TESTIMONY OF
JEFF ZIENTS
ACTING DIRECTOR AND DEPUTY DIRECTOR OF MANAGEMENT
OFFICE OF MANAGEMENT AND BUDGET
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Mr. Chairman, Mr. Ranking Member, members of the Committee, thank you for welcoming me here today, and giving me the opportunity to present the President's 2013 Budget.

Let me start by saying that at the beginning of the year, I did not expect to be sitting in this seat before you today. But, as you know, the President asked Jack Lew to serve him as White House Chief of Staff, and then asked me to serve as Acting Director.

I do not come to the job with the same experience as my two predecessors: I am not a former OMB Director or former CBO Director. What I do bring to this role is a perspective forged from nearly three years at OMB overseeing the agency's management efforts and from two decades before that in the private sector, leading public companies. I know many of you also bring private sector experience to your public service, and I look forward to the discussion we can have today.

The President's Budget is built on the idea that our country has always done best when everyone gets a fair shot, everyone does their fair share, and everyone plays by the same rules. We are all in this together: when the middle class is shrinking and families no longer can afford the goods and services that businesses are selling, it drags down the entire economy. Similarly, countries with less inequality tend to have stronger and steadier economic growth over the long term.

By following these quintessentially American values of equal opportunity for all and responsibility from all, we can build an economy that will grow robustly and create good jobs for years to come – and we can pursue deficit reduction that is balanced and will put the country on a sustainable fiscal path. This Budget lays out the President's vision to do both. In it, we make tough choices – cutting waste where we can as well as some valuable programs that we would not cut if not for the fiscal situation. We put forward a plan to support and strengthen economic growth now so we can get more Americans back to work. And to meet the tight spending constraints that the President signed into law and insisted be a part of his Budget, we re-allocate resources to allow targeted investments so that we have an economy in years to come that is based not on speculation and bubbles, but one that is built on the solid foundation of an educated and skilled workforce, cutting-edge innovation, and world-class infrastructure.

To understand our approach to the Budget, let me review the progress we have made since the President was elected and the challenges that we face today.

WHERE WE HAVE BEEN

When the President took office, the economy was losing over 700,000 private sector jobs a month, and experiencing the worst two quarters of growth since the end of World War II. Many thought that we were on the brink of a second Great Depression.

But long before this recession hit, there was a widespread feeling that hard work had stopped paying off; that fewer and fewer of those who contributed to the success of our economy actually benefited from that success. Those at the very top grew wealthier while everyone else struggled with paychecks that did not keep up with the rising cost of everything from college tuition to groceries. And as a result, too many families found themselves taking on more and more debt just to keep up—often papered over by mounting credit card bills and home equity loans.

Then, in the middle of 2008, the house of cards collapsed. Too many mortgages had been sold to people who could not afford—or even understand—them. Banks had packaged too many risky loans into securities and then sold them to investors who were misled or misinformed about the risks involved. Huge bets had been made and huge bonuses had been paid out with other people's money. And the regulators who were supposed to prevent this crisis either looked the other way or did not have the authority to act.

In the end, this growing debt and irresponsibility helped trigger the worst economic crisis in generations. Combined with new tax cuts and new mandatory programs that had never been paid for, it threw our country into a deep fiscal hole. And millions of hardworking Americans lost their jobs, their homes, and their basic economic security.

Due to swift action taken by the President shortly after taking office, the nation avoided what could have been a second Great Depression. We have now experienced 23 consecutive months of private sector job growth, with 3.2 million jobs created. In just the first few months of 2009, the President's strong leadership produced a Recovery Act to bolster American families against the worst of the crisis, as well as a rescue of the auto industry and the stabilization of our financial system which, together, prevented our economy from spiraling into a deep depression.

When my predecessor last appeared in front of this Committee to present the President's budget, our economy was gaining traction after enduring a historic recession and coming back from the brink of a depression. During the previous six quarters, real gross domestic product (GDP) had grown at an average annual rate of 3 percent and, over the previous 12 months, the private sector had created 1.3 million new jobs. The financial system was no longer in crisis. The credit and capital markets were functioning, and the cost of stabilizing the financial and automobile sectors was amounting to a fraction of initial estimates. Yet we also subsequently have learned that the recession was deeper than many experts first thought: revised estimates showed that the economy contracted at an 8.9 percent annualized rate in the last quarter of 2008, from an original projection of 3.8 percent, the largest quarterly downward revision in history.

Then, a trio of world events created strong headwinds that challenged the economic expansion: uprisings in the Middle East that sent oil prices higher; an earthquake in Japan that prevented American auto and manufacturing companies from getting the supplies they needed to keep our factories producing; and widespread sovereign debt concerns in Europe that roiled markets across the globe. In addition, the willingness of some Republicans in Congress to risk the first default in our Nation's history over the statutory debt ceiling and the subsequent downgrade by Standard & Poor's of the long-term sovereign rating of U.S. Treasuries and other debt tied to the U.S. credit rating kept financial markets on edge and appeared to rattle consumer confidence.

In the face of these headwinds, the policies enacted by the President played a key role in keeping the economy moving forward. Because of the policies that the President fought for, the typical working family received a $1,000 payroll tax cut in 2011, and millions of Americans pounding the pavement looking for jobs could continue to receive unemployment insurance. This provided crucial insurance against headwinds buffeting our economy.

While there are lingering concerns over the financial developments in Europe and the risk they pose to the U.S. economy, the pace of real GDP growth picked up in the second half of last year. Despite these encouraging signs, economic growth is not strong enough to create enough good jobs for all the Americans who want to work or robust enough to restore for the middle class the security and opportunity they deserve.

At the same time, our country still faces the consequences of years of fiscal irresponsibility. When the President took office, he inherited an annual deficit of $1.3 trillion and projected deficits of trillions more in the years thereafter. Driving these deficits were decisions made over the previous eight years not to pay for two tax cuts and a Medicare prescription drug benefit. The deficits were then exacerbated by the recession: the sharp decline in receipts, steep increase in automatic outlays to help those in need, and efforts needed to jumpstart economic growth.

Recognizing the challenges still facing the economic recovery over the past year, the Administration pursued both short-term efforts to boost economic growth and job creation plus comprehensive, balanced initiatives to put the United States on the path toward fiscal stability were both needed. These are complementary policies: A growing economy is necessary for long-term deficit reduction, and likewise, long-term deficit reduction and fiscal sustainability is necessary to sustain and strengthen economic growth for years to come.

That is why the President pursued significant, balanced deficit reduction throughout calendar year 2011: first, in his 2012 Budget; then, in the Framework for Shared Prosperity and Shared Fiscal Responsibility released in April that built on the Budget to identify $4 trillion in deficit reduction; next, in a similarly sized plan presented to congressional Republicans during negotiations over extending the debt ceiling during the summer; and finally in the President's Plan for Economic Growth and Deficit Reduction that was presented to the Joint Committee on Deficit Reduction in September. It also is why the President proposed the American Jobs Act (AJA) in September of 2011, a plan to put more people back to work, put more money in the pockets of working Americans, and do so without adding a dime to the deficit. This combination of tax cuts, infrastructure investments, and aid to those seeking work would give the economy a needed boost through this difficult time.

Unfortunately, at each step, partisan divides and an unwillingness by many in Congress to ask the wealthiest among us to pay their fair share through any revenue increases prevented a comprehensive deficit reduction agreement or measures in the AJA to boost demand from being enacted. Indeed, this lack of real progress on both the AJA and deficit reduction actually became a drag in and of itself on an economy already struggling to recover from a severe recession and battling significant headwinds from events around the globe.

As we look toward the next fiscal year, the challenges of this past year persist: we need to boost economic growth and job creation now and take the steps necessary to put the country on a fiscally sustainable path.

PUTTING THE NATION ON A FISCALLY SUSTAINABLE PATH

In this year's Budget, the President continues to pursue policies that will shore up our economy and our fiscal situation. Together with the deficit reduction he signed into law this past year; this Budget will cut the deficit by well over $4 trillion over the next decade. This will put the country on a course to a level of deficits below 3 percent of GDP by 2018, and will also allow us to stabilize the Federal debt relative to the size of the economy. To achieve these results, this Budget contains a number of steps to put us on a fiscally sustainable path.

First, this Budget implements the tight discretionary spending caps that the President signed into law in the Budget Control Act of 2011. These caps will generate more than $1 trillion in deficit reduction over the next decade, and reduce discretionary spending from 8.7 percent of GDP in 2011 to 5.0 percent in 2022, the lowest this type of spending has been since President Eisenhower sat in the Oval Office.

Meeting the spending targets in this Budget meant some very difficult choices: reforming, consolidating, or freezing programs where we could; cutting programs that were not effective or essential and even some that were, but are now unaffordable; and precisely targeting our investments. Every department will feel the impact of these reductions as they cut programs or tighten their belts to free up more resources for areas critical to economic growth. In fact, for every $1 in new revenue from those making more than $250,000 per year, the Budget proposes $2.50 in spending cuts.

And throughout the entire Government, we will continue our efforts to make programs and services work better and cost less: using competition and high standards to get the most from the grants we award; getting rid of excess Federal real estate; and saving billions of dollars by cutting overhead and administrative costs.

Second, to build on the work we have done to reduce health care costs through the Affordable Care Act, the President is proposing more than $360 billion in reforms to Medicare, Medicaid, and other health programs over 10 years. The goal of these reforms is to make these critical programs more effective and efficient, and help make sure our health care system rewards high-quality medicine. What it does not do—and what the President will not support—are efforts to turn Medicare into a voucher or Medicaid into a block grant. Doing so would weaken both programs and break the promise that we have made to American seniors, people with disabilities, and low-income families.

Third, to address other looming, long-term challenges to our fiscal health, the Administration has put forward a wide range of mandatory savings. These include reductions in agriculture programs, changes in Federal employee retirement and health benefits, reforms to the unemployment insurance system, and new efforts to provide a better return to taxpayers from mineral development. Reflecting the plan the President presented to the Joint Select Committee on Deficit Reduction, these mandatory proposals would save $270 billion over the next decade.

Fourth, this Budget begins the process of implementing the President's new defense strategy that reconfigures our force to meet the challenges of the coming decade. Over the past three years, we have made historic investments in our troops and their capabilities, military families, and veterans. After a decade of war, we are at an inflection point: American troops have left Iraq; we are undergoing a transition in Afghanistan so Afghans can assume more responsibility; and we have debilitated al Qaeda's leadership, putting that terrorist network on the path to defeat. At the same time, we have to renew our economic strength here at home, which is the foundation of our strength in the world, and that includes putting our fiscal house in order. To ensure that our defense budget is driven by a clear strategy that reflects our national interests, the President directed the Secretary of Defense and military leadership to undertake a comprehensive strategic review.

The President presented the results of the review, reflecting the full support of our Nation's military leadership, at the Pentagon on January 5. There are several key elements to this new strategy. To sustain a global reach, we will strengthen our presence in the Asia Pacific region and continue vigilance in the Middle East. We will invest in critical partnerships and alliances, including NATO, which has demonstrated time and again—most recently in Libya—that it is a force multiplier. Looking past Iraq and Afghanistan to future threats, the military no longer will be sized for large-scale, prolonged stability operations. The Department of Defense will focus modernization on emerging threats and sustaining efforts to get rid of outdated Cold War-era systems so that we can invest in the capabilities we need for the future, including intelligence, surveillance, and reconnaissance capabilities. The Administration will continue to enhance capabilities related to counterterrorism and countering weapons of mass destruction, and we will also maintain the ability to operate in environments where adversaries try to deny us access. And, we will keep faith with those who serve by giving priority to our wounded warriors, servicemembers' mental health, and the well-being of military families.

Adapting our forces to this new strategy will entail investing in high-priority programs, such as unmanned surveillance aircraft and upgraded tactical vehicles. It will mean terminating unnecessary and lower-priority programs such as the C-27 airlift aircraft and a new weather satellite, and maintaining programs such as the Joint Strike Fighter at a reduced level. All told, reductions in the growth of defense spending will save $487 billion over the next 10 years. In addition, the end of our military activities in Iraq and the wind-down of operations in Afghanistan will mean that the country will spend 24 percent less on overseas contingency operations (OCO) this year than it did last year, saving $30 billion. The Budget also includes a multi-year cap on OCO spending so that we fully realize the dividends of this change in policy.

Finally, the President believes deeply that in our country, everyone must shoulder their fair share — especially those who have benefited the most from our economy. In the United States of

America, a teacher, a nurse, or a construction worker who earns $50,000 a year should not pay taxes at a higher rate than somebody making $50 million. This is not about class warfare; this is about the Nation's well-being. This is about making fair choices that benefit not just the people who have done fantastically well over the last few decades –such as myself or the President, but that also benefit the middle class, those fighting to get into the middle class, and the economy as a whole.

In the Budget, the Administration calls for individual tax reform that: cuts the deficit by $1.5 trillion, including the expiration of the high-income 2001 and 2003 tax cuts; eliminates inefficient and unfair tax breaks for millionaires while making all tax breaks at least as good for the middle class as for the wealthy; and observes the Buffett Rule that no household making more than $1 million a year pays less than 30 percent of their income in taxes. In addition, the Administration proposes a $61 billion Financial Crisis Responsibility Fee on largest financial institutions to fully compensate taxpayers for their extraordinary support during the depths of the financial crisis. This will offset the cost of TARP and pay for the President's mortgage refinancing program which will help thousands of homeowners keep their homes.

Reining in our deficits is not an end in and of itself. It is a necessary step to rebuilding a strong foundation so our economy can grow and create good jobs. That is our ultimate goal. And as we tighten our belts by cutting, consolidating, and reforming programs, we also must invest in the areas that will be critical to giving every American a fair shot at success and creating an economy that is built to last.

That starts with taking action now to strengthen our economy and boost job creation. We need to finish the work we started last year by extending the payroll tax cut and unemployment benefits for the rest of this year. We also need to take additional measures to put more people back to work. That is why the President introduced the AJA last year, and why the Budget contains nearly $375 billion in short-term measures for job growth starting in 2012, including many planks of the AJA that were not enacted plus some new job creation initiatives to put people back to work by rebuilding our infrastructure, providing businesses tax incentives to invest and hire, and giving States aid to rehire teachers and first responders.

We also know that education and lifelong learning will be critical for anyone trying to compete for the jobs of the future. That is why the President will continue to make education a national mission. What one learns will have a big impact on what he or she earns: the unemployment rate for Americans with a college degree or more is only about half the national average, and the incomes of college graduates are twice as high as those without a high school diploma.

When the President took office, he set the goal for America to have the highest proportion of college graduates in the world by 2020. To reach that goal, we increased the maximum annual Pell Grant by more than $900 to help nearly 10 million needy students afford a college education. The 2013 Budget continues that commitment, provides the necessary resources to sustain the maximum award of $5,635, and takes tough steps to improve the financial footing of the Pell program in 2014 as well. In this Budget, the President proposes a series of new proposals to help families with the costs of college including making permanent the American Opportunity Tax Credit, a partially refundable tax credit worth up to $10,000 per student over four years of college, and rewarding colleges and universities that act responsibly in setting tuition, providing the best value, and serving needy students well.

To help our students graduate with the skills they will need for the jobs of the future, we are continuing our effort to prepare 100,000 science and math teachers over the next decade. To improve our elementary and secondary schools, we are continuing our commitment to the Race to the Top initiative that rewards the most innovative and effective ways to raise standards, recruit and retain good teachers, and raise student achievement. The Budget invests $850 million in this effort, which already has been expanded to cover early learning and individual school districts.

And to prepare our workers for the jobs of tomorrow, we need to turn our unemployment system into a re-employment system. That includes giving more community colleges the resources they need to become community career centers—places that teach skills that businesses are looking for right now, from data management to high-tech manufacturing' creating a Pathways Back to Work Fund, which will support summer and year-round jobs for low-income youth, and will help connect the long-term unemployed and low-income adults to subsidized employment and work-based training opportunities; and reforming Career and Technical Education.

Once our students and workers gain the skills they need for the jobs of the future, we also need to make sure those jobs end up in America. In today's high-tech, global economy, that means the United States must be the best place in the world to take an idea from the drawing board to the factory floor to the store shelves. In this Budget, we are investing $140.8 billion for R&D overall; increasing the level of investment in non-defense R&D by 5 percent from the 2012 level, even as overall budgets decline; and maintaining the President's commitment to double the budgets of three key basic research agencies (National Science Foundation, Department of Energy's Office of Science, and National Institute of Standards and Technology Laboratories). To make sure that more goods are stamped with "Made in America," the Budget dedicates $2.2 billion for advanced manufacturing R&D, a 19 percent increase over 2012. And while a tight budget environment means that we are proposing level funding for biomedical research at National Institutes of Health ($30.7 billion), we are getting out of the money through new grant management policies that will increase the number of new research grants by 7 percent.

Moreover, this Budget continues the Administration's commitment to developing America's diverse, clean sources of energy. The Budget eliminates unwarranted tax breaks for oil companies, while extending key tax incentives to spur investment in clean energy manufacturing and renewable energy production. The Budget also invests in R&D to catalyze the next generation of clean energy technologies. These investments will help us achieve our goal of doubling the share of electricity from clean energy sources by 2035. By promoting American leadership in advanced vehicle manufacturing, including funding to encourage greater use of natural gas in the transportation sector, the Budget will help us reach our goal of reducing oil imports by one-third by 2025 and position the United States to become the first country to have one million electric vehicles on the road by 2015. We also are working to decrease the amount of energy used by commercial and industrial buildings by 20 percent to complement our ongoing efforts to improving the efficiency of the residential sector. And we will work with the private sector, utilities, and States to increase the energy productivity of American industries while investing in the innovative processes and materials that can dramatically reduce energy use.

It is also time for government to do its part to help make it easier for entrepreneurs, inventors, and workers to grow their businesses and thrive in the global economy. The President is calling on Congress to immediately begin work on corporate tax reform that will close loopholes, lower the overall rate, encourage investment here at home, simplify taxes for America's small businesses, and not add a dime to the deficit. Moreover, to further assist these companies, we need a comprehensive reorganization of the parts of the Federal Government that help businesses grow and sell their products abroad. If given consolidation authority—which Presidents had for most of the 20^{th} century— the President will propose to consolidate six agencies into one Department, saving money, and making it easier for all companies—especially small businesses—get the help they need to thrive in the world economy.

Finally, this Budget advances the national security interests of the United States, including the security of the American people, the prosperity and trade that creates American jobs, and support for universal values around the world. It increases funding for the diplomatic efforts that strengthen the alliances and partnerships that improve international cooperation in meeting shared challenges, open new markets to American exports, and promote development. It invests in the intelligence and homeland security capabilities to detect, prevent, and defend against terrorist attacks against our country.

As we implement our new defense strategy, my Administration will invest in the systems and capabilities we need so that our Armed Forces are configured to meet the challenges of the coming decade. We will continue to invest in improving global health and food security so that we address the root causes of conflict and security threats. And we will keep faith with our men and women in uniform, their families, and veterans who have served their Nation.

These proposals will take us a long way towards strengthening the middle class and giving families the sense of security they have been missing for too long. But in the end, building an economy that works for everyone will require all of us to take responsibility. Parents will need to take greater responsibility for their children's education. Homeowners will have to take more responsibility when it comes to buying a house or taking out a loan. Businesses will have to take responsibility for doing right by their workers and our country. And those of us in public service will need to keep finding ways to make government more efficient and more effective.

Understanding and honoring the obligations we have to ourselves and each other is what has made this country great. We look out for each other, pull together, and do our part. But Americans also deserve to know that their hard work will be rewarded.

This Budget is a step in the right direction. And we hope that it will help serve as a roadmap for how we can grow the economy, create jobs, and give Americans everywhere the security they deserve.

I look forward to working with both houses of Congress in the coming months as we work to put our fiscal path back on a sustainable course.