund. That trust fund will exhaust its resources, and either benefit cuts will occur, or we will have to begin borrowing from the general Social Security trust fund, thus speeding its demise. And there is not one idea in the president's budget. Maybe you are right that we can wait 20 years to work on Social Security.

Mr. ZIENTS. That is actually not the case.

Mr. WOODALL. What is the one idea?

Mr. ZIENTS. Continuing disability reviews, which have a $9 to $1 return, that we would like to have funded as part of Program Integrity, to ensure that people that are on disability should remain on disability.

Mr. WOODALL. And that extends the disability trust fund from 2016 to when?

Mr. ZIENTS. I do not have that calculation. It is $9 to $1 return, so we should fund that immediately. It is a great, it is a fantastic return on investment.

Mr. WOODALL. We will stipulate that. Kicking the can down the road is bad, and it is bad no matter who is doing it. I wish we could sit around the kitchen table and solve these issues more often. Mr. Chairman, I yield back.

Mr. PRICE. Gentleman's time has expired. Gentleman from New Jersey, Mr. Garrett, for five minutes.

Mr. GARRETT. And I guess I am the last one, so I guess we can agree that we are not going to agree 100 percent on these things, so far with what I am hearing about this, so can we agree there may be some things we can agree on, and that is those things that we should probably focus on?

But one of the things I heard when I came into the room was you said there are no new taxes in the budget. Did I hear that correctly? I just walked in at that time.

Mr. ZIENTS. What I was talking about is the $580 billion which is part of the $1.8 trillion compromise with Speaker Boehner. All of that is achieved through tax reform, not through raising rates.

Mr. GARRETT. Okay.

Mr. ZIENTS. And I will remind folks that in December Speaker Boehner said there was $800 billion in tax reform potential.

Mr. GARRETT. Right. I will take that. Yes, and I think that meets the president's pledge early on, and your interpretation that never raise taxes on anyone who makes over $200,000.

Mr. ZIENTS. Less than.

Mr. GARRETT. I'm sorry, less. So the president's pledge was never to raise taxes on anyone who makes less than $200,000, and the president has kept that pledge?

Mr. ZIENTS. It is a couple who make over $250,000, individuals at $200,000.

Mr. GARRETT. And so he has kept that pledge with regard to the budget?

Mr. ZIENTS. Yes.

Mr. GARRETT. And with regard to the cliff vote that we had at the end of last year, the fiscal cliff issue?

Mr. ZIENTS. Yes.

Mr. GARRETT. So the president has always kept that promise?

Mr. ZIENTS. Yes.

Mr. GARRETT. And even when we passed the Affordable Health Care Act, he has kept that promise as well?

Mr. ZIENTS. Yes.

Mr. GARRETT. And so we have never raised taxes on the American public who make under $200,000?

Mr. ZIENTS. Yes.

Mr. GARRETT. And so the Supreme Court across the street was incorrect when they called the Affordable Health Care Act a tax increase because you still take the position, and the White House still takes the position, that that was not a tax?

Mr. ZIENTS. That is a choice that an individual.

Mr. GARRETT. So it is not a tax?

Mr. ZIENTS. It is an individual responsibility fee. I am not a lawyer.

Mr. GARRETT. Is it a tax or is it not a tax? Last year you said it was not a tax; has your opinion changed since last year?

Mr. ZIENTS. It is an individual responsibility fee.

Mr. GARRETT. Yes or no, is it a tax?

Mr. ZIENTS. It is an individual responsibility fee.

Mr. GARRETT. Is what I do April 15th an individual responsibility fee?

Mr. ZIENTS. It is an individual responsibility fee, and I will defer to the Supreme Court on technical definitions. I am not a lawyer, I will defer to the Supreme Court.

Mr. GARRETT. So I take that as you do not know what a tax is and the White House does not know what a tax is?

Mr. ZIENTS. I do know that when those individuals who can afford health care do not purchase health care, they are transferring the cost to everybody else.

Mr. GARRETT. I reclaim my time. I reclaim my time. Also, when I walked into the room, you said the sequester was a terrible policy. I understand that the press secretary speaking for the president said that the sequester was the White House's proposal. My question to you is, is there anything else in the budget that is before us that is also terrible policy to be proposing? That is a yes or no question.

Mr. ZIENTS. Let me clarify. I think I should get to clarify what I meant. The sequester was a forcing function. It was not a policy that was meant to be implemented. So as a policy that is being implemented, it is a terrible policy.

Mr. GARRETT. Okay. Is there other times where the president has given us terrible policies as suggestions to Congress?

Mr. ZIENTS. I do not know what you are referring to.

Mr. GARRETT. You are on quote saying that you thought it was a terrible policy.

Mr. ZIENTS. No. No. Please, I said that the sequester was a forcing function. Implementing the sequester, an across-the-board indiscriminate cut, is terrible policy. Implementation is terrible policy.

Mr. GARRETT. I'm reclaiming my time. I'm reclaiming my time. I wrote down exactly what you said, "Sequester was terrible policy." But going beyond that, we are operating right now under the 1974 Budget Act, is that correct, as far as the procedure that we go through, as far as putting budgets through the Congress?

Mr. ZIENTS. Yes.

Mr. GARRETT. Yes. Under that law, the president is required, and was required, to present a budget to us two months ago, correct? The answer is?

Mr. ZIENTS. The answer is the budget is here today, in full detail. In full detail.

Mr. GARRETT. We cannot get straight answers even when you admit to what the law is. Does not the law require that the president submit it to us two months ago?

Mr. ZIENTS. In full detail. The reason for the delay was the fiscal cliff.

Mr. GARRETT. No, no, no, reclaiming my time. Does the law require him to present the budget two months ago, yes or no?

Mr. ZIENTS. The budget is here today.

Mr. GARRETT. Can you not answer a simple question? Does the law require it? If you do not know what the law is, we can have you come back at another time once you can get briefed on what the law is. Does the law require that the president present a budget over two months ago, yes or no?

Mr. ZIENTS. The president's budget is here today. The president's budget was delayed.

Mr. GARRETT. Mr. Chairman, I would suggest that we do recall this witness at a time that he can go back to answer simple questions as to what the law is. Do you know what the law is, sir? Do you know what the law is, sir?

Mr. PRICE. The record will demonstrate that the witness has not answered the question.

Mr. GARRETT. Then I would recommend to the Chairman that we recall this witness when he has an opportunity to refer back to what the law is.

Mr. VAN HOLLEN. Actually, just for the record, the witness did answer your question, you may not like the answer you are getting.

Mr. GARRETT. I was asking if he knows what the law is. He would not give an answer to that. The president has violated that law over the last four out of five years, and I would request, Mr. Chairman, that we recall this witness when he can be briefed not only on this law, but on many other times when he's failed to answer questions.

Mr. PRICE. That request will be taken into consideration with the Chairman. I want to thank the witness for being with us for nearly three hours. I wish you Godspeed in your future endeavors. All members of the committee may have until 6 p.m., Friday, April 12th, to submit questions for the witness, Acting Director Zients, the answers to which shall be entered into the record of this hearing. At this point, this hearing is adjourned.

[The prepared statement of Jackie Walorski follows:]

PREPARED STATEMENT OF HON. JACKIE WALORSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. Zients, thank you for being here today. It is unfortunate that this budget request is more than two months late. I appreciate the enormous task of compiling the federal budget, but I believe the Administration missed a key opportunity to be a part of finding a solution to the financial mess our country is in. The House and Senate have already completed discussion on our respective budget resolutions. We are trying to move forward with the process, and now we are having to put our work on hold to come back to this. But, better late than never. I am glad we are getting the chance to discuss this budget proposal and I look forward to asking you some questions.

[Questions submitted for the record and their responses follow:]

QUESTIONS SUBMITTED FOR THE RECORD BY CHAIRMAN RYAN

1. Table 5-2 in the Analytical Perspectives, "Federal Government Financing and Debt," includes a line item, "Net disbursements of credit financing accounts." This is comprised of "Direct loan accounts" and "Guaranteed loan accounts." Please disaggregate this data by program.

2. On May 23, 2005, the OMB Director issued M-05-13 formally establishing a requirement that administrative actions that increased mandatory spending be offset by other administrative actions that decreased mandatory spending.

a. Is this memorandum still in force? If yes, please describe the procedures in place to enforce this requirement. If no, please explain the reasons this policy was discontinued.

b. Does OMB budget in advance for administrative actions that would increase or reduce mandatory spending? If yes, please provide a table detailing the administrative actions that are included in the President's FY 2014 budget request, including the budgeted cost or savings.

3. Please provide the annual budget authority and outlays for Overseas Contingency Operations/Global War on Terrorism in (1) OMB's BBEDCA Baseline; (2) OMB's Adjusted Baseline; and (3) the President's Budget Request.

4. Under the Bush Administration, OMB used an assessment model known as the Program Assessment Rating Tool (PART) to evaluate the effectiveness of government programs. PART allowed the public to get an idea of how programs were per-

forming. Why did OMB, under the Obama Administration, choose to discontinue the use of PART? Does this Administration not feel that it is important for the public to know the effectiveness of programs being funded by taxpayer dollars?

5. During the hearing, Congresswoman Lee asked for information on the effectiveness of programs targeted towards low-income programs. Please provide information on:

a. What programs are most effective at moving individuals and families from poverty into the middle class (please provide the basis for your assessment); and

b. How does OMB measure the effectiveness of low-income programs?

6. Please provide a table sorted by agency displaying the final enacted FY 2013 budget authority for each appropriation account including the effect of the sequester the President ordered on March 1 and the administrative rescission implemented on March 27, 2013.

7. The Budget includes $1.227 million in mandatory funding and $273 million in discretionary base funding for continuing disability reviews (CDRs) that are projected to save a net of $37.7 billion over 10-years. You implied that this would shift back the projected insolvency date of the Social Security Disability Insurance program. If the President's proposal is enacted, in what year would the Disability Insurance Trust Fund become insolvent?

QUESTIONS SUBMITTED FOR THE RECORD BY HON. MARSHA BLACKBURN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

Director Zients, page 51 of the President's Fiscal Year 2014 Budget discusses reforming the Tennessee Valley Authority. Specifically, the budget states "Given TVA's debt constraints and the impact to the Federal deficit of its increasing capital expenditures, the Administration intends to undertake a strategic review of options for addressing TVA's financial situation, including the possible divestiture of TVA, in part or as a whole."

However, as you may know, Section 208 of the Urgent Supplemental Appropriations Act of 1986 (PL 99-349) prohibits the Federal Government from soliciting or studying any proposals to sell the Tennessee Valley Authority or the Federal Power Marketing Administrations (PMA) without specific congressional authorization.

Does the Administration intend to undertake a strategic review of options for addressing TVA's financial situation, including the possible divestiture of TVA, in part or as a whole, without specific authorization from Congress?

What specific legal authority does the Administration have to conduct the review without authorization from Congress?

Please also provide a list of individuals that will conduct the review, the date the review will begin, as well as the date that the review will be completed by.

QUESTIONS SUBMITTED FOR THE RECORD BY MRS. WALORSKI

1. Mr. Zients, there are many people in my district who are very concerned that this budget never balances. They don't think it's right that while they are working hard to live within their means, the President is raising their taxes and encouraging the federal government to spend even more money it does not have. I actually brought this concern to the attention of the President, but his response to me was just to say, "Well, the federal government is not a family." Mr. Zients, can you please explain for the record why, at a time when the national debt is $16.8 trillion, the Administration does not think the federal government needs to live within its means? And, before you answer, I'd like to point out that many prominent Democrats believe we should balance the budget, so I'd be curious to hear why the Administration believes these Democrats are wrong.

2. Can you please provide a detailed explanation of what the President's proposed changes to Social Security will look like for the average American? Specifically, what do these changes mean for folks currently collecting Social Security, and what do they mean for future beneficiaries? Will this increase or decrease the amount of money beneficiaries receive per check?

3. I would like to talk for a moment about the tax increases this budget places on small business owners and on low-income Americans (via the cigarette tax.) How will taxing our job creators and our poor help boost our economy?

4. What additional spending cuts can be made that you believe Republicans and Democrats can agree upon?

DIRECTOR ZIENTS' RESPONSE TO QUESTIONS SUBMITTED FOR THE RECORD

REP. BLACKBURN

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What specific legal authority does the Administration have to conduct the review without authorization from Congress?

Please also provide a list of individuals that will conduct the review, the date the review will begin, as well as the date that the review will be completed by.

The proposed strategic review of options for addressing TVA's financial situation is consistent with applicable law. As a general matter, the Administration has the responsibility to conduct these types of reviews to ensure the Federal Government is operating as efficiently as possible.

The Administration's primary consideration for the strategic review is how to best position TVA to address its capital financing constraints within the current fiscal environment. The possible TVA divestiture option referenced in the President's Budget was not intended to suggest a specific course of action but rather to provide a basis for discussion. The Administration will evaluate various options for addressing this issue, including potentially some options outlined in the September 2011 TVA Office of Inspector General's (OIG) report entitled "History, Status, and Alternatives: TVA Financial Flexibility."

Administration officials will work with TVA over the next few months to develop a plan for the review which will address its financing issues to meet future capacity needs, fulfill its environmental responsibilities, and modernize its aging generation system. The review will include discussions with appropriate stakeholders, including the Congress, customers, State and local governments, and employees, contractors, and labor organizations to ensure that all issues are taken into consideration—including electricity prices, environmental obligations, employment issues, and the safe and reliable delivery of electricity.

CHAIRMAN RYAN

Table 5-2 in the Analytical Perspectives, "Federal Government Financing and Debt," includes a line item, "Net disbursements of credit financing accounts." This is comprised of "Direct loan accounts" and "Guaranteed loan accounts." Please disaggregate this data by program.

The attached table reflects estimated net financing disbursements from the President's FY 2014 Budget, disaggregated by account and grouped by direct and guaranteed loan types. Net financing disbursements represent total cash outflows from the financing account less total cash inflows to the financing account. Cash inflows include subsidy and reestimate collections from the program account, borrower principal and interest payments, recoveries, fees, interest received from Treasury, and other inflows. Cash outflows include loan disbursements, default claim payments, negative subsidy and downward reestimate payments transferred to the receipt account, interest paid to Treasury, and other outflows.

FY 2014 budget disbursements of credit financing accounts, policy, by account and loan type (in millions)

					Estimate						
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Direct loan accounts											
Department of Agriculture											
Agricultural Credit Insurance Fund Direct Loan Financing Account	138	393	303	246	178	126	78	46	19	19	19
Debt Reduction_Financing Account	-13	-13	-6	-5	-4	-4	-5	-5	-6	-5	-5
Distance Learning, Telemedicine, and Broadband Direct Loan Finan	124	38	241	-66	-50	-33	-16	-25	-28	-14	-14
Emergency Boll Weevil Direct Loan Financing Account	-2	-1	-1	-1	-1	-1	-1	-1	0	0	0
Farm Storage Facility Direct Loan Financing Account	136	149	164	168	151	133	113	91	72	51	28
Multifamily Housing Revitalization Direct Loan Financing Account	12	25	14	18	22	23	24	25	22	19	20
P.L. 480 Direct Credit Financing Account	-34	-26	-19	-18	-17	-15	-21	-24	-16	-14	-17
Rural Business and Industry Direct Loans Financing Account	-7	-1	0	0	0	1	0	0	2	1	1
Rural Community Facility Direct Loans Financing Account	861	1,096	1,369	1,063	1,049	1,068	926	825	820	681	621
Rural Development Loan Fund Direct Loan Financing Account	16	9	11	12	12	14	17	19	21	24	26
Rural Economic Development Direct Loan Financing Account	20	34	24	-1	-6	-3	-3	-3	-2	-1	1
Rural Electrification and Telecommunications Direct Loan Financi	5,502	3,057	1,448	44	137	-368	-853	-1,409	-1,962	-2,555	-3,278
Rural Housing Insurance Fund Direct Loan Financing Account	19	86	17	15	21	25	56	71	91	112	136
Rural Microenterprise Investment Direct Loan Financing Account	7	4	22	34	17	16	15	14	13	12	11
Rural Telephone Bank Direct Loan Financing Account	-26	-28	-12	-14	-26	-25	-21	-18	-27	-28	-9
Rural Water and Waste Disposal Direct Loans Financing Account	1,281	761	645	568	597	591	576	577	604	577	591
Department of Commerce											
Fisheries Finance Direct Loan Financing Account	16	21	21	21	21	21	21	21	21	21	21
Department of Defense--Military Programs											
Family Housing Improvement Direct Loan Financing Account	276	191	162	107	44	-7	0	-20	-24	-26	-29
Department of Education											
College Housing and Academic Facilities Loans Financing Account	0	0	0	0	0	0	0	0	0	0	0
Federal Direct Student Loan Program Financing Account	148,821	133,710	131,183	125,317	117,139	110,559	104,846	102,607	101,442	99,170	100,532
Federal Perkins Loan Financing Account	0	2,928	9,478	9,209	8,605	7,940	7,171	6,417	5,601	4,644	3,756
Historically Black College and University Capital Financing Dire	157	145	210	261	319	290	282	272	263	252	240
Student Loan Acquisition Account	-3,236	-3,007	-3,345	-3,699	-4,161	-4,512	-4,364	-3,372	-2,123	-1,024	-181
TEACH Grant Financing Account	139	108	86	81	94	106	130	153	179	207	236
Temporary Student Loan Purchase Authority Conduit Financing Acct	116	-141	1,820	-944	-836	-749	-655	-473	-263	-160	-118
Temporary Student Loan Purchase Authority Financing Account	-6,252	-4,831	-5,321	-5,859	-6,545	-7,513	-7,133	-5,183	-3,067	-1,297	5
Department of Energy											
Advanced Technology Vehicles Manufacturing Direct Loan Financing	3,798	3,532	3,004	377	-1,267	-1,840	-2,252	-2,386	-2,417	-2,258	-1,768
Title 17 Innovative Technology Direct Loan Financing Account	4,095	3,857	5,321	5,237	4,021	1,409	588	-1,213	-1,452	-1,442	-1,427
Department of Health and Human Services											
Consumer Operated and Oriented Plan Financing Account	340	248	192	174	79	-59	-9	30	-16	-60	-120
Consumer Operated and Oriented Plan Program Contingency Fund Fin	42	67	4	0	0	0	0	0	0	0	0
Department of Homeland Security											
Disaster Assistance Direct Loan Financing Account	-67	-54	46	46	46	87	80	80	80	80	137
Department of Housing and Urban Development											
Emergency Homeowners' Relief Financing Account	1	0	95	-3	-2	-2	-2	0	0	0	0
FHA-general and Special Risk Direct Loan Financing Account	0	0	0	0	0	0	0	0	0	0	0
FHA-mutual Mortgage Insurance Direct Loan Financing Account	1	1	1	1	1	1	1	1	1	1	1
Green Retrofit Program for Multifamily Housing Financing Account	-1	0	0	0	0	0	0	0	0	0	0
Department of State											
Repatriation Loans Financing Account	-2	-2	-2	-1	-1	-1	-1	-1	-1	-1	-1
Department of the Interior											
Assistance to American Samoa Direct Loan Financing Account	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Bureau of Reclamation Direct Loan Financing Account	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
Indian Direct Loan Financing Account	0	0	-1	0	0	0	0	0	0	0	0
Department of the Treasury											
Community Development Financial Institutions Fund Direct Loan Fi	-6	68	255	242	228	166	-40	-40	-40	-40	-40
GSE Mortgage-Backed Securities Purchase Direct Loan Financing Ac	-55	0	0	0	0	0	0	0	0	0	0
Small Business Lending Fund Financing Account	-889	-381	-434	-1,877	-195	-95	-59	-60	-141	0	0
State HFA Direct Loan Financing Account	-2,090	-797	-1,139	-230	-1,197	-1,039	-923	-857	-784	-736	-939
Troubled Asset Relief Program Direct Loan Financing Account	-10,139	-6,159	-764	0	0	0	0	0	0	0	0
Department of Transportation											
Railroad Rehabilitation and Improvement Direct Loan Financing Ac	504	536	553	577	581	524	544	564	584	604	624
TIFIA General Fund Direct Loan Financing Account, Federal Highwa	134	179	470	227	28	30	31	31	31	31	31
Tiger TIFIA Direct Loan Financing Account, Recovery Act	410	16	36	49	33	25	1	1	1	0	0
Transportation Infrastructure Finance and Innovation Program Dir	2,136	3,133	4,587	6,294	8,244	9,543	10,041	10,350	10,589	10,682	10,629
Transportation Infrastructure Finance and Innovation Program Lin	9	21	21	21	21	11	2	2	2	2	2
Department of Veterans Affairs											
Housing Direct Loan Financing Account	295	507	573	586	578	562	545	542	543	608	445
Native American Direct Loan Financing Account	6	6	6	5	5	6	6	5	5	5	4
Transitional Housing Direct Loan Financing Account	0	0	0	0	0	0	0	0	0	0	0
Vocational Rehabilitation Direct Loan Financing Account	0	0	0	0	0	0	0	0	0	0	0
Environmental Protection Agency											
Abatement, Control, and Compliance Direct Loan Financing Account	-1	0	0	0	-2	0	0	0	0	0	0
Export-Import Bank of the United States											
Debt Reduction Financing Account	-3	-3	-1	-1	-1	-1	-1	-1	-1	-1	-1
Export-Import Bank Direct Loan Financing Account	-2,400	-2,775	550	450	250	100	50	-50	-75	-150	-200
Federal Communications Commission											
Spectrum Auction Direct Loan Financing Account	7	7	0	0	0	0	0	0	0	0	0
International Assistance Programs											
Debt Reduction Financing Account	-33	-27	-28	-44	-57	-53	-52	-51	-50	-46	-44
Development Credit Authority Direct Loan Financing Account	7	6	0	0	0	0	0	0	0	0	0
Foreign Military Financing Direct Loan Financing Account	-207	-27	0	2,050	-291	-289	-288	-287	-285	-284	-283
Loans to IMF Direct Loan Financing Account	-1,490	0	0	0	0	0	0	0	0	0	0
Military Debt Reduction Financing Account	0	0	0	0	0	0	0	0	0	0	0

Overseas Private Investment Corporation Direct Loan Financing Ac	317	646	979	1,020	974	909	910	980	967	1,006	926
United States IMF Quota, Direct Loan Financing Account	0	0	0	0	0	0	0	0	0	0	0
National Infrastructure Bank											
National Infrastructure Bank Direct Loan Financing Account	0	50	590	2,066	4,232	6,599	8,871	10,262	10,672	10,689	9,526
Small Business Administration											
Business Direct Loan Financing Account	0	2	-2	-4	-4	-5	-5	-4	-3	-3	-2
Disaster Direct Loan Financing Account	1,448	887	-118	-282	-268	-268	-262	-262	-266	-263	-54
Total, direct loan accounts	144,233	138,246	153,303	143,532	132,791	123,998	118,954	118,236	119,591	119,085	120,034
Guaranteed loan accounts											
Department of Agriculture											
Agricultural Credit Insurance Fund Guaranteed Loan Financing Acc	-1	-22	-20	-16	-12	-9	-9	-9	-9	-9	-10
Biorefinery Assistance Guaranteed Loan Financing Account	-61	-97	-54	0	10	-2	12	11	10	8	1
Commodity Credit Corporation Export Guarantee Financing Account	14	64	41	41	36	31	34	31	39	41	37
Rural Business and Industry Guaranteed Loans Financing Account	-9	102	134	151	162	168	167	157	141	133	89
Rural Business Investment Program Guarantee Financing Account	-1	-1	-2	-2	-2	-2	-2	-1	-1	-1	-1
Rural Community Facility Guaranteed Loans Financing Account	-1	-2	-1	-1	3	4	4	4	4	3	3
Rural Electrification and Telecommunications Guaranteed Loans Fi	0	0	0	0	0	0	0	0	0	0	0
Rural Energy for America Guaranteed Loan Financing Account	-2	-2	-11	-6	-1	1	2	1	1	1	1
Rural Housing Insurance Fund Guaranteed Loan Financing Account	-823	-175	-330	-252	-224	-185	-150	-118	-90	-64	-41
Rural Water and Waste Water Disposal Guaranteed Loans Financing	0	-1	0	0	0	0	0	0	0	0	0
Department of Commerce											
Economic Development Assistance Programs Financing Account	0	0	0	0	0	0	0	0	0	0	0
Fisheries Finance Guaranteed Loan Financing Account	0	0	0	0	0	0	0	0	0	0	0
Department of Defense--Military Programs											
Arms Initiative Guaranteed Loan Financing Account	0	0	0	0	0	0	0	0	0	0	0
Family Housing Improvement Guaranteed Loan Financing Account	2	1	4	3	2	3	5	5	4	5	3
Department of Education											
Federal Family Education Loan Program Financing Account	4,573	-859	-4,797	-3,779	-2,566	-1,891	-1,681	-2,156	-3,394	-4,340	-4,178
Health Education Assistance Loans Financing Account	0	6	6	5	5	4	4	3	3	2	1
Department of Energy											
Title 17 Innovative Technology Guaranteed Loan Financing Account	-32	-38	-47	-119	1	3	4	5	5	5	6
Department of Health and Human Services											
Health Center Guaranteed Loan Financing Account	0	0	0	0	0	0	0	0	0	0	0
Health Education Assistance Loans Financing Account	-50	0	0	0	0	0	0	0	0	0	0
Department of Housing and Urban Development											
Community Development Loan Guarantees Financing Account	-13	-9	13	11	13	14	8	7	8	7	-1
FHA-general and Special Risk Guaranteed Loan Financing Account	-3,223	498	208	429	1,221	2,372	3,097	3,174	1,980	-673	-2,480
FHA-loan Guarantee Recovery Fund Financing Account	0	0	0	0	0	0	0	0	0	0	0
FHA-mutual Mortgage Insurance Guaranteed Loan Financing Account	17,915	17,858	15,933	15,547	15,949	16,544	14,145	10,322	8,488	6,720	6,240
Guarantees of Mortgage-backed Securities Financing Account	-501	552	1,276	574	-2,794	-3,465	-1,381	-1,337	-1,300	-362	-349
Home Ownership Preservation Entity Fund Financing Account	1	1	2	2	1	1	0	0	0	0	0
Indian Housing Loan Guarantee Fund Financing Account	-18	-19	-11	-11	-10	-10	-10	-10	-10	-9	-9
Native Hawaiian Housing Loan Guarantee Fund Financing Account	0	0	1	-1	1	-1	1	-1	1	-1	1
Title VI Indian Federal Guarantees Financing Account	-1	1	1	1	1	1	1	1	1	1	1
Department of the Interior											
Indian Guaranteed Loan Financing Account	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Department of the Treasury											
Troubled Asset Relief Program, Housing Programs, Letter of Cred	-128	7	20	28	28	23	18	14	0	0	0
Troubled Assets Insurance Financing Fund Guaranteed Loan Financi	-758	0	0	0	0	0	0	0	0	0	0
Department of Transportation											
Maritime Guaranteed Loan (title XI) Financing Account	-20	0	-22	-18	-16	-14	-14	-12	-12	-12	-12
Minority Business Resource Center Guaranteed Loan Financing Acco	0	0	0	0	0	0	0	0	0	0	0
RRIF Guaranteed Loan Financing Account	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
Transportation Infrastructure Finance and Innovation Program Loa	-10	0	0	0	0	0	0	0	0	0	0
Department of Veterans Affairs											
Housing Guaranteed Loan Financing Account	-1,085	-396	-409	-493	-586	-661	-721	-763	-793	-809	-822
Export-Import Bank of the United States											
Export-Import Bank Guaranteed Loan Financing Account	-1,042	-800	250	225	200	150	125	100	95	85	75
International Assistance Programs											
Development Credit Authority Guaranteed Loan Financing Account	-21	-26	-36	-38	-43	-49	-54	-57	-62	-67	-72
Loan Guarantees to Egypt Financing Account	-308	-18	-19	0	0	0	0	0	0	0	0
Loan Guarantees to Israel Financing Account	-47	-150	-160	-104	-110	-116	-123	-130	-138	-146	-155
Microenterprise and Small Enterprise Development Guaranteed Loan	0	0	0	0	0	0	0	0	0	0	0
Overseas Private Investment Corporation Guaranteed Loan Financin	130	-119	-115	-116	-121	-124	-125	-126	-127	-128	-129
Tunisia Loan Guarantee Financing Account	17	-1	-1	-1	-1	-1	0	0	0	0	0
Urban and Environmental Credit Guaranteed Loan Financing Account	7	-1	-2	-2	-2	-2	-2	-2	-2	-2	-2
National Infrastructure Bank											
National Infrastructure Bank Loan Guarantee Financing Account	0	-2	-6	-10	-14	-18	-18	-18	-18	-16	-12
Small Business Administration											
Business Guaranteed Loan Financing Account	623	382	114	-48	-100	-69	-35	0	28	21	33
Disaster Loans Guaranteed Loan Financing Account	-1	-1	0	0	0	0	0	0	0	0	0
Total, guaranteed loan accounts	15,121	16,728	11,955	11,995	11,026	12,695	13,297	9,090	4,847	388	-1,787
Department of the Treasury											
Troubled Asset Relief Program Equity Purchase Financing Account	-3,220	-5,377	-4,014	-199	-77	-60	-124	-38	-25	-17	-8
Subtotal, net disbursements	156,134	149,597	161,244	155,328	143,740	136,633	132,127	127,288	124,413	119,456	118,239

On May 23, 2005, the OMB Director issued M-05-13 formally establishing a requirement that administrative actions that increased mandatory spending be offset by other administrative actions that decreased mandatory spending.

a. Is this memorandum still in force? If yes, please describe the procedures in place to enforce this requirement. If no, please explain the reasons this policy was discontinued.

b. Does OMB budget in advance for administrative actions that would increase or reduce mandatory spending? If yes, please provide a table detailing the administrative actions that are included in the President's FY 2014 budget request, including the budgeted cost or savings.

OMB memorandum M-05-13 establishes a pay-as-you-go requirement for discretionary administrative actions that affect mandatory spending, and it remains in force. Section 31.3 of OMB Circular A-11, which governs preparation, submission, and execution of the President's Budget, requires that agency budget requests include a list of all planned or anticipated administrative actions that would increase mandatory spending. Agency actions that are approved by OMB under the guidelines of the OMB memorandum are included in the baseline for the President's Budget, and are not separately tracked.

Please provide the annual budget authority and outlays for Overseas Contingency Operations/Global War on Terrorism in (1) OMB's BBEDCA Baseline; (2) OMB's Adjusted Baseline; and (3) the President's Budget Request.

The attached table provides the requested information.

Funding Levels for Overseas Contingency Operations (OCO) in the 2014 Budget
(Budget authority in millions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TOTALS 2013-2023
FY 2014 Budget: OCO in BBEDCA Baseline:												
Budget authority.....	99,847	101,533	103,526	105,556	107,630	109,738	111,900	114,098	116,345	118,636	120,973	1,209,782
Outlays....................	55,880	83,633	98,864	101,888	104,865	107,321	109,607	111,853	114,107	116,383	118,697	1,123,098
FY 2014 Budget: OCO in Adjusted Baseline:												
Budget authority.....	99,847	101,533	103,526	105,556	107,630	109,738	111,900	114,098	116,345	118,636	120,973	1,209,782
Outlays....................	55,880	83,633	98,864	101,888	104,865	107,321	109,607	111,853	114,107	116,383	118,697	1,123,098
FY 2014 Budget: OCO in Policy:*												
Budget authority.....	96,727	92,289	37,283	37,283	37,283	37,283	37,283	37,283	37,283	---	---	449,997
Outlays....................	54,912	79,606	60,776	42,754	39,259	37,926	37,904	37,392	37,342	15,211	4,000	447,082
Delta: Policy less Adjusted Baseline:												
Budget authority.....	-3,120	-9,244	-66,243	-68,273	-70,347	-72,455	-74,617	-76,815	-79,062	-118,636	-120,973	-759,785
Outlays....................	-968	-4,027	-38,088	-59,134	-65,606	-69,395	-71,703	-74,461	-76,765	-101,172	-114,697	-676,016

**2013 policy reflects Administration's 2013 Request since appropriations were incomplete at the time the Budget was finalized.*

Under the Bush Administration, OMB used an assessment model known as the Program Assessment Rating Tool (PART) to evaluate the effectiveness of government programs. PART allowed the public to get an idea of how programs were performing. Why did OMB, under the Obama Administration, choose to discontinue the use of PART? Does this Administration not feel that it is important for the public to know the effectiveness of programs being funded by taxpayer dollars?

Yes, the Administration believes that it is important for the public to know the effectiveness of programs.

The ultimate test of a performance management system is whether it is used to drive results. PART succeeded in getting agencies to develop more measures, and provided summary ratings for each program, but few in Congress or among agency managers used PART information to improve program management, make resource allocations, or inform decisions. In fact, GAO's survey of Federal managers in 2007 showed that very few managers found PART information useful to management decisions or helpful in improving performance.

A first priority of this Administration was to develop a performance management system at the Federal level that was actively used by agency leadership and managers. In 2010, the Administration launched the Priority Goals initiative, asking agency leaders to set a limited number of ambitious, near-term, implementation-focused goals, and commit to running frequent data-driven performance reviews to drive progress on those goals.

The result is a performance management system that is actively used by agency leadership, and is producing significant improvements in outcomes. A GAO survey released this year found agency Deputy Secretaries/Chief Operating Officers engaged in their data-driven performance reviews, and "attributed improvements in performance and decision making to the reviews * * * which allowed different functional management groups and program areas within their agencies to collaborate and identify strategies which led to performance improvements."

Based on the lessons learned from both the PART and the Priority Goals, and supported by the GPRA Modernization Act, the Administration is now expanding its performance improvement efforts to cover the agency's broader strategic goals and objectives. Starting in 2014, each Federal agency will assess progress toward each "strategic objective" included in the agency strategic plan in order to inform strategic choices, budget and policy priorities, and operational decisions.

During the hearing, Congresswoman Lee asked for information on the effectiveness of programs targeted towards low-income programs. Please provide information on:

a. What programs are most effective at moving individuals and families from poverty into the middle class (please provide the basis for your assessment); and

b. How does OMB measure the effectiveness of low-income programs?

The Budget builds on the progress made over the last four years to expand opportunity for every American and every community willing to do the work to lift themselves up. It creates new ladders of opportunity to ensure that hard work leads to a decent living. It expands early childhood learning to give children a foundation for lifelong learning. It supports a partnership with communities to help them thrive and rebuild from the Great Recession. It creates pathways to jobs for the long-term unemployed and youth who have been hardest hit by the downturn. It rewards hard work and reduces inequality and poverty by supporting an increase in the minimum wage. And it strengthens families by removing financial deterrents to marriage and supporting the role of fathers.

The Budget also builds on programs that have a track record of success in lifting families out of poverty. For example, the Budget permanently extends expansions of the Child Tax Credit and the Earned Income Tax Credit that were passed in the Recovery Act and continued as part of the bipartisan Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act and The American Taxpayer Relief Act that the President negotiated and signed into law in January 2013. The expanded refundability of the Child Tax Credit benefits 12 million families with 21 million children. The expansion of the Earned Income Tax Credit for married couples and families with three or more children provides tax cuts averaging $500 to 6 million families. These improvements lifted 1.6 million Americans out of poverty in 2010. The Budget also continues support of the Supplemental Nutrition Assistance Program, the cornerstone of our Nation's food assistance safety net that touches the lives of more than 47 million people by helping families put food on the table.

The Budget also proposes investments that will help level the playing field for children from lower-income families, so they enter school prepared for success. This includes preschool for all lowand moderate-income four year olds and Early Head Start-Child Care Partnerships to provide access to high-quality early learning for infants and toddlers. The Budget also includes an additional $7 billion for the Child Care and Development Fund over the next ten years to maintain the number of low-income families receiving subsidies and invests $15 billion in extending and expanding evidence-based, voluntary home-visiting for at-risk parents and children.

OMB, working in collaboration with other Federal agencies, uses a number of approaches to determine the effectiveness of low-income programs, including program evaluation, performance measures, and program data.

Please provide a table sorted by agency displaying the final enacted FY 2013 budget authority for each appropriation account including the effect of the sequester the President ordered on March 1 and the administrative rescission implemented on March 27, 2013.

OMB is working to develop the information responsive to this request and will provide at a later date.

The Budget includes $1.227 million in mandatory funding and $273 million in discretionary base funding for continuing disability reviews (CDRs) that are projected to save a net of $37.7 billion over 10-years. You implied that this would shift back the projected insolvency date of the Social Security Disability Insurance program. If the President's proposal is enacted, in what year would the Disability Insurance Trust Fund become insolvent?

The Social Security trustees project that, on a combined basis, the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds will be solvent through 2033. However, by itself, the DI Trust Fund will be exhausted in 2016.

To help protect the DI Trust Fund, the 2014 Budget requests additional funding for Social Security Administration (SSA) program integrity to help ensure that only those eligible for DI benefits receive them. Each $1 invested in CDRs returns $9 in program savings. Additionally, the President's Budget calls on Congress to reauthorize and enhance SSA's demonstration authority for the DI program. Reauthorization of this authority is overdue and would allow SSA to test innovative strategies to help workers with impairments remain in the workforce and help beneficiaries return to work. The President's Budget also includes a legislative proposal to reduce an individual's DI benefit in any month in which that person also receives a State or Federal unemployment benefit, eliminating duplicative payments for the same period out of the workforce, while still providing a base level of income support.

These measures alone will not delay the projected DI Trust Fund exhaustion date, though they will help strengthen the program and reduce costs in the coming years. The President stands ready to work on a bipartisan basis to safeguard Social Security and place both OASI and DI on a stronger footing.

REP. WALORSKI

Mr. Zients, there are many people in my district who are very concerned that this budget never balances. They don't think it's right that while they are working hard to live within their means, the President is raising their taxes and encouraging the federal government to spend even more money it does not have. I actually brought this concern to the attention of the President, but his response to me was just to say, "Well, the federal government is not a family." Mr. Zients, can you please explain for the record why, at a time when the national debt is $16.8 trillion, the Administration does not think the federal government needs to live within its means? And, before you answer, I'd like to point out that many prominent Democrats believe we should balance the budget, so I'd be curious to hear why the Administration believes these Democrats are wrong.

The President's Budget represents a careful balance between the need for short-term measures to safeguard our economic recovery and the need for further deficit reduction to bring the Federal debt under control. The 2014 Budget maintains our commitments to the most vulnerable and continues to make the investments that will support future jobs and economic growth, while at the same time reducing the deficit below historical levels and bringing down the debt as a share of the economy.

Can you please provide a detailed explanation of what the President's proposed changes to Social Security will look like for the average American? Specifically, what do these changes mean for folks currently collecting Social Security, and what do they mean for future beneficiaries? Will this increase or decrease the amount of money beneficiaries receive per check?

In the interest of achieving a bipartisan deficit reduction agreement, the Budget proposes to use the chained CPI to compute cost-of-living adjustments in major federal programs and the tax code. However, this change must be paired with protections in these programs for the vulnerable. It would also not apply to any means-tested programs. The Budget proposes to adopt the chained CPI starting in 2015. The Social Security benefit enhancement would begin in 2020 and would be targeted to elderly and long-term beneficiaries, since this is the group that will be impacted the most by the switch to the chained CPI, due to compounding effects. The benefit enhancement would be equal to 5% of the average retiree benefit, phased in over 10 years. Beneficiaries who are aged 76, or other beneficiaries (such as those receiving Disability Insurance) in the 15th year of benefit receipt would be eligible for the benefit enhancement. The Bowles-Simpson Commission also recommended an adjustment along these lines to accompany its chained CPI proposal.

What additional spending cuts can be made that you believe Republicans and Democrats can agree upon?

The President's 2014 Budget contains numerous proposals to cut spending and reduce the deficit. The Budget details a total of 215 cuts, consolidations, and savings proposals, which are projected to save more than $25 billion in 2014. These proposals affect both mandatory and discretionary spending. As the President has stated, his Budget includes some difficult cuts that he does not particularly like, and which may not be popular within his own party. Accomplishing balanced deficit reduction will require tough choices and compromise from both Republicans and Democrats.

I would like to talk for a moment about the tax increases this budget places on small business owners and on low-income Americans (via the cigarette tax.) How will taxing our job creators and our poor help boost our economy?

Low-income Americans will benefit from the cigarette tax in several ways. First, they will realize substantial health benefits; in particular, they are more likely than high-income Americans to stop smoking or to choose not to start smoking in response to a cigarette tax. And if you don't smoke, you don't pay. For those who want to quit, the Affordable Care Act ensures that health plans cover tobacco use screening and cessation services at no additional charge. Second, revenue from the tax will help ensure that low-income children are prepared for success. All of the revenue raised from the tax will be used for early childhood investments, providing access to pre-school for four-year-olds from low- and moderate-income families and financing the extension and expansion of voluntary home visiting programs for at-risk families. Many business leaders across the nation—representing both large and small companies—have called for early education investments to build the skills of America's future workforce and strengthen our economy.

[Whereupon, at 12:52 p.m., the Committee was adjourned]