EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
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BEFORE
SENATE COMMITTEE ON THE BUDGET

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Chairman Murray, Ranking Member Sessions, 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.

I want to begin by thanking the Committee for holding a hearing yesterday on the President's nomination of Sylvia Mathews Burwell to be the next OMB Director. If confirmed, we believe Ms. Burwell will be an outstanding OMB Director and hope the Committee and full Senate will move to a vote on her confirmation as soon as possible.

I also want to congratulate the Chairman and Committee for passing the Senate Budget Resolution. The Resolution is a concrete plan that will grow our economy and shrink our deficits in a balanced way. It also makes investments critical to our middle-class security.

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 pre-school 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.