THE PRESIDENT'S FISCAL YEAR 2013 BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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THE PRESIDENT'S FISCAL YEAR 2013 BUDGET

WEDNESDAY, FEBRUARY 15, 2012

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 Ryan, Garrett, Simpson, Calvert, Akin, Cole, Price, McClintock, Chaffetz, Stutzman, Lankford, Black, Ribble, Flores, Mulvaney, Huelskamp, Young, Amash, Rokita, Woodall, Van Hollen, Schwartz, Blumenauer, McCollum, Yarmuth, Pascrell, Honda, Ryan of Ohio, Wasserman Schultz, Castor, Tonko, Bass.

Chairman RYAN. Committee will come to order. Welcome all to this important hearing, and Mr. Zients, I do not envy your task today. I want to welcome you. You are new to the job; you got thrown into the breach; you came late with respect to running OMB to preparing this budget, and you have got a very tough job ahead of you. With the departure of Jack Lew, you have got thrown in at the late moment.

I want to tell you first, before I get into this, thank you for serving our country. You came from a successful private sector career back to government and we applaud that; so I just think that these things go without saying, but they bear repeating.

The problem is you are in the position of defending a budget that, essentially, dodges the most difficult challenges our country faces. The New York Times reported that this budget is quote "More a platform for the president's reelection campaign than a legislative proposal," end quote. After a careful review of this budget, it is very hard to disagree with that.

The Associated Press accurately, in my view, quotes this budget as quote "Takes a pass on reigning in government growth. Instead, it leaves the drivers of the debt, namely the unsustainable growth in entitlement programs largely unchecked. It takes a pass on real reform even though the looming bankruptcy of these programs threatens to end the guarantee of security that they provide for our nation's seniors, and it breaks the president's promise to cut the deficit in half by the end of his first term." As ABC News reported, this budget does not come close.

We have heard a lot of excuses from this administration for why the president broke his promise, but what we have not heard is any semblance of accountability. To the best of my knowledge, no one in the White House has taken responsibility for this failure. Instead, we get a blame game that does not stand up to scrutiny. Jack Lew, your former boss, claimed that the reason the Senate Democrats have not passed a budget in over 1,000 days is because Republicans had threatened a filibuster. Look, this is simply false. We all know, as I am sure Mr. Lew knows, that budget resolutions cannot be filibustered. They can be passed with a simple majority vote; it is that the Senate Democrats chose not to do so.

The real source of dysfunction in the Senate comes from members of the president's own party who have been unwilling for almost three years now to go on record in support of his budgets, or to pass budgets of their own.

More to the point, it was not so long ago that the president's party held total control of the White House and both branches of government, during which time the agenda was enacted in near totality. He was able to pass into law massive spending and taxes, the creation of new, open-ended entitlements, a regulatory onslaught that is now hurting our economy and trillions of dollars in new debt. Even after all of this, the new House majority provided him with an opportunity to make good on his promise, and "to put aside the chronic avoidance of tough decisions," to use the president's words, that he once used to lament.

We were, and we remain eager to work with the president to stop spending money we do not have, to reform government programs that are not delivering on their promises, and to enact pro-growth policies that raise revenue by getting our economy growing again.

Instead of working with us though, the president has demonized our ideas to stave and strengthen health and retirement security programs. He fought to keep his reckless spending spree growing, and he continues to insist on taking more money from hard-working Americans, not to reduce the deficit, but to fuel his ever higher spending increases. The president's ongoing refusal to advance serious solutions to our nation's fiscal challenges represents a stunning dereliction of duty.

We are not going to give up hope. I remain committed to working with my colleagues on both sides of the aisle wherever common ground can be reached. Some of us have been doing that. There is growing bipartisan support for reforms that are needed, but this consensus cannot succeed as long as the president of the United States remains on the outside looking in, as he does today. It is my hope that this hearing can shed some light on why this is occurring.

I have just got to say, we see a debt crisis coming. We know our government is making promises to people it simply cannot keep. It is time for us to be honest with Americans about these things. Both parties got us into this mess, but this is the fourth budget from this president with a trillion dollar deficit each year, obviously a breaking of that promise, but worse yet, no credible solution to deal with our debt, to deal with this great threat to today's economy, and tomorrow's future for our kids. Instead, we get the politics of envy and division. Instead, we get smoke and mirrors, accounting tricks, budget gimmicks.

If we are going to save this country from a debt crisis, and give our kids a better future, we have to have leadership. I have to say, I am just very disappointed that we are not getting this from the president. With that, I look forward to questions, and I yield to the ranking member Mr. Van Hollen.

[The prepared statement of Chairman Paul Ryan follows:]

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

Welcome all, to this important hearing.

I'd like to thank our witness today, Mr. Zients, for coming to us under difficult circumstances.

With the departure of Mr. Lew from OMB just last month, we understand that you are testifying on short notice, and we recognize the difficulty of that.

And unfortunately, your job is even more difficult than usual—you are in the position of having to defend a budget that essentially dodges the most difficult challenges our country faces.

The New York Times has reported that this budget is, quote, "more a platform for the president's re-election campaign than a legislative proposal." After a careful review, it's hard to disagree.

The Associated Press has reported—accurately in my view—that this budget, quote, "[takes] a pass on reining in government growth."

Instead, it leaves the drivers of our debt—namely, the unsustainable growth of entitlement spending—quote, "largely unchecked."

It takes a pass on real reform, even though the looming bankruptcy of these programs threatens to end the guarantee of security they provide for our nation's seniors.

And it breaks the President's promise to cut the deficit in half by the end of his term. As ABC News reported, this budget "does not come close."

We've heard a lot of excuses from this administration for why the President broke his promise. But what we haven't heard is any semblance of accountability.

To the best of my knowledge, no one in the White House has taken responsibility for this failure.

Instead, we've gotten a blame game that doesn't stand up to scrutiny.

Jack Lew, your former boss, claimed that the reason Senate Democrats haven't passed a budget in over 1,000 days is that the Republicans have threatened to filibuster.

This is simply false. As Mr. Lew surely knows, budget resolutions cannot be filibustered. They can be passed with a simple majority.

The real source of dysfunction in the Senate comes from members of the President's own party, who have been unwilling—for almost three years now—to go on record in support of his budgets, or to pass budgets of their own.

More to the point, it wasn't so long ago that the President's party held total control of the White House and both branches of Congress—during which time his agenda was enacted in near totality:

- massive new spending and taxes
- the creation of new, open-ended entitlements
- a regulatory onslaught that hurt the economy
- and trillions of dollars in new debt.

Even after all this, the new House Majority provided him with an opportunity to make good on his promise—to put aside the "chronic avoidance of tough decisions" that he once lamented.

We were—and we remain—eager to work with the President to stop spending money we don't have * * * to reform government programs that aren't delivering on their promises * * * and to enact pro-growth policies that raise revenue by getting our economy moving again.

Yet, instead of working with us, the President has demonized our ideas to save and strengthen health and retirement security programs.

He fought to keep his reckless spending spree going.

And he continues to insist on taking more money from hardworking Americans—not to reduce the debt, but to fuel his ever-higher spending.

The President's ongoing refusal to advance serious solutions to our nation's fiscal challenges represents a stunning dereliction of duty.

But I haven't given up hope. I remain committed to working with my colleagues of both parties wherever common ground can be reached.

There is a growing bipartisan consensus for the reforms that are needed. But this consensus cannot succeed as long as the President of the United States remains on the outside looking in.

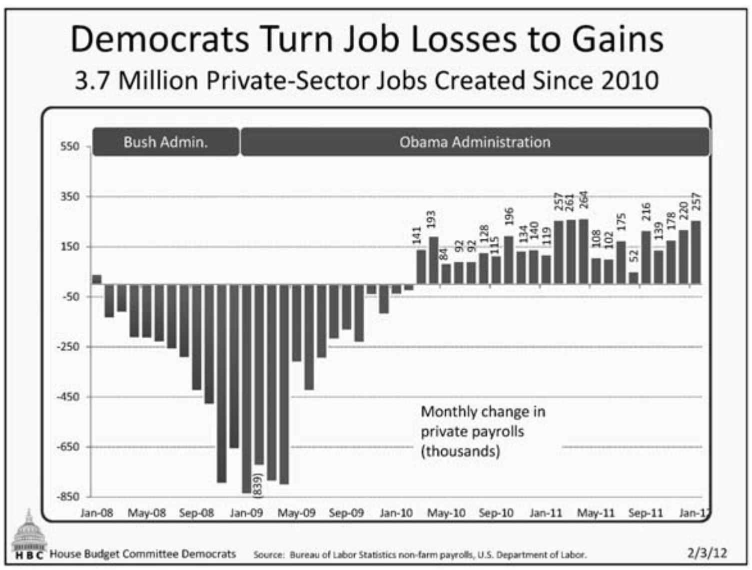
Unfortunately, that's where he stands today. And my hope is that this hearing can shed some light on why.

Mr. Zients, we look forward to your testimony, but we do not envy your predicament. This unserious budget raises some very serious questions, and the American people deserve answers.

With that, I yield to the Ranking Member, Mr. Van Hollen.

Mr. VAN HOLLEN. Well, thank you Mr. Chairman. Mr. Zients I want to add my word of welcome to that of the chairman. I think after your testimony in the Senate yesterday that you are already battle-tested. Welcome to the job and thank you for jumping into the breach, as the chairman said, and I believe you have gotten off to a very good start. Sometimes we are all guilty of selective quoting, I will just point out that the New York Times editorial was headlined "A Responsible Budget;" and this is a responsible budget that begins to turn the corner in terms of the deficits and is very important in terms of job creation.

I think it is important to remind everybody that when the president took office he inherited the worst economy since the Great Depression. That is not an excuse; that is a fact. That is just a historical fact, and if we could put the chart up here you will see that the red was in the last administration where we were losing jobs rapidly. When the president was sworn in, the economy was contracting at a rate that we now know is 8.9 percent of GDP; 800,000 jobs were lost in January 2009 at the time the president put his hand on the Bible and was sworn in.



Where are we today? Well, with the passage of the Recovery Act, with the successful effort to save the auto industry and other measures that have been taken, we have added 3.7 million private sector jobs over the last two years and 257,000 just last month.

We all recognize we still have a long way to go, and that too many Americans are still out of work, too many Americans are hurting economically, but we have turned the corner and we must build on this gradual economy, and we certainly should not go back to the same policies that got us into that mess in the first place.

Now, the fastest and most effective way to reduce the deficit is to put Americans back to work, and in fact the Congressional Budget Office recently estimated that we could cut the deficit by one-third if our economy were at full employment. So how do we help nurture that recovery? We begin by passing the payroll tax cut extension, and it looks like we may have some good news on that front. We begin by making sure that the millions of Americans who are out of work and unemployed through no fault of their own continue to get some support, which not only helps their families, but helps the whole neighborhood and the economy around them. The president's jobs plan that he submitted back in September also includes a lot of other elements that are just sitting in this House of Representatives and have not moved. His plan includes $50 billion for immediate infrastructure investment to help put people back to work rebuilding our roads, our bridges, helping expand broadband, and it also contains a long-term plan for infrastructure development.

It stands in great contrast, I will say, to the infrastructure bill that we are taking up on the floor of the House this week which does not begin to do the job in which former Republican Congressman Ray LaHood, now Secretary of Transportation, called the worst transportation bill he has seen in 35 years of public service. That just does not get the job done.

Now, as we nurture the recovery, we have to act now to reduce the deficit over the next decade in a steady and predictable way, and this budget does that. The budget exceeds the deficit reduction targets established by the Budget Control Act, it consistently lowers the deficit as a share of the economy until it gets to under 3 percent of GDP, and it stabilizes the debt as a percent of the economy. The president does this, not by arbitrarily slashing defense and domestic investments, as would happen under the sequester, but by taking a balanced approach; that leads me to the fundamental issue which is that the question is not whether to reduce the deficits, the question has been how do we reduce the deficit, and the president's approach is the balanced approach. It takes the kind of framework we saw from the bipartisan commission, the Simpson-Bowles, Rivlin-Domenici. It adopts the cuts that we made to discretionary spending in earlier months. It cuts another $600 billion in mandatory spending, but it also does something else. It does eliminate a lot of the special interest tax breaks. It does ask the very wealthiest Americans to go back to paying the same top rate that they were paying during the Clinton Administration, a time when the economy was booming, and that balance is what our Republican colleagues have objected to.

This is a question of choices. If last year's Republican budget is any sign of where we will head this year, they take a lopsided approach further slashing investments in education, in science and research and infrastructure, which are critical drivers of the economy, and they do slash the social safety net in that they cut $700 billion from Medicaid that goes to help people like the vulnerable seniors in nursing homes, and they do ask seniors on Medicare to carry the entire risk of rising health care costs, and that is their choice, but that is not a balanced approach. I think what we see here in the president's budget is a responsible approach that takes that balanced approach to dealing with a very serious problem. With that, Mr. Chairman, I thank you for the opportunity.

[The prepared statement of Chris Van Hollen follows:]

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

Welcome, Director Zients. Thank you for being here today to talk with us about the President's budget request for 2013 and the tough choices the Administration made to protect and build upon the economic recovery, while putting in place a plan to steadily reduce the deficit over the next decade.

When the President took office, he inherited the worst economic crisis since the Great Depression. The economy was in total freefall, contracting at a rate of 8.9 percent. We were losing over 800,000 jobs per month. Where are we today? With the passage of the Recovery Act, and the successful effort to save the auto industry, we've added 3.7 million private sector jobs over the last two years and over 257,000 just last month. We recognize that we still have a way to go and that too many Americans are still out of work and hurting—but we are turning the corner. We must build on this fragile recovery. We cannot go back to the policies that put us in this mess.

The fastest and most effective way to reduce our deficit is to put Americans back to work—in fact, the Congressional Budget Office recently estimated that we would cut the deficit by one-third if our economy were at full employment. How do we do it? We can begin by giving a boost to the economic recovery by passing a payroll tax cut extension and continuing to provide unemployment insurance to the millions who are out of work through no fault of their own.

The President's budget also includes other key elements of the President's American Jobs Act, which has been sitting before Congress since September. These elements include tax cuts for small businesses and critical new investments. The budget provides $50 billion for immediate infrastructure funding and $10 billion for an infrastructure bank—this will allow us to put people back to work rebuilding and modernizing our schools, roads, and bridges—and it also contains a long-term plan for infrastructure development. This is a different approach from the Republican transportation bill in the House, which former Republican Congressman and Secretary of Transportation Ray LaHood has said "is the worst transportation bill I've seen during 35 years of public service." It stands in stark comparison to the bipartisan bill in the Senate.

We must also act now to reduce the deficit over the next decade in a steady, predictable way. The President's budget does that. The budget exceeds the deficit reduction targets established in the Budget Control Act of 2011, consistently lowering the deficit as a share of the economy and stabilizing the debt as a percentage of the economy. The President reaches the targets not through an automatic sequester that arbitrarily slashes defense and domestic investments, but instead with policy choices that balance the need to make wise investments to spur job growth and provide security for the middle-class with the need to put the budget on a fiscally sustainable path. The issue is not whether to reduce the deficits over the coming decade, but how. The President's plan takes a balanced approach to reducing the deficit. It adopts the cuts to domestic spending included in the Budget Control Act. It cuts mandatory spending by over $600 billion. But it also eliminates special interest tax breaks for corporations and the wealthiest Americans. It asks our highest earners to return to the same tax rate in place during the Clinton Administration, when the economy was booming.

It is this balance that our Republican colleagues object to. Ninety-eight percent of our Republican colleagues have signed a pledge saying they won't close one special interest tax loophole for the purpose of deficit reduction. And because they don't want millionaires to pay more, they seek to reduce the deficit on the backs of middle-income taxpayers and seniors. If last year's budget is any indication, they would slash our investments in education, science and research, infrastructure—key drivers of innovation and economic growth. And their proposal last year would force seniors to absorb the rapidly rising costs of health care, end the Medicare guarantee, and whack Medicaid by over $700 billion. So, again, the question is not whether we reduce the deficit, but how.

What the President's budget does instead is to take a balanced approach to deficit reduction, following the framework developed by bipartisan groups such as Simpson-Bowles and Rivlin-Domenici. These groups called for a combination of spending cuts and revenue increases, while guarding against cutting spending too deeply too soon. Adopting abrupt austerity measures will only hurt the fragile economy. This isn't just my opinion and that of these bipartisan groups—economists like Federal Reserve Chairman Ben Bernanke have also argued against immediate spending cuts that will jeopardize our economic recovery. We need to get serious about debts and deficits in this country, but we must do it in a responsible way. The President takes a balanced approach to deficit reduction.

Thank you Mr. Chairman and thank you Director Zients for coming today; I look forward to your testimony.

Chairman RYAN. My pleasure. Mr. Zients, the table is yours.

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

Mr. ZIENTS. Thank you. Thank you Mr. Chairman, Ranking Member Van Hollen, and members of the Committee. Thank you for having me here today to present the 2013 budget. As the chairman said, before I joined OMB three years ago, and I have now been at OMB three years and been involved in the budget, so I feel like I am in a good position today to talk about the president's budget. Before that I had spent more than 20 years in the private sector; I had not been in government at all before. One thing I found that was helpful in the private sector is to boil things down to a few graphics. So if it is okay with everybody I thought I would use my few minutes to walk you through the highlights of the budget using, I hope, these two screens.

I will cover four topics: first, the current policy baseline, next, the key elements of deficit reduction, then an overview of our investments in the areas that are central to our future competitiveness, jobs, and growth, and finally the bottom line of the president's budget and how it puts us on a sustainable path. Let me start with the baseline.

We believe we have a baseline that accurately reflects current policy. In essence, this is business as usual. The baseline includes the extension of the 2001 and 2003 tax cuts, estate and gift taxes; second, the permanent extension of AMT and SGR; we believe this presentation is more honest than patching these year after year; enforcement of the BCA caps and joint committee sequester; and accounting for future disaster costs, rather than ignoring them. The baseline results in an annual deficit of 4.7 percent of GDP at the end of the budget window in 2022. This is where we start before our policies take effect.

Let me now turn to our deficit reduction policies. Last April, the president put forward a framework to achieve more than $4 trillion in deficit reduction. He maintained the $4 trillion in his proposal to the joint committee last September. This year's budget is very similar to the September proposal with the addition of a year to the budget window. So as you can see on the far right in that green bar, this budget actually includes $5 trillion of total deficit reduction.

Let me walk you through the key elements, I hope you can see them. I am going to walk from left to right across those blue bars. You start on the far left. You will see $676 billion in savings from the appropriation bills enacted last year, including both the 2011 appropriations in April, and the OCO savings from the 2012 appropriations.

Next, there is over $1 trillion in reductions in discretionary spending, consistent with the caps in the BCA. Next, there are $362 billion in reductions from Medicare, Medicaid, and other health programs that will make these programs more effective and more efficient; then $272 billion in savings from reforming non-health mandatory programs in areas such as agriculture, federal civilian worker retirement, and the PBGC. These costs are net of the cost of new mandatory initiatives.

The next category is $1.5 trillion of revenue for deficit reduction, including the expiration of the 2001 and 2003 tax cuts for the highest earners, and the elimination of inefficient and unfair tax breaks. The $1.5 trillion is a net number as we further cut taxes for the middle class and small businesses.

Next, $617 billion in net savings from capping OCO and investing in a six year surface transportation re-authorization. Capping OCO importantly closes the back door on security spending.

Then there are other net savings of $141 billion. These include, for example, disaster adjustments, program integrity, and general fund transfers for transportation that are no longer necessary. As a result of these proposals, debt service costs decreased by $800 billion.

Finally, in that pink bar right next to the green bar, there are $176 billion of investments in short-term job initiatives that actually cut the other way; so these are investments. This is the remainder of this $354 billion of job initiatives not spent in 2012.

I want to be clear that we do not count the sequester in our total deficit reduction. We believe that the sequester is bad policy and we propose that it be replaced by this larger, more balanced package of deficit reduction, but be clear: the sequester is still in place, the president believes firmly that it is a very important enforcing function to make sure we do balanced deficit reduction.

The bottom line is these efforts represent a total of more than $5 trillion in net deficit reduction. Even as we achieve the deficit reduction, we continue to make key investments in priority areas. These include short-term measures for job growth totaling $354 billion, tax breaks for the middle class and small businesses amounting to $352 billion, and continued investment in our long-term priorities, including education and job training for American workers, innovation and R&D, clean energy, and infrastructure. We make these investments in a budget that abides by the very tight spending caps and makes hard trade-offs.

Let me now pull it all together for you. On the left, I have compared the adjusted baseline that I talked about in that first slide with the results of the president's policies. As you can see in 2022, deficits from the president's policies are below 3 percent of GDP compared to 4.7 percent in the baseline. Furthermore, debt as a percent of GDP is stabilized from 2018 on. This is important for maintaining a strong investment environment. The president's budget replaces the sequester with a balanced approach to deficit reduction with $2.50 in spending cuts for every $1 of revenue increases. We have made tough choices, and we all need to work together to maintain this balanced approach.

In closing, as a businessperson and now OMB acting director, I believe the president's budget makes the right investments to make us even more competitive in the global marketplace, and achieving declining deficits and stabilizing our debt are critical for business confidence and investment. This is good for business; this is good for the middle class, and good for America. Now, I would be happy to take your questions.

[The prepared statement of Jeffrey Zients follows:]

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

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 20th 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.

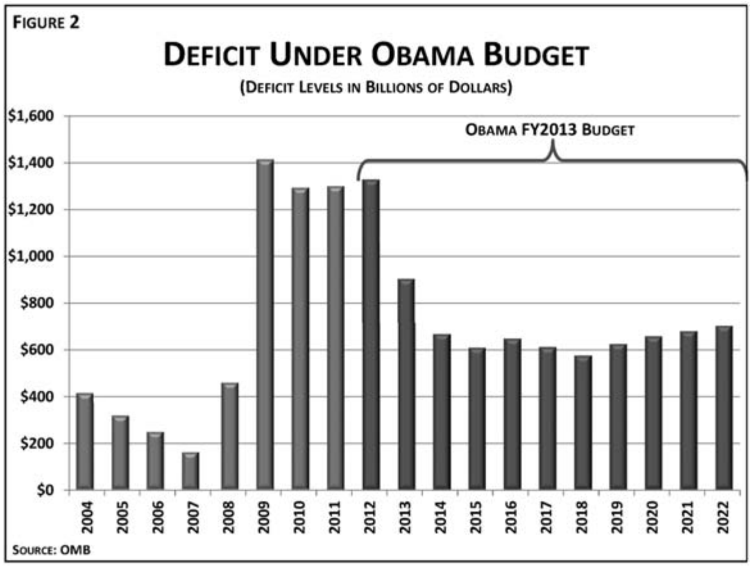
I look forward to working with both houses of Congress in the coming months as we work to put our fiscal path back on a sustainable course.

Chairman RYAN. Thank you, Mr. Zients. We will do great if our answers are not so long and we do not filibuster here in the House. So I want to run through a handful of things, and I think they are going to bring me a PowerPoint in a second here.

So let's put aside the fact that we are using different 10 year windows to get from the $4 trillion claim to the $5 trillion claim. This stuff is confusing enough. Let's just go to the $4 trillion claim, which is what the budget documents make, and because there is a difference in 10 year windows and I think we would all probably agree on that. So you are saying that the policy changes in this budget reduce the deficit by $4 trillion, correct?

Mr. ZIENTS. Right.

Chairman RYAN. So bring up Figure 2. Let's walk through that. Using your numbers, these are not CBO numbers, these are OMB numbers. So to make this $4 trillion claim stick, that this budget does this, the top bar, the blue bar, claims credit for the Budget Control Act, $2.3 trillion. This is a law that was already passed.

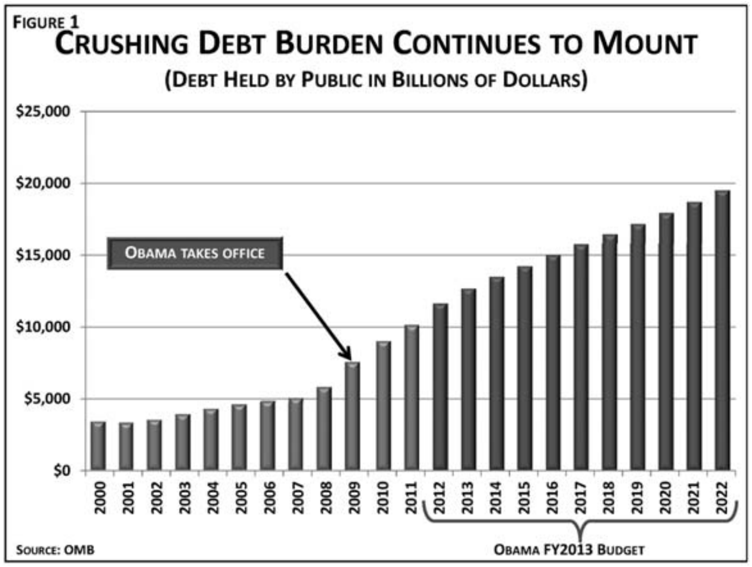


Mr. ZIENTS. Right.

Chairman RYAN. I do not know how one can claim that this budget achieves these things when this is something Congress already passed. I would add to that, Congress passed this over the president's initial objections. He wanted a clean debt limit increase, then he wanted a tax increase of the debt limit, and only because of this House majority did we get the BCA; so let's take away that claim because that is not in your budget. You cannot claim you are achieving this when it is a law that we already passed.

So now we are down to the war gimmick. People call this OCO. The war gimmick is let's claim savings on spending that is never going to be requested and never going to be spent and all of a sudden claim that that is going to save us $850 billion. I do not know what part of the private sector you come from, but if we are saying we are saving money that we were never going to request, never going to spend, I do not know how you can say you are saving money.

Now you are down to the doc fix. Nobody wants these doctors to get cut, nobody wants to see this 27 percent cut occur, but we cannot just assume it away. It is here, it is happening, it is in law, and it happens at the end of the month. So we are just assuming that they are not going to get cut and that is $430 billion in your numbers. Then let's take off the interest savings that you are attributing to all these claims and here is what we are left with. We are left with a budget that has only $400 billion in deficit reduction over a 10 year window. If you strip out these accounting tricks and these budget gimmicks, it is a 10 year budget that spends $47 trillion with a net deficit reduction of $400 billion. So I just do not understand how you can claim anything other than this. Let's go to Figure Number 1. Let me ask you this. How much does the debt increase under your budget?



Mr. ZIENTS. Can I respond to the run you just did because you keep building on top of it, and it is going to be difficult for me to organize my thoughts.

Chairman RYAN. Okay, let's go back to Figure 2.

Mr. ZIENTS. Please, that would be much more helpful.

Chairman RYAN. You bet, my pleasure.

Mr. ZIENTS. First of all, I think we all agree that the $2.3 trillion came from the BCA, and we have been talking consistently about a minimum of $4 trillion of deficit reduction. This reminds me of a marathon and when you start the race. We started the race months ago, so taking credit in this budget for the $2 trillion that we have worked together to achieve, I think makes a lot of sense. Second, on OCO: OCO very importantly closes the back door.

Chairman RYAN. Then why do you not count the stimulus spending and the 24 percent increase in domestic spending?

Mr. ZIENTS. I am sorry?

Chairman RYAN. I mean, if you are going to count things that happened in the past, why do you only count the things that count to your benefit and why do you not count things that do not work to your benefit?

Mr. ZIENTS. The stimulus is accounted for as part of the budgets.

Chairman RYAN. Not in the numbers.

Mr. ZIENTS. The BCA, this summer, that counts towards the $4 trillion deficit reduction we have been talking about all along. Secondly, on OCO, very importantly, we are closing the backdoor to spending by capping OCO. CBO scores it as savings, and it is this president's policies that have led to getting our troops out of Iraq and draw down in Afghanistan. I do not know exactly how you are cutting the chart here, but somehow you have left off $1.5 trillion of revenue that needs to be raised, revenue that is part of balanced deficit reduction. I do not know where that is, but the president's budget proposes $1.5 trillion.

Chairman RYAN. I will give you that, but this is just the spending side of the ledger.

Mr. ZIENTS. Okay, sorry. Then on the spending side, and again, I am not sure how you are cutting it, but there are $360 billion of mandatory savings from health care, and there is another $270 billion of net savings from other mandatory programs, I mentioned some of them: PBGC, the federal retirement, the agricultural programs. So there is further savings there and then on top of all of that, obviously you have debt service from bringing down the spending.

Chairman RYAN. Right, so we net things out. That is what balance sheets do. And when you net all of this out, not claiming credit for something somebody else did, or Congress and president did before, you cannot say this budget has policy changes which achieves a result which was already achieved before. It is not achieved in this budget.

With respect to war, we pass supplementals to fund wars. Congress has to affirmatively pass these supplementals to fund wars, so if there is a back door, it is already closed. If we are pulling out by some date certain which everybody now agrees to this timeline, it is not as if it is a surprise, it is a flaw in the baseline that they assume we are going to be at a full-fledged war for 10 more years. It does not work to cut us off, okay.

Mr. ZIENTS. I think of CBO as the referee.

Chairman RYAN. Like I am saying, please do not interrupt. We pass supplementals. It is not a back door if we are not in war; we do not pass supplementals. What I am saying, at the end of the day here, is when you net this out this budget, using your own numbers, has a net increase of spending of $1.5 trillion and a net increase of taxes of $1.9 trillion, and that is how you result with a $400 billion of deficit reduction. These are your numbers we are using; we are not using somebody else's numbers.

Let me ask it a different way. How much does this budget add to the debt? What is the nominal amount of money that this budget adds to the debt?

Mr. ZIENTS. Well, I think the right way to think about it is as debt as a percentage of GDP.

Chairman RYAN. No, but what is the nominal amount? How much actual money is added to the debt?

Mr. ZIENTS. Well, the nominal amount we can pull from one of the tables. Let me have my team gather that while I answer the question I think the right way, which is to think about the debt as a percentage of GDP, and this budget stabilizes debt as a percentage of GDP, which is very important for maintaining the investment environment that we all want, which is making America the right place to invest. Let me just circle back, if I may, to OCO. I think we would all agree that the CBO is the referee here and I just want to make it clear that CBO does score OCO as savings.

Chairman RYAN. So if we assume we are going to be at war for 10 years in the baseline, because that is what the law requires CBO does, by the way; it is not CBO's fault. Then all of a sudden we are going to have a pullout from Iraq and Afghanistan before 10 years is over, this money is all of a sudden a spending cut, it is savings?

Mr. ZIENTS. Savings relative to the baseline according to CBO, yes. And it importantly closes the backdoor on discretionary spending.

Chairman RYAN. If this is the way we measure reality heaven help us. I will just use your budget, your chart. If you can bring up Figure 1, please. I have your number for you, so I can just get into it if you want to. You are adding $11.4 trillion to the debt. Excuse me, the baseline adds $11.4 trillion to the debt. That means if just do not do anything, and we just sit still, we add $11.4 trillion to the debt. Your numbers in your budget adds $11.2 trillion to the debt. So how on earth can you make a claim that this budget achieves $4 trillion in deficit reduction when your own numbers show, instead of increases the debt by 78 percent it increases it by 76 percent. Instead of increasing it by $11.2 trillion it increases by 11.4 to 11.2.

Mr. ZIENTS. Two points that I would make. One is I think it is really important that we are starting with an honest baseline. The idea that each year we patch SGR year over year, or AMT year over year, it is just not reality. You have to start with the right baseline of where we are, and we do that. So I think that it is much better we face into the wind and know where we are.

Secondly, a lot of this in inherited. It is inherited from an administration that passed a 2001 and 2003 tax cut that was unpaid for, a Part D Medicare unpaid for, two wars unpaid for, and then we walked, as Congressman Van Hollen said, to an economic situation which was the great recession.

Chairman RYAN. So if these wars are unpaid for, then how can you claim savings from them?

Mr. ZIENTS. Well they were unpaid for at the time, yeah; and therefore, we are capping the savings, capping OCO and getting the savings, and CBO scores it as savings.

Chairman RYAN. I think you see my point. If this is correct, and we all agree the baselines are messed up around here, that is not a source of contention, but if the baselines are as messed up as you say and we agree, then you cannot have your cake and eat it too. You cannot say that this budget is cutting the deficit by $4 trillion. If you actually add this all up, net it all out, it is a $1.5 trillion in net spending increases with a $1.9 trillion net tax increase and that results, over the 10 year window, of a measly $400 billion of deficit reduction over a 10 year period. Look, I know we love to back and bash the last administration. Lots of us have criticisms with past fiscal policy from both political parties. This is your fourth budget. I mean, it is not as if the president came in office a month ago. This is his fourth budget, four years of trillion dollar deficits, and a repudiation of the promise to cut the deficit in half by his last year of his first term. I just do not know how you can run away from your own numbers.

Mr. ZIENTS. I always want to go to the bottom line, and the bottom line here is more than $4 trillion of deficit reduction.

Chairman RYAN. Yeah, okay.

Mr. ZIENTS. The bottom line here is that we get the deficit as a percent of GDP below 3 percent. The bottom line here is we stabilize debt as a percent of GDP. These are important milestones.

Do we have more work ahead? Absolutely. This budget reaches an important milestone.

Chairman RYAN. I want to give Chris his time. I just want to ask one last question. You claim to want to give IPAB more tools to consider quote "value based benefit design changes," but you also prohibit IPAB from changing cost during arrangement for beneficiaries. I do not understand this. If we are saying you cannot have cost sharing arrangement changes with beneficiaries, but IPAB now will have the power to design quote-unquote "value based benefit design changes" what does that mean?

Mr. ZIENTS. At the end of the day we have put forward in this budget more than $360 billion of health care savings. What they are based on is what I have seen in the private sector, I know all of you have seen, and I know there is a doc in the room, which is tremendous variation in how medicine is delivered around this country, and there is not a great correlation between how much it costs and how effective it is, and we need to drive to that intersection of lower cost and more effective health care by decreasing variation in care, driving towards best practices, having the same type of productivity increases that other sectors have enjoyed in health care.

What does productivity mean? Productivity means you drive down costs and increase quality at the same time. So we have made progress with the Affordable Care Act, we have made progress in this budget in driving toward more productive health care, more efficient, more effective care for our seniors, and we need to continue to do that.

Chairman RYAN. So we are going to give IPAB more power to determine how value is achieved on beneficiary designs?

Mr. ZIENTS. IPAB is a backstop on the system, and we are making sure that we are driving toward more effective, more efficient care, and that we are not in any way violating the basic compact that we have with our seniors to provide them with high quality care.

Chairman RYAN. Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you Mr. Chairman, and again, thank you Director Zients for being here. Let me just pick up on a couple points that the chairman raised. The Simpson-Bowles commission, the bipartisan commission, set $4 trillion in deficit reduction as their 10 year window. Rivlin-Dominici, another bipartisan commission, also set something in that range of $4 trillion over the 10 year window. Included in their recommendations were reducing discretionary spending by actually over $1 trillion. Now, as part of the Budget Control Act that we all passed, we did cut discretionary spending over the next 10 years by approximately $1 trillion. It seems perfectly reasonable, and I think an ordinary American watching this proceeding would agree that you should be able to count the effort we made already toward the $4 trillion. I mean, after all, Simpson-Bowles recommended we do something along those lines, we did it. That is $1 trillion. We also, as you have pointed out, put in place this mechanism to achieve another $1.2 trillion through a sequester.

Now, I dare say that Republicans and Democrats alike agree that the sequester is not the best way to achieve that deficit reduction.

It has across the board cuts to defense and important non-defense investments, and what you have proposed is another better, more balanced way of achieving that $1.2 trillion deficit reduction, but just because it is already somehow built into the CBO assumptions that this massive across the board $1.2 trillion cut that nobody in this room, I think, thinks is the best approach to doing that, just because you have come up with a better way of doing that, does not mean that your budget should not be credited with that $1.2 trillion in deficit reduction. I think that is kind of common sense.

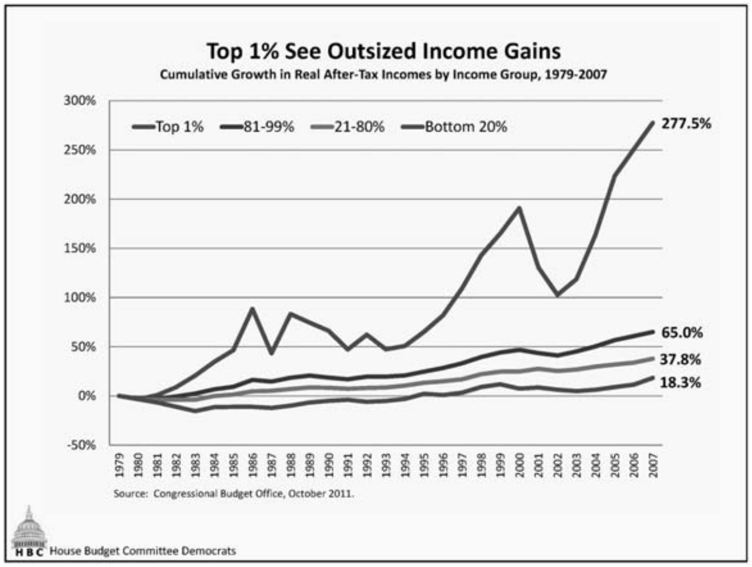
Let me say something about the war savings. The reality is if you look at the appropriations budgets today, they are already using so-called OCO war savings as a bit of slush fund when it comes right down to it. So the reality is closing the door on that slush fund, I believe, will achieve real savings as we move into the out years and, as you have pointed out, the decisions that the president has made with respect to Afghanistan and Iraq will help accelerate that effort.

I would point out to the chairman that when he presented the Republican proposal here before the budget committee last year and said that their budget achieved a $5.8 trillion cut out of the CBO baseline, that included the OCO spending, because CBO includes that in their baseline as you pointed out.

Now, let me turn to what I think, really, is the essential question that we face in this committee, in this Congress, and in the country, which is how we are going to achieve the deficit reduction we all recognize we need to get to over the 10 year period. How do we get the balanced budgets over the longer term and stabilize the debt as a percentage of GDP and really that means there are choices to be made. Ninety-eight percent of our Republican colleagues in the House have signed this pledge that says that they will not close one tax loophole for the purpose of deficit reduction. Not one penny can go to deficit reduction from closing a tax loophole. You get rid of a subsidy for the oil and gas industry, you cannot use that savings for the purpose of deficit reduction. I think what the president has proposed is that we want to achieve a net of $1.5 trillion in additional revenue, and doing it in a way that protects middle income taxpayers, but does ask the folks at the very top to pay more.

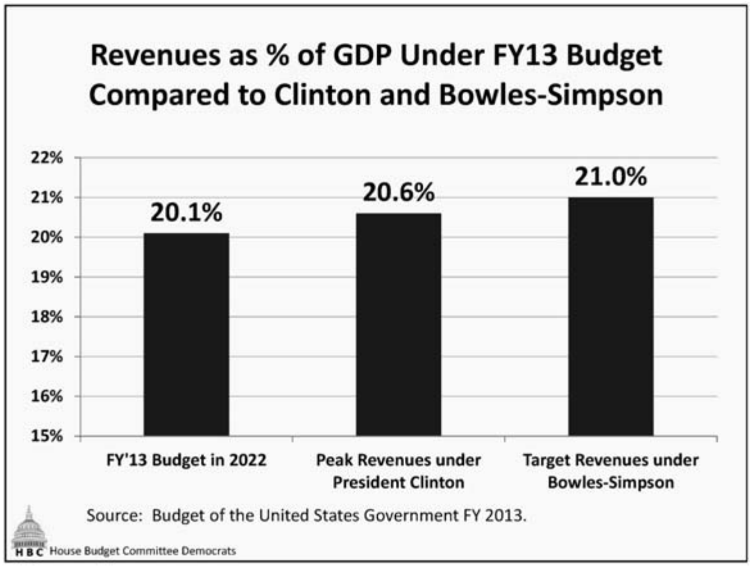
Sometimes we hear from our colleagues that the wealthiest are already paying a growing share of income; it is not because their tax rates have gone up; it is because they have done disproportionately better than all other working Americans. The productivity gains from the 1990s and the 2000s did not accrue to the benefit of working Americans, or middle income Americans. They accrued to the folks at the top. Now, that is great, but when you are trying to deal with the deficit? I should not say that is great, it would be better to have shared prosperity, but the reality is when you are dealing with the deficit we have to make choices.

If we could put up the slide.



I hope everybody will really take a look at this CBO report that came out last fall on growing income inequality in the United States. What this chart shows, and that red line there at the top are the top 1 percent income gains, again, proportional, and you can see what people in different quintiles did. This is why the folks at the top are paying more, in terms of taxes, because they are making a whole lot more than everybody else. That is simple math. This is not about the politics of envy or class warfare, this about how do we solve a deficit problem in a way that asks for shared responsibility. What this chart shows is we should maybe ask the folks at the very top to pay a little more because if we do not, we are going to have to do what the Republican budget last year did, which is slash important investments in education, lack Medicaid and the Medicare guarantee.

If we could go to the next. We also hear that the president's budget is going to lead to these huge tax increases that are going to weigh down the economy. What this chart shows is that if you go back to the Clinton years, you had revenue at 21 percent of GDP. The Simpson-Bowles proposal takes revenue to 20.6 and then the president's budget actually has less revenue as a percent of GDP at the end of this window.



The point here is that this is a balanced approach which does not even raise as much revenue as a percent of GDP as either we did during the Clinton years, when the economy was booming, or the in the bipartisan Simpson-Bowles proposal.

Now, here is what I am going to ask you to do. If you could just lay out very clearly why it is important to take a balanced approach, why it is important to deal with the revenue side of the equation as well as the cutting side of the equation, and what the consequences are for middle-income Americans and all Americans if you do not take a balanced approach, if you try to deal with this deficit issue the way our Republican colleagues have suggested, which is without taking one penny for deficit reduction from closing tax breaks.

Mr. ZIENTS. Right. Well, I think, first of all, you mentioned discretionary spending. This budget takes discretionary spending from about 9 percent of GDP down to 5 percent. So we are making very hard choices in achieving that. The balanced approach, which is at the center of the president's plan, has also been at the center of other plans. You mention Simpson-Bowles. Simpson-Bowles has a balanced approach, in fact, raises more revenue than we are talking about raising here. So I think when any serious group looks at this, there is a recognition that we need to increase our revenues. We cannot increase our revenues from the middle class. The president has no tax increases for families less than $250,000. In fact, they are further tax cuts. We need to increase revenue from the wealthiest 2 percent, who as you pointed out Congressman, have benefited extraordinarily across the last several decades and asking them to do their fair share so we, as a country, can succeed and have a healthy, growing middle class makes a lot of sense.

As someone who was part of the private sector during the 1990s when the tax rates were the tax rates that enabled us to have that share that you have on the screen, there was plenty of incentive to grow businesses, plenty of incentive to invest. We need to have everybody do their fair share in order for the country to get into a better position than we are in today, to have us have deficits of less than 3 percent of GDP by 2018, and to stabilize debt as a percent of GDP which is very important for our long term investment environment and our long term growth.

Mr. VAN HOLLEN. Thank you Mr. Chairman, let me just conclude by reading from the statement from the co-chairs of Simpson-Bowles commission, with respect to the president's budget, as Mr. Zients indicated, and I think we all agree, we should all find ways to achieve greater deficit reduction as we move into the out years, especially, but here is what they said:

"In the framework the president announced in April and what he submitted to the select committee, the president embraced many of the goals and principles outlined by the fiscal commission and incorporated some of the policies we proposed. We are pleased that the president's latest budget continues to focus on deficit reduction and are also encouraged to see real, specific policies for limiting tax expenditures, slowing health care cost growth, and reducing spending throughout the government."

That is the quote from the bipartisan co-chairs of the president's fiscal commission and, again, I think what the president has laid out here is that balanced approach that the American people are looking for, rather than a lopsided approach which will ask middle-income families to take the brunt of our national effort to put the country on a long-term fiscally sustainable footing, and with that, Mr. Chairman, I thank you.

Chairman RYAN. All right. Thank you. Mr. Garrett.

Mr. GARRETT. Thank you and I appreciate your testimony today. I appreciate you also being here from the private sector. You probably feel a little lonely sometime over at the White House in that respect, but I am glad that you are here coming with that experience. One point though, you did just say that there are no tax increases for those folks who are making under $250,000.

Mr. ZIENTS. Families under $250,000, individuals under $200,000.

Mr. GARRETT. So if I am part of a family that does not buy health insurance in violation of the president's health care program, and I have to pay because of that, that is not a tax on me?

Mr. ZIENTS. The Affordable Care Act saves money.

Mr. GARRETT. I understand that, but is that a tax on me, if I do not pay that or is that not a tax?

Mr. ZIENTS. I am not sure I am following the question.

Mr. GARRETT. You said there is no tax increases on people making under $250,000. If I make under $250,000 and I do not buy health insurance as I am required to under the Affordable Health Care Act, is that tax on me or is that not a tax on me? A moment ago you said there is not tax increase.

Mr. ZIENTS. There are not.

Mr. GARRETT. So that is not a tax?

Mr. ZIENTS. No.

Mr. GARRETT. That is not a tax? Okay. I want to be clear on that because that is not the argument that the administration is making. Let's move on before the Supreme Court. I appreciate again, the fact that you are from the private sector. Two decades in the private sector leading public companies. In that area of responsibility, you always had to present a budget, I guess, for those companies, right?

Mr. ZIENTS. Absolutely.

Mr. GARRETT. Right, and that is why I do sincerely commend the administration for coming forward with this budget. Do you anticipate that this budget will be taken up in the Senate?

Mr. ZIENTS. I look forward to the policies in this budget being put into law, and putting us on a sustainable path. I am not an expert in the process of Congress, but I will tell you that I look forward to the policies that are embedded in this budget.

Mr. GARRETT. When you were leading public companies, would it be responsible to have a budget in public companies?

Mr. ZIENTS. Absolutely.

Mr. GARRETT. When you were leading public companies, would it be fair to say it would be irresponsible not to have a budget?

Mr. ZIENTS. Yes, and I would say that, as the CEO of a public company, and if you think of the president as the CEO of this country.

Mr. GARRETT. Right.

Mr. ZIENTS. That CEO has come forward on multiple occasions with serious proposals.

Mr. GARRETT. I appreciate that and that is why I thank the administration, I thank you for being here, just as Paul did as well because it is a hard seat to sit in and I appreciate the administration for putting pen to paper and actually outlining that; that is good so we have something to dialogue with going forward.

Mr. ZIENTS. But I want to emphasize this is not the first time the president put forward a proposal.

Mr. GARRETT. I appreciate that, I am just hearing from you that it is responsible to have a budget. Last year the president proposed a budget to the Senate and he got zero votes if I understand. Recently the Senate president said that he has no intention of putting a budget up, so as far as I understand right now, I commend you and I commend the president for coming forward with a budget, but as of right now, if what you said before it is the responsible thing to have a budget, it is irresponsible not to have a budget; it would seems as though it would be irresponsible for Senate President Reid to not take this budget up and have a vote on this. Would you agree with that?

Mr. ZIENTS. As the chairman said, the president and obviously the legislative bodies put into effect the BCA last summer, that serves as a budget, and that is a real accomplishment, it keeps us going.

Mr. GARRETT. So we do not need this budget?

Mr. ZIENTS. What we need is this budget, we need the policies embedded in this 2013 budget the president has put forward.

Mr. GARRETT. So that only will be done if it will be passed into law if Senator Reid takes this up in the Senate. So we are both on the same page encouraging the Senate.

Mr. ZIENTS. I hope the Senate and the House work together to make sure that the president's policies are enacted into law as soon as possible, to achieve the deficit reduction.

Mr. GARRETT. Let me ask you another quick question, just give me a one year answer, if we pass this budget tomorrow, when does the budget balance in this country under your proposal?

Mr. ZIENTS. That is not a year question.

Mr. GARRETT. Sure it is. I can put a chart up on the RFC budget, or I can put up Paul's budget. He is not answering the question. It is a simple question; I am looking for a year. Paul's budget can tell us when it is balanced, the RFC budget can tell us when it is balanced. A simple year. What year does your budget balance?

Mr. ZIENTS. This budget makes significant progress across this decade.

Mr. GARRETT. Is your answer that this budget never balances? Is it your answer this budget never balances?

Chairman RYAN. Time for the gentleman has expired. The witness is obviously not going to answer the question. Ms. Schwartz.

Ms. SCHWARTZ. Thank you, Mr. Chairman. I just wanted to make a comment or two about the conversation that has been going on with the questioning. Two points I wanted to make, just quickly on the last questioning. You may want to, and were gracious not to, but to point out that the Ryan budget last year that was voted by the Republican House did not reach balance in the 10 year window. So if that is the standard I think the president is doing pretty well.

Just a comment also about the chairman not wanting to acknowledge, what I understand to be the budget process, which is to take current law, which might mean law that was passed in the past, and apply it to our current budget and to the 10 year window. He wanted to take away the fact that President Obama actually put war expenditures in the budget, rather than considering them emergency spending every year, and did anticipate those expenditures in the future to be honest about budgeting; and the fact that we are not going to spend all of that is a good thing for this country, but it means it gets acknowledged in the budget, right?

Mr. ZIENTS. Absolutely.

Ms. SCHWARTZ. Secondly, same thing on SGR, the anticipated cuts that only happened once in the last decade. Again, this budget deals with that in a way. If the chairman is suggesting that we do not have to actually make up for that difference in SGR, then that make it a lot easier for us if we do not actually have to acknowledge that that is the law of the land and we have to quote "pay for it" which I also consider an accounting problem.

The chairman, in his analysis, if you take all that off it means we do not have to consider current law in our budget. That is kind of astounding. I do not know how we would. You may want to change the budget process but we are in the middle of a budget process. If we were at home, or our home budgets, and someone said your mortgage is going to go down even though you have anticipated what your mortgage payments are going to be for the next 10 years. If someone says they are going to go down, you change what you are going to spend next year and the year after and the year after that. That is all this is doing; it is acknowledging the reality of current law and how that affects future budgets.

The chairman of the budget committee just said he does not consider that process legitimate, nobody considers it legitimate but that is the process of the way the budget is determined and how we deal with it. You have done that, the president has done that, and to his credit he is dealing with the reality of both more savings, the savings that that accomplishes, and the cuts that are not going to happen. I do not know how we begin to have a discussion about baseline when the chairman of the budget committee just denied the way we do it.

Anyway, I want to take the next two and a half minutes just to quickly ask you what I think is on the minds of most Americans, which is how President Obama moves forward in the budget in making sure that we grow this economy, and we do not do anything to hurt this fragile economic growth. Maybe even more importantly, it makes critical investments in the future, particularly in growth industries. So I wanted to just take a couple of minutes, if you would, to talk about the critical investments that are made in everything from basic research, on energy and life sciences, to investments in innovative industries, and advanced manufacturing. These are growth industries in our nation, we are excited about the increase in manufacturing that is happening in this country, but this is so important that the president is making clear investments in the innovative sector. He is going to create jobs for Americans right now and into the future, and if not done, could seriously hurt our economic growth in the future.

Mr. ZIENTS. Agreed. I mean, we are seeing the signs of recovery, but we have a lot of work ahead. 8.3 percent unemployment is completely unacceptable. The president is making investments to continue the job growth. It starts with the payroll tax holiday, which I know you are making progress on, extending unemployment, fixing, as you said, SGR. The president looks forward to signing something soon.

Ms. SCHWARTZ. We would like to fix it permanently, but that is another conversation.

Mr. ZIENTS. That is a different conversation, but let's get it done, let's get payroll tax holiday done so that there is not a tax increase on 160 million Americans. So it starts there. There is a call for an immediate $50 billion investment in infrastructure, which I think is important both for jobs and for our global competitiveness. On manufacturing, we are seeing manufacturing job growth, which is great. Manufacturing jobs are great jobs, they are well paid jobs, and they have great spillover effect to other service jobs. There are investments in this budget to continue R&D around manufacturing, particularly at MIST and at other agencies. We are continuing to do research around clean energy, and at the same time we are encouraging manufacturing companies to locate here and to manufacture here. There are tax incentives for manufacturers to do their manufacturing here in the United States. You mentioned health care, even in this difficult environment we are maintaining NIH's funding and increasing the number of grants.

Ms. SCHWARTZ. Thank you, all extremely important to our economy, thank you.

Chairman RYAN. Thank you. Mr. Simpson.

Mr. SIMPSON. Thank you, Mr. Chairman. I am tempted to ask you if you were drafted for this job or you volunteered, but I will not go there because it is a tough job that you have and I know that, and I appreciate you being here today to present the president's budget. I am also fascinated by this discussion we have. We get into baselines and all that kind of stuff; the American people really do not care about baselines. I do find it interesting that you are trying to use OCO savings when there is not an account in Treasury with all this money in it that we are going to save and not spend. That is the reality. As I remember, it was the Bush Administration that signed a status of forces agreement, and we have known that we were going to be coming out of Iraq for a number of years. So to count a continued effort, as we have had in the last several years, for the next 10 years and then say we are saving it is just phony, which a lot of this budget is, quite frankly.

I am just a simple guy from Idaho. What the American people want to know is how much deficit are we going to add to our current deficit if we were to pass this blueprint this year, which I understand is $1.3 trillion. How much would it be at the end of the 10 year cycle, which I understand is going to be still around $750 billion? What would the total deficit be at the end of a 10 year cycle if we adopted the president's spending plan, point one?

Point two, is the point that Mr. Garrett made. Every budget I have seen except the ones proposed by this president previously and this year, never put a target out there of when we expect the budget to be balanced, and you ought to at least present a budget which says, "I do not care, 50 years from now." Make it some time, but tell us when, if we adopt this spending plan, when we will achieve a balanced budget, and quit adding to the debt.

The question I have is does this administration really care about deficits and debt? They talk a lot about it, but their budgets do not reflect that, and I also hear a lot of talk about Simpson-Bowles, which I support, but you know what? This administration walked away from it.

Mr. ZIENTS. Well, that was a lot at once. Let me try to respond and I will do it quickly, Mr. Chairman. First of all, I am honored to be in the job and I am honored to serve this president and honored to present this budget. On OCO, I have made the points, and I will repeat them. It closes the back door. I think we all agree that CBO is our referee, and CBO scores it as savings.

Mr. SIMPSON. What back door are you talking about?

Mr. ZIENTS. The back door to more discretionary spending. Second, on deficits, I do not think you want to look at this in nominal dollars. No one thinks a dollar today is worth a dollar tomorrow, so I would rather have the dollar today than tomorrow, so let's pivot to GDP and percent of GDP.

Mr. SIMPSON. Nobody cares about that, they care about what the dollar amount is that you are going to create in deficit spending. Constituents that talk to me do not say as a percentage of GDP, what is our debt going to be in 10 years? You know what they say, is how much are we spending and how much are we going in debt and are we becoming Greece? This plan is Greece's plan.

Chairman RYAN. Let him answer.

Mr. ZIENTS. I think what you are seeing is declining deficits in real dollars, which is the right way to look at it. You are seeing debt stabilized as a percent of GDP. We are hardly Greece, look at our interest rates. This is a place where people want to invest, and if we get on the president's plan people will want to continue to invest. This budget achieves significant savings in the 10 year window. It is a step, it is an important step, there is more work to be done, and the president has shown his leadership and his willingness to work with Congress to achieve deficit reduction and let's start by getting the policies in this budget enacted into law. We will achieve a good milestone by doing that.

Mr. SIMPSON. You do a great job of trying to defend it, but I tell you that this budget leads us to Greece. At some point in time, we have to balance this budget, and I do not see this administration taking any steps to do that. Yes, they make little savings here and little savings there, and make phony comparisons against a baseline that they have created, and say that we are saving money when we are not. I will tell you that the American people are fed up with this.

Mr. ZIENTS. We are not Greece.

Mr. SIMPSON. And I am fed up with this.

Mr. ZIENTS. We are not Greece.

Mr. SIMPSON. We are not Greece yet.

Mr. ZIENTS. And we are not going to be Greece. This budget achieves a sustainable of level of debt as a percent of GDP and will make sure that this country continues to be a great place to invest in. I believe in this country, I believe in our workers, I believe in our competitiveness and the president's budget supports it.

Mr. SIMPSON. You know what, so do I. So does everyone in here, so I wish your budget matched the rhetoric that you put forward, but I do appreciate you being here because you have a tough job.

Chairman RYAN. Thank you. Mr. Blumenauer.

Mr. BLUMENAUER. Thank you Mr. Chairman. Mr. Zients, I appreciate your being here.

Mr. ZIENTS. Thank you.

Mr. BLUMENAUER. It is interesting for me, as I have two points of reference as I listen to my colleagues go back and forth. One is to look at what is proposed on this by the presidential candidates running for the Republican nomination in terms of more defense spending, no revenue adjustments, and even people like George Will pointing out that it is just an absolute fantasy land and it will be fun to watch in the unfortunate circumstance if you have a Romney budget here, and some of you are sentenced to the budget committee again, reconciling what he was talking about with this impassioned rhetoric.

When the Republicans were in charge with the Bush Administration, what we were presented every year looked better because it was not anywhere near an honest budget. I really commend you and the president for not being in a fantasy land that somehow these overseas adventures are unforeseen, supplemental funding, and it is just free money, Congress. That somehow we are not dealing with the alternative minimum tax, and that we are not dealing with the sustainable growth rate for Medicare reimbursement for physicians. If we did the fantasy budgeting that my Republican friends accepted, and in fact, participated in with the Bush administration, this $700 billion number would be under $200 billion if you engage in fantasy budgeting, which did not bother people when Republicans were in charge. I appreciate your laying it out. I appreciate the notion of looking at some longer term investments because you could not be more right. We are not Greece and the world would not be lending us billions of dollars at very low interest rates if they thought we were, even remotely. So our challenge is how do we move forward over the next 10 years to start bending the cost curve.

I think you have a number of things here that presumably even Republicans and Democrats can agree on. I would like to zero in on one, where there has been some support around this table. The chairman and I have worked on some agricultural reforms in the past and it was even one of the good parts of his budget. The administration proposes reduction in agricultural subsidies. I wonder if you could elaborate on that a little bit.

Mr. ZIENTS. Absolutely. I mean, it is a time of strong profitability in the farm sector, and there are direct payments going to some farmers, even though they are not producing. Crop insurance, the returns, the IRR on crop insurance is too high, so there are opportunities to save about $30 billion by getting rid of these unnecessary subsidies and at the same time continuing to have a very competitive agricultural sector. That is part of those savings that I mentioned that were part of the other mandatory savings.

Mr. BLUMENAUER. Well, I think this is an example of where maybe we can stop sort of the posturing, but we will do some political posturing and we did it before, we will do it again, but this is an area where I think the administration has outlined something that we on this committee can get behind. We have a farm bill that is expiring September 30th. We can move forward with actually more substantial savings.

Mr. ZIENTS. The exact number in the president's budget, I was not off by much, is $32.2 billion. Real money that I think makes sense to put into law as soon as possible.

Chairman RYAN. I think that is the one thing we agree with him on.

Mr. BLUMENAUER. I would hope, Mr. Chairman, that this is something that the committee might roll up our sleeves and do some work this year providing some budget committee leadership, I know you believe in this, the administration believes in it. I just want to say, we are fighting sort of a juggernaut on the floor, but I would think that this is something we ought to be able to set our sights on, deliver some real savings, show that we can work together, and do something that will help the American public and actually will help more farmers.

Mr. ZIENTS. If I may just make one point. I do think it is important that as we work together and achieve real deficit reduction, that we do it in a balanced way. So it is important to find savings in agriculture, it is important to find savings in health care. It is also important to get revenue. So this budget has $2.50 of spending for every $1 of revenue. We need to maintain a balanced approach and not cherry pick here or there.

Chairman RYAN. We have got some time constraints. I appreciate it, obviously we disagree with that number, but Mr. Calvert.

Mr. CALVERT. Thank you Mr. Chairman. I know Mike left, but I want to certainly associate myself to his remarks. Looking through this budget, I think it is a lack of leadership that has put us on an unsustainable path that, if enacted, would lead to this country's economic demise. That is why there is little support in the House for this, there no support for it in the United States Senate, and I suspect very little support throughout this country.

Thankfully there are a lot of people in this room and throughout the country to make sure that this budget does not hold. I think the budget we have done here is a responsible budget. At least it puts us on a pathway to economic solvency and I want to congratulate the chairman and the committee for the good work we are trying to do to keep this country fiscally sound.

I also serve on another committee so I want to get into some other issues: on the issue of defense acquisitions. I serve on the Defense House Appropriations Subcommittee with my good friend Mr. Cole, and obviously we are taking a look at how we are doing acquisitions, and as the budget requests delays and restructures several major acquisition programs, including the joint strike fighter, the Army's ground combat vehicle, and the replacement for the Navy's ballistic missile submarine. You are claiming that these delays will save taxpayer money. Historically, stretching out these defense acquisition programs, do those reduce costs or are you just shifting those costs outside that budget window?

Mr. ZIENTS. I would like to actually start with your comment about our economic demise. Maybe I am just more optimistic about this country, but I think a budget that puts people back to work and at the same time puts on a sustainable path to deficit reduction.

Mr. CALVERT. You are claiming my time. I am optimistic too because I know that your budget is not going to get to see the light of day, so we are going to move ahead with our own budget plan which will actually pass the House, but the question is on the Department of Defense.

Mr. ZIENTS. So on DOD, I think it is really to understand that this is strategy first, budget second, so this is a strategy which is consistent with what Secretary Panetta, his leadership team, and the president all believe is the right strategy. The budget, as you know, does have a 1 percent decrease in DOD, so the secretary is making tough choices. I think you should talk to him about specific programs. I think you cannot generalize. I do know a little bit about contracting and procurement. I think you cannot generalize on that, and I think you need to look program by program and any specific questions you have I would direct to the secretary.

Mr. CALVERT. I will be talking to him tomorrow, but as you probably well know, being from the private sector, and I am from the private sector myself, when you push off these large acquisition programs, your costs increase and there are a number of studies that show that the cost increase on this is as high as a 40 percent increase in the actual acquisition cost, but that will not show up in the budget numbers because you are shifting those numbers beyond the budget window. So there is something that we are very concerned about. One, in additional costs that it puts on these programs, which makes it more difficult to explain to the American public why we are expending as much money for these particular programs as we are, when it is unfortunately because of the way we are acquiring these weapon systems.

Mr. ZIENTS. I think Secretary Panetta has a very well thought through plan and I would suggest you direct that question to him.

Mr. CALVERT. Thank you. Thank you, Mr. Chairman.

Chairman RYAN. Thank you, Mr. Calvert. Mr. Yarmuth.

Mr. YARMUTH. Thank you Mr. Chairman. Mr. Zients, thank you for being here and for your testimony. Quick question in relation to something that Mr. Garrett raised, however you characterize it, fine, tax under the Affordable Care Act. You said there were no new taxes in this budget. If I am not mistaken, that fine, budget, or tax was in existing law prior to this budget being submitted; and therefore by the chairman's own standards, those things that are in existing law you do not get credit for or blamed for. Well, the implication that in some way this budget raised revenue through that vehicle does not meet the standard which the chairman set, would you not agree with that?

Mr. ZIENTS. Yeah, I think it is important that in this budget there are no increases on families earning less than $250,000, and in fact, there are important tax breaks including the American opportunity tax credit which gives up to $10,000 for tuition credit, tax against tuition, which is important as part of our global competitiveness, and ensuring that people can afford to go to college. We need to rebuild and make sure that we are doing what is right by the middle class and this budget does that.

Mr. YARMUTH. Thank you. I am going to get a little parochial for a second.

Mr. ZIENTS. Please.

Mr. YARMUTH. Over the last three years, the administration has proposed to repeal the LIFO accounting method, and I understand that by your calculations that would result in about $78 billion worth of revenue. Obviously, that accounting method has been used for a long time and has been considered a valid accounting method for certain business, including one that is near and dear to the heart of all Kentuckians, the bourbon distilling industry, and the justification being that bourbon by law has to be aged for quite a long period of time. I have a Fortune 1,000 company based in my district, Brown-Forman Distillers, which would be adversely impacted to the tune of several hundred million dollars by this change.

Meanwhile, Brown-Forman does about $3.4 billion worth of business, about half of that is exported. So it is contributing to helping our trade balance. My question to you is while calculating the impact of the change in LIFO accounting methods, just in terms of the revenue side, has OMB calculated the other implications economically of that change, including the possible death of some businesses in the country?

Mr. ZIENTS. On the LIFO, that disproportionately benefits oil and gas producers who have record profits and there is a lot of gaming that can go on through that LIFO system. As you know, the Treasury secretary really is the point person on specifics around individual tax policy, so I will defer to Secretary Geithner on the calculation and how cost and benefits are weighed.

Mr. YARMUTH. I appreciate that, I have raised that with Secretary Geithner as well. Quick question, when I am home this weekend and I am in Costco, I know Mr. Simpson says people do not care about it, but in case somebody is watching this and I am walking through Costco, or Kroger, or someplace and a citizen says why should I care whether the deficit and debt are percentages of GDP as opposed to nominal numbers, whether it is $11 trillion here in this calculation or in the Republican budget that was passed last year the $6 trillion. Why does that matter to the average citizen?

Mr. ZIENTS. I think it matters because we need to make sure the average citizen understands that we are doing what we need to do right now to bring down the unemployment rate, to make sure that people are employed and there are plenty of jobs, and that we are making the investments to make us a more competitive country. We are doing it at the same time as we are bringing our deficits down, and creating a sustainable level of debt to GDP, so that this maintains our standing in the world as the place to invest. I mean, you see it, as we mentioned earlier, in our current interest rates and we need to maintain an environment that has both American companies and global companies investing here.

Mr. YARMUTH. And that would be the difference between United States and Greece?

Mr. ZIENTS. Absolutely.

Mr. YARMUTH. Thank you.

Chairman RYAN. Mr. Akin.

Mr. AKIN. Thank you, Mr. Chairman. Just a couple questions, you just said a minute ago this is a budget that puts people back to work. Boy, it would be nice if that were, in fact, true, but I am not so sure that I am sold on that idea. First of all, in a larger context, when you tax small business owners and increase taxing them, what the effect of that is going to be is to make their business less competitive and harder to create jobs, but specifically I want to call your attention to your tax increases that you have got. My understanding is that under American energy producers, you have a repeal of the percentage depletion for hard mineral fossil fuels, i.e. coal. So, you are going to repeal a percentage depletion for coal. How is that going to affect the income taxes of a coal company?

Mr. ZIENTS. It would increase them.

Mr. AKIN. It would increase them. About what amount?

Mr. ZIENTS. I do not know the exact percent, but I can follow up with you on that.

Mr. AKIN. Well, you do not really need to. I know, okay? They are paying about a 22 percent tax. This would double it. What this does is it basically puts coal companies out of business. Now, there are a bunch of mines that are already closing down, but this thing here is going to shut down the coal industry.

Now, I do not understand how shutting the coal industry, along with some other administrative policies, such as delaying permitting and expansion of the streams rule so you cannot dig under half of the coal that is in an area which makes long-wall mining just go out the window. What you are doing is you are shutting an entire industry down, this budget is a key part of driving the last spike in the coffin of coal. So, how you can say that this thing is a budget that puts people back to work, I just do not feel like that that is a reasonable assertion at all.

Mr. ZIENTS. May I respond?

Mr. AKIN. Yes, you may.

Mr. ZIENTS. I think you might be overstating the impact on coal companies, but we can continue that dialogue.

Mr. AKIN. Do you not think doubling their federal taxes is pretty significant?

Mr. ZIENTS. Overall on small businesses the president has done 17 different tax breaks for small businesses. This budget has further tax breaks for small businesses that allows small businesses to write off 100 percent of their investments. It also gives them a tax credit as they increase their payroll. So, the president believes that small business is vital to this economy and the growth of this economy and has supported small businesses in a very vigorous way.

Mr. AKIN. Yeah, well let's see how we are doing that in a vigorous way. First of all, we are increasing death taxes, so that makes it hard. That is an increase on the tax of small business.

Mr. ZIENTS. I am sorry, are you talking about the estate tax?

Mr. AKIN. Yeah, estate tax, death tax, same thing.

Mr. ZIENTS. So, just to respond to that, it is at the 2009 level, which has a $7 million exemption. I believe it impacts less than 0.3 of one percent of estates.

Mr. AKIN. Well, the point of the matter is you go death taxes and capital gains, that is the money, and that is the seed corn financially of people making investments, which gets businesses going. And if we have a policy of first of all taxing them more, so this is a budget that is going to tax them more, and then we follow that up with, of course, all the other regulations that you are burying them in, I do not understand how this is going to help. But, particularly, I take extreme exception not only to that, not to even mention what you are doing to defense and the 10 percent and with the other 10 percent cut coming, but this is not a budget that does anything that puts people back to work. I think this is a budget that is going to specifically destroy a lot of industry and a lot of jobs. I yield back.

Chairman RYAN. Thank you. We are making up some time. Mr. Pascrell.

Mr. PASCRELL. Thank you, Mr. Chairman. When does the budget balance? I think that is a great question, Mr. Zients, and you were put to the test by the ranking member, my friend from New Jersey, when he asked you that question in different ways and different times, and he claimed that you never answered the question.

You know, Dante's Inferno is the terrace, and we are looking at it right now. The budget that was presented to us not that long ago, Mr. Chairman, your budget, was balanced on the positive in terms of the percentage of GDP in 2063. Let me finish, please.

Chairman RYAN. Okay, but if you want to be accurate.

Mr. PASCRELL. I am going to get back to you. I always allow you to speak. 2063.

Chairman RYAN. The debt was paid off by then.

Mr. PASCRELL. Fifty years, balanced budget, that is what we are talking about.

Chairman RYAN. That was when the debt was paid off.

Mr. PASCRELL. You took in your budget, and I thought you were courageous to present one. So, hear me out. I said that to you once before. It took revenue off the table, all revenue, no increases, and the CBO said we had annual deficits of 3.5 and 4.5 percent of GDP. So, it was estimated in the budget that you presented, and please correct me if I am wrong, to add $62 trillion into the debt before going into balance out. It is difficult to have a five year budget let alone a ten year budget. You do not know what is going to happen. You do not know the emergence. Of course, when you are not paying for anything, it does not matter, but we are paying for things now. We are trying to do it. I think both parties are trying.

Chairman RYAN. Would you politely yield?

Mr. PASCRELL. Go ahead.

Chairman RYAN. Draw a figure eight if you can. Here is the point. This is really tough stuff.

Mr. PASCRELL. It is.

Chairman RYAN. It is really hard given the tough fiscal situation our country is in to balance. So, the question is what path are you putting the country on, what trajectory are you putting the country on?

Mr. PASCRELL. I agree with that.

Chairman RYAN. Ours, as you can see, balances the budget. It takes a long time, but the key is you are getting the debt downward and paid off, which is that date you are talking about. The baseline, the status quo we have, which is what this budget essentially does, sends our debt into the stratosphere, and that is the point.

Mr. PASCRELL. Well, we have different stratospheres. I understand that. And if we work together, we perhaps could move towards some tangible evidence. So, you cannot oversimplify these things. You cannot ask Director Zients out of context. It is a simplification. It does not work. It does not work.

Now, as a former member of the Transportation and Infrastructure Committee, I believe that funding for roads, bridges, buses, trains, is an investment in the economy. I have never seen an economist say otherwise. They are right once in a while. According to the American Society of Civil Engineers, our infrastructure is graded as D minus. That is no surprise to anybody around the table. The president's budget includes $50 billion in upfront investments, and a $460 billion six year reauthorization, which is 80 percent increase. This is in contrast with the budget of the transportation committee that is coming up, not today or tomorrow, in the future. Headline news.

On that top, we learned yesterday that the Congressional Budget Office has found that this legislation leaves the highway trust fund $78 billion more in the hole, but I got to take exception to one thing in this budget. I have an exception on many.

I am supportive of the transportation budget in the president's proposal. I got a major problem with the retroactive cap on the municipal bond tax preference. How long are we going to take to minimize and target municipalities in this country which get very little help from anybody anywhere until their town, small or large, goes under? The phase-out could result in higher borrowing costs. Where are they going to get this money? I want you to tell me where they are going to get the money for state and local governments to pay the higher rates on what you are suggesting, and I think that this would be a disaster for municipalities who have had to lay off police, fire, teachers, et cetera, large and small towns, Republican and Democratic towns. This is an absurdity, and I would like to know your answer if I could, Mr. Chairman. Go ahead.

Mr. ZIENTS. Well, I think on the specific tax policy, I, again, will defer to Secretary Geithner in terms of your transportation comments, I could not agree more. It is actually a $476 billion reauthorization, six years. The other thing I would note is that the president has $30 billion in the budget to make sure that teachers and first responders and other key people at the state and local level keep their jobs and are put back in their jobs. So, the transportation is a win-win. It puts people back to work and helps make us more globally competitive.

Mr. PASCRELL. Mr. Chairman, I would ask you to take a look very carefully at this point. We do not know the consequences of this or understand it. Neither party did in the past 10 years. I am asking you to look at it because we are burying our municipalities.

Chairman RYAN. Duly noted. Mr. Cole?

Mr. COLE. I want to agree with my friend, Mr. Pascrell. I think you were courageous to offer the budget you did. I think this committee was courageous to pass it. I think the House was courageous to pass it. I am sorry that my friends, when they were in the majority, did not do a budget the last year, and our friends in the Senate have not done one in 1,000 days, and we find precious little support for the president's budget on his side of the aisle. So it is tough to grapple with these things.

Mr. Zients, I am almost reluctant to say that I am happy to see you here, because every time somebody does that, they spend the next four and a half minutes beating you up, but I really am happy to see you here.

Mr. ZIENTS. Thank you.

Mr. COLE. I know you will do a good job for the president; you have served him well in your previous capacity. Let me put a hypothetical in front of you, but I think it is a reasonable hypothetical. First, let's just posit that you get the revenue increases in your budget, and those actually occur as predicted in the budget. And let's posit for a minute that discretionary spending actually does a little bit better, and we have actually spent less on the discretionary side and the appropriations process than the president asked for the last two budget years. We have the Budget Control Act going forward, which kind of put a ceiling on that, and I think we actually, on the discretionary side of things, can do even better than the president projects.

So if those two things happen, is there any realistic chance of this budget ever balancing absent some sort of serious entitlement reform?

Mr. ZIENTS. Well, I think that, you know, the ACA, the Affordable Care Act, resulted in about $100 billion of savings in the first decade, a trillion in the second. In this budget, there is $360 billion of further health care savings through the efficiency gains, effectiveness gains that I talked about earlier. There is $270 billion of non health care mandatory programs. It is an important policy to get done.

Mr. COLE. But can it ever balance?

Mr. ZIENTS. We need to keep working on it.

Mr. ZIENTS. We need to keep working to see how we maintain the compact that we have with our seniors at the same time.

Mr. COLE. I agree. Is it fair to say that means no, that we are going to have some sort of entitlement reform to get further to where we all want to be.

Mr. ZIENTS. Yeah. I will go back to my private sector experience. Sometimes when you face a really big challenge, you keep going at it, and you keep making incremental progress, and you do it in a way that maintains the compact that we have with our seniors. The Republican budget breaks that compact. It is asking folks in 2022 to pay $6,500, $6,400 more according to CBO. That breaks a basic compact.

Mr. COLE. I would disagree with that.

Mr. ZIENTS. We can keep that compact and keep going after it.

Mr. COLE. Reclaiming my time, what is the president's plan then to deal with this?

Mr. ZIENTS. The plan is to make this progress and this budget, have these policies enacted into law, and continue to work together to make continued improvements to these programs to ensure that we are maintaining the compact and at the same time bringing down cost.

Mr. COLE. Do you think the president will tell us what his plan is before the next election so we know what is going on?

Mr. ZIENTS. I think the president, on multiple occasions, has shown leadership, come to the table with serious discussions, and each and every time has been rebuffed, meaning no one is willing to take a balanced approach to deficit reduction.

Mr. COLE. Reclaim my time, but I will disagree with you on that. You show leadership when you present a plan. We have not got a plan on entitlement reform.

I have limited time, but let me ask you another question. You referenced in your initial remarks that it looks like we are making progress on the payroll tax, and we may well be. We will probably all have to all hold our nose on both sides of the table and accept some things we do not like, but that potentially could happen this week. Do you continue, in your budget, the payroll tax holiday next year, or do you assume that we are going to return to, as I think we should, quite frankly, hopefully the economy is stronger and we can return to the normal Social Security taxes and revenues that we project on current taxes.

Mr. ZIENTS. It is the latter. We are confident that we will be in the type of shape economically that we can end the payroll tax holiday.

Mr. COLE. Okay. So, you are pretty sure?

Mr. ZIENTS. Yes.

Mr. COLE. Very good. Thank you very much. Last question, and we have had a lot of discussion about OCO, and, again, I disagree with you on projecting $850 billion worth of savings, but how do you do that unless you can figure out what we are going to spend if we go to war someplace else? You are taking savings, saying we are ending wars, but the next 10 years is very unpredictable. And you have no place in there where you would assume we would spend money to go to war, but there is a pretty good chance.

Mr. ZIENTS. Well, I do not want to speculate on the international scene; that is definitely s for Secretary Panetta. I will point out that there are $450 billion in OCO still in the budget in this situation where we are saving over $800 billion.

Mr. COLE. Okay.

Mr. ZIENTS. It is not as if OCO is going to zero. There is $450 billion.

Mr. COLE. Thank you very much. I appreciate and yield back, Mr. Chairman.

Chairman RYAN. Mr. Honda.

Mr. HONDA. Thank you, Mr. Chairman. I appreciate it. And thank you for your presence here. The budget is, I think, for the public, and I agree with Mr. Simpson that when we talk in terms of percentage of GDP, people's eyes just glaze over because it is just not something that we talk about on a daily basis; it is not a common language outside of the beltway. Having said that, we have been talking about extending the payroll tax cut and the unemployment insurance benefits, and the information I have says that if we extend the 2 percent payroll tax cut and the unemployment insurance benefits, that could add about 0.5 percentage points to the economic growth in 2012, and supply between 120,000 and 600,000 jobs. Mark Zandi of Moody's Analytics has estimated that doing this would add 0.9 percentage points to economic growth, which is almost double.

The nexus between the continuing and extending of the payroll tax cuts and the job creation, how does that happen? I mean, how do you create the jobs from the tax cuts? What is the economic dynamics that happens and people's motivations? What is the thinking?

Mr. ZIENTS. Well, I am not a macroeconomic guru by any stretch, but the statistics that you cite, I think, are widely accepted statistics, and by ensuring that families have an extra $40 in their payroll at each paycheck through the end of the year has great spillover effect. They go out and they spend that money, and that creates additional jobs.

Mr. HONDA. It is just that simple?

Mr. ZIENTS. I think that is the basis of it. It is, again, a very complex set of interrelated issues, but when people have more money in their pocket to spend, they are able to spend it, and they are able to help stimulate the economy and create jobs.

Now, I want to be clear that the president's plan is not just the payroll tax cut. It is extending the unemployment, as we have talked about.

Mr. HONDA. Right.

Mr. ZIENTS. But it is also an immediate $50 billion investment in infrastructure. It is ensuring that there is money for us to retain first responders. It is to hire veterans and to continue to make changes that will help our housing market rebound.

So this is a multifaceted approach. We need that, given that we are still at 8.3 percent unemployment. We need to attack on all fronts and get people back to work.

Mr. HONDA. So, since we have done this for a while now, are there any hard data that we can look at and say since we have done this, it has created X amount of jobs?

Mr. ZIENTS. I think the most important thing we can look at is that, thankfully, across the last several months the unemployment rate has come in quite a bit. It is not where we want it to be at 8.3 percent, but it is moving in the right direction. GDP growth is moving in the right direction. Now is not the time to stop. Now is the time to continue to make the investments, to put people back to work, and make our country more competitive.

At the same time, we will be putting ourselves on a path to deficit reduction and stabilize our debt, which is important for our medium and long term.

Mr. HONDA. And there will be a point when we will withdraw the tax cuts?

Mr. ZIENTS. Well, I think I was just asked that question, and the plan is that the payroll tax cut be extended through the end of the year. That is very important, but that there are no plans for additional payroll tax holidays.

Mr. HONDA. And does the Chamber of Commerce or any other organization reflect that same kind of sentiment and data?

Mr. ZIENTS. Sure. I mean, I think there is widespread belief that the payroll tax holiday helps to create jobs and helps our recovery. And, if you would like I can have our staff follow up with some of the specifics on that.

Mr. HONDA. Yeah, and for the future maybe we can find some other terminologies when we talk about percentage of GDP.

Mr. ZIENTS. We will work on that.

Mr. HONDA. This is a way where we can educate ourselves and educate the general public when they hear terminologies.

Mr. ZIENTS. I think the main thing is the general public needs to understand that there is an immediate emphasis on job creation, getting people back to work, which is essential for our economy and for individuals and for families and for the middle class, and at the same time, we do need to bring down our deficits to a point where they decline. We have stable debt, and therefore, as a percent of GDP, I hate to use that terminology, but they are stabilizing debt. And that makes sure that we, as a country, remain the favorite place to invest, both for American companies and for global companies.

Mr. HONDA. Thank you, Mr. Chairman. Thank you.

Chairman RYAN. Thank you. Dr. Price.

Mr. PRICE. Thank you, Mr. Chairman. I think that I want to welcome you, Mr. Zients, but I think the American just have a huge frustration about what is happening here in Washington, and they do not get a sense that anybody is dealing with the issues honestly and forthrightly; and this budget, I think compounds that.

If you look at what some folks are saying across the country, the Wall Street Journal says, "promises of future spending cuts are a mirage. Mr. Obama needs to point to the mirage, because his fiscal record is the worst in modern American history." The Washington Post says, "Mr. Obama's proposed budget for fiscal year 2013 falls short. The final budget of his first term does not reflect the leadership on issues of debt and deficit that Mr. Obama once vowed." Bloomberg says, "it is a wasted opportunity," on and on and on.

As a physician, I can tell you that the doctors across this land and the patients across this land are very concerned, and that the pact that they have with each other, the ability to be able to provide the highest quality of healthcare in the country, they see eroding away. I want to go to the big picture, if I may. What revenue do you project for the United States in the next fiscal year. Ball park?

Mr. ZIENTS. Are we doing fiscal year 2013?

Mr. PRICE. Correct.

Mr. ZIENTS. The total receipts for the U.S. Government is $2.9 trillion.

Mr. PRICE. And what level of spending do you project?

Mr. ZIENTS. $3.8 trillion.

Mr. PRICE. $3.8. And the discretionary amount?

Mr. ZIENTS. Is about a little over a trillion dollars.

Mr. PRICE. A trillion. So, if you removed all discretionary money, then we would barely get to balance under your current budget. Is that right?

Mr. ZIENTS. Yes. I mean, discretionary spending, so you know, is going down.

Mr. PRICE. I understand that, but, if you removed it all, that is all the spending at the federal level completely?

Mr. ZIENTS. Well, given that we have a deficit of about $900 billion dollars.

Mr. PRICE. My point is, Mr. Zients, is that the concern on the health care side is that unless we address the fundamental reforms that are necessary to save Medicare and Medicaid, that we are ignoring the problem. So, what solutions are incorporated in this budget for Medicare, for example?

Mr. ZIENTS. So, it starts with the Affordable Care Act, which saves $100 billion in its first decade, a trillion in its second.

Mr. PRICE. In this budget?

Mr. ZIENTS. Then there is $360 billion in this budget which has things like when people move from Medicaid to Medicare they get the same drug rebate that we get as a government, the same drug rebate that they got in Medicaid, that we get that in Medicare. That saves a lot of money.

Mr. PRICE. You are not presuming to tell me that that is the major fundamental reform that is going to save Medicare?

Mr. ZIENTS. No, no.

Mr. PRICE. So, the major fundamental reform that is going to save Medicare in this budget is?

Mr. ZIENTS. The major fundamental reform is to keep going at it the way the president has. Here is $360 billion of savings. I think the framework that we start with or the principle we start with is that we have a compact with the American people.

Mr. PRICE. If I may, I have only got a short period of time. In your own budget, Medicare spending in 2022 is a trillion dollars, and this next year, $487 billion.

I want to revisit, if I may, the Independent Payment Advisory Board, because it is of great concern to patients across this land, because they believe it to be, as I believe it to be, a denial of care board.

I think in your earlier comments to the chairman, you mentioned that this budget would give new tools to the Independent Payment Advisory Board through value-based benefit design changes that you intimated could cut benefits to beneficiaries.

Mr. ZIENTS. I want to be clear that we attribute no savings to that board. That board is there as a backstop if we do not get the savings that we have committed to.

Mr. PRICE. And a backstop requires that there is a catcher to catch the ball first, and I would suggest that there is no catcher in place.

Mr. ZIENTS. Right.

Mr. PRICE. And therefore, Mr. Zients, if I may, the backstop will be the only thing there.

Mr. ZIENTS. If you look at the data, health care costs on a per-person basis is coming in. It came in quite a bit. So, we are making progress in making health care more effective for more people.

Mr. PRICE. I have got 30 more seconds, and I just want to share with you the concern that the physicians of this land have, and that is that they are no longer able to have that physician-patient relationship that allows them to provide the quality of care that they believe is most important for their patients. They also believe that the whacking away at providers in this country is destructive to the ability of them to care for their patients, and consequently, the patient's access to care is being terribly eroded, and this budget continues that.

Mr. ZIENTS. I think the Affordable Care Act is very sensitive to that patient-physician relationship in making sure that we work together in a way across the whole health system so that we maintain that relationship and improve the system, both in terms of its outcomes and lowering its costs.

Mr. PRICE. Thank you for pointing me to that.

Chairman RYAN. Thank you. Ms. Castor.

Ms. CASTOR. Thank you, Mr. Chairman. Welcome, Director Zients.

Mr. ZIENTS. Thank you.

Ms. CASTOR. I thank you for all of your hard work and your whole team. The economy is getting better. We have had 23 months of private sector job growth. The unemployment rate is at its lowest level in three years. I think the first chart we had up tells the story. Small business confidence is growing, but it is clear that our country must do more to accelerate job creation so that our neighbors have good jobs, and the non-partisan CBO gave us some good, healthy advice just a few months ago, and Director Elmendorf reiterated that when he was here just a week or two ago that if America can create more jobs, we can reduce the deficit. So, it is very important to see the administration's job creation strategy that also doubles as a debt reduction strategy.

I would like you to focus in a little bit on the administration's job creation strategy. I know it has not been easy because the president's American Jobs Act has been blocked by the Republican Congress, but I am happy to see that in this budget the president does not give up on a number of investment strategies and job creation strategies. If it is infrastructure, research and innovation, I appreciate that you believe that we need to continue to invest there, and I would like you to focus on education, because it is vitally important that America continue to invest in students and our future workforce. They have got to be trained and talented to focus on the challenges of the coming decades.

So, would you go through the education section? I represent a community where we have a large public research university. We have a private universities and colleges and a substantial community college presence. They are going to be very interested in what you are proposing for the Pell grant, what you are proposing for community colleges, and other investment and job creation strategies.

Mr. ZIENTS. As you know, it is one of the most important areas of focus for the president, which is to ensure our long-term competitiveness and to invest in education. I will hit on a few highlights, but the budget is very robust as to education from early childhood through college.

In terms of a few of the highlights I mentioned earlier, the American Opportunity Tax Credit, which gives up to $10,000 of tax breaks for tuition, the community college area is very important. The president, just this week, announced a new $8 billion initiative to work with our community colleges around the country, working closely with businesses in those community college areas to ensure that we are putting together the right courses and the right teaching, so that when folks graduate, when they do their courses, they have jobs, and we expect that will impact two million students around the country.

The other area I would touch on because you touched on it is Pell grant. The president's budget has the Pell grant at the higher level of $5,600 or $5,650, funded for two years, and I think more than nine million students are part of the Pell grant program.

So, that is three of many initiatives. The president also really believes that we need to make sure that college is affordable. If tuition increases, continue to compound that rates above inflation, students either cannot afford to go to college or they leave with debt that is too high. The president has a real emphasis on making college more affordable by having incentives for colleges to begin to reign in their tuition increases.

So, from early childhood, to K through 12 through college, this president and this budget focuses on education and making sure that we are able to compete and win in this global economy by having the best educated workers.

Ms. CASTOR. And the president's also continued to put emphasis on the portion of the American Jobs Act creating jobs through public school modernization and renovation because all across the areas that I represent the state has, and this is not unique to Florida, but many states have rescinded in what they are able to do in schools, and we could put thousands and thousands of people to work renovating schools.

Mr. ZIENTS. Well, it is a great situation, and it is $30 billion to both modernize our schools, which is great for education, and, at the same time as you point out, puts people to work. This proportionally puts construction workers to work who need jobs, so it is a great opportunity to get a two-for: improve our schools, which is great for our students, which will make them better educated and more competitive in this global marketplace, and it immediately puts people to work. So, $30 billion is in the president's budget to do just that.

Ms. CASTOR. Thank you.

Chairman RYAN. Thank you. Mr. McClintock.

Mr. MCCLINTOCK. Thank you, Mr. Chairman. The ranking member, I think, put his finger on the great question confronting this committee, and, for that matter, confronting this nation. He made two statements, one of which I disagree with, the other which I heartily agree with.

He said that this administration had inherited the worst economy since the Great Depression, and I agree it inherited a terrible mess. But, I seem to remember a time more recently when we had double-digit unemployment, double-digit inflation, mile-long lines around gas stations, and interest rates at 21.5 percent. That was the end of the Carter administration. We elected Ronald Reagan who adopted policies quite the opposite of this administration.

Perhaps the reason the ranking member does not remember those days as vividly is because they did not last very long, and those policies produced one of the great economic expansions in our nation's history. In fact, Phil Graham recently published an article in the Wall Street Journal which he estimated that if the economic recovery under this administration had tracked the same as the Reagan years, we would have nearly 17 million more Americans working today with per capita income about $5,500 greater than it is today; which brings me to the point that he made, that I heartily agree with, when he says that we cannot return to the same policies that got us into this mess. Amen to that. We have to ask ourselves what were those policies? The Bush administration increased spending by over 2 percent, over 2.5 percent of GDP. They expanded entitlement spending massively. They turned in massive budget deficits, and they presided over an unprecedented government intervention in the housing market, encouraging bad loans by dragooning taxpayers into covering the losses for those bad loans.

My beef with this administration, and my concern over this budget, is that it has not only not corrected those mistakes, those policies, but instead has repeated them and doubled-down on them, which brings me to the concerns that I would like to raise with this budget and get your feedback.

A year ago, we had one economist after another coming before this committee warning us that the federal government needs to get its finances in order in the next three to five years to avoid a fiscal meltdown that would dwarf the 2008 crisis. One of those economists was Secretary Geithner, and I would like to read you a quote from his testimony. He said, "Over the next five to 10 years, we have an unsustainable fiscal position. We have to get that down to a level where the debt is not growing as a share of the economy. Without that, nothing else is possible and will do a lot of damage to future growth and confidence."

That is very important. Now, I want you to listen very carefully to this next line, Mr. Zients, because I am going to need your guidance on it. "That is why you need to bring the deficits down over the next three to five years to something that achieves primary balance. That is a minimum necessary." Does this budget bring us down to primary balance in that timeframe?

Mr. ZIENTS. I will answer your question in one second.

Mr. MCCLINTOCK. Well, I only have one minute and 30 seconds. My comparison was not a question, it was a statement. I would like you to answer a question. Does this budget bring us to primary balance?

Mr. ZIENTS. Yes, it does.

Mr. MCCLINTOCK. In what period of time?

Mr. ZIENTS. Five years.

Mr. MCCLINTOCK. From now?

Mr. ZIENTS. Yes.

Mr. MCCLINTOCK. Okay. So, it is not the minimum that Secretary Geithner set last year of three to five years from last year?

Mr. ZIENTS. The budget achieves primary balance in 2018, given unexpected economic situation, which a lot of which was controllable around the debt ceiling. If we had avoided that, we might have had a better economic recovery.

Mr. MCCLINTOCK. Mr. Zients, I am going to have reclaim my time because I need to get back to the credibility of that statement. In 2009, the president projected a $581 billion deficit for fiscal year 2012. By 2010, his 2012 estimate had grown to $828 billion, an increase of 41 percent in his projection in just a single year. In February of 2011, the president's projected 2012 budget deficit grew to $1.1 trillion, and this year the president projects that deficit to be $1.3 trillion, which is 128 percent increase over his projection at the beginning of his term. So, why should we trust your budget projections three or four or five years into the future when we have a track record of grossly distorted projections under this administration?

Mr. ZIENTS. Well, I think the first thing to start with is your comparison to the Reagan recession. It is apples and oranges. That was fueled by inflation, and Fed policy was the answer. You get out of a recession like that much more quickly than a financially-led recession, which is unfortunately what we inherited based in large part on those policies that you articulated so elegantly at the beginning.

So we started in a hole. We thought it was a hole that was about negative 3 percent of GDP. It ended up being negative 8 percent for Q4 of 2008 and Q1 of 2009, so a much deeper hole. We are digging our self out of that hole, and the president's budget puts us on a sustainable path.

Chairman RYAN. If you want to keep to your schedule, or you want to be out by 12:30. I am trying to get through everybody.

Mr. ZIENTS. Please.

Chairman RYAN. Mr. Tonko.

Mr. TONKO. Thank you, Mr. Chair. Mr. Zients, thank you for joining us here today. I want to use my brief time here today to focus on the issues of fairness that are emphasized in this budget proposal. I want to read briefly from a letter that Chris, a constituent of mine from Schenectady, New York, wrote almost exactly one year ago. He writes of his thanks for living in a society that has allowed him, his wife, and their two children to succeed, and the role that things like public infrastructure and public education played in their success. He concluded his eloquent letter with this, "We are not rich, but as Americans, we are willing to give back to the country that has given so much to us. We feel a responsibility to ensure that others have that same opportunity that we benefit from. As my elected representative, I want you to know that when our government requires additional revenues to close the budget gap, we are willing to do our share. If it becomes necessary to raise taxes to preserve essential social services, I will consider it an honor to support them through my contributions."

This committee, on both sides of the aisle, is rightfully concerned about the future of our deficit. In 2011, federal spending was 24.1 percent of GDP. Tax revenue was 15.4 percent of GDP. There is a pretty big gap between those two numbers. That tax rate, 15.4 percent of GDP, is the lowest, I would point out, since President Eisenhower was in office, before Social Security and Medicare were law, before we even had all 50 states in fact.

Mr. Zients, do you have, on hand, what federal revenues averaged under the Reagan administration as a share of GDP?

Mr. ZIENTS. I do not have it readily handy, but my team might have it. I know under Clinton, as we saw earlier, it was about 20 percent.

Mr. TONKO. Okay. I believe my information is 18.2 percent. And do you have on hand what federal revenues averaged under the Clinton administration as a share?

Mr. ZIENTS. Well, that was shown earlier. I think it is right around 20 percent.

Mr. TONKO. Yeah, 19 percent. So, we have 19 percent under President Clinton, 18.2 percent under President Reagan, and now 15.4 percent under President Obama. That is not the picture some of my colleagues are painting here. I have heard my Republican colleagues commenting this week that with this budget, the president will increase spending over the course of 11 years by 62 percent. Do we know how much President Reagan's increase in spending over his eight years in office?

Mr. ZIENTS. That was higher. I actually do have that data with me, if my team can just hand it over. I am sorry. Let me follow up and get you those specifics on Reagan.

Mr. TONKO. Okay. My information is 69 percent.

Mr. ZIENTS. That sounds correct.

Mr. TONKO. And how much did President George Bush increase spending for his eight years in office?

Mr. ZIENTS. I believe even higher, but it sounds like you have the data in front of you.

Mr. TONKO. My information is 89 percent.

Mr. ZIENTS. Yes.

Mr. TONKO. So, thank you. My point is this: for what has been deemed a tax-and-spend presidency, it seems to me that President Obama is cutting taxes more and increasing spending less as a share of GDP than many of our great Republican leaders, and we need to restrain our rhetoric, I believe.

Mr. ZIENTS. And, in fact, on the revenue side, we are bringing it in 2021 right to that 20 percent level at 20.1 percent.

Mr. TONKO. Right. Well, tax-and-spend is a catchy line, and it gets thrown around a lot in an election year, but another constituent of mine wrote to me a couple of months ago with similar, catchy lines. Rod is a retired teacher from Voorheesville, New York. "You might think," he writes, "that after the ruinous binge of deficit spending that was the Bush administration, we would not again hear the old tax-and-spend song. Bush administration," in Rod's words, "was an era of spend-and-pretend." And that is what we have seen time and time from my colleagues across the aisle when they control our government. Rod went on to write the following: "President Obama is asking Congress to invest in value-creating enterprises. He believes, and I think, that if we can spend our taxes to train young men and women to fight and kill, we can spend taxes to teach the same young people to teach and heal. He believes that if we build schools in Iraq, we can build them in Iowa."

I am incredibly honored to represent constituents like these and believe that the important facts here that need to be exchanged in a very logical, contrasting way, is an important exercise.

Mr. ZIENTS. I think what is at the core of both your constituency's comments, or letters, is a balanced approach. This is a balanced approach. $2.50 of spending cuts for every $1 of revenue. We need a balanced approach in order to get on a sustainable path.

Mr. TONKO. And I agree with you, and I appreciate that. I am running out of time. I was going to ask you about the investments in research and development.

Mr. ZIENTS. We can follow up.

Mr. TONKO. Okay.

Chairman RYAN. Thank you.

Mr. TONKO. Thank you.

Chairman RYAN. Mr. Chaffetz.

Mr. CHAFFETZ. Thank you, Mr. Chairman, and thank you, Mr. Zients, for being here.

Mr. ZIENTS. Thank you.

Mr. CHAFFETZ. The president promised when he was running for election that he would not increase taxes on anybody earning $250,000 or less. Do you believe that to be the case, and is that the case moving forward?

Mr. ZIENTS. Yes. The president is committed to no tax increases for those families earning $250,000 or less, or individuals at $200,000 or less.

Mr. CHAFFETZ. But he has already violated that pledge, has he not? I mean, is that not the medical device tax at 2.3 percent, that is about to kick in, is that not a tax on people earning $250,000 or less?

Mr. ZIENTS. You need to tell me more about the medical device tax and how that impacts individuals.

Mr. CHAFFETZ. Well if you are earning less than $250,000 and you need to go purchase a medical device, you are going to have a new tax at 2.3 percent.

Mr. ZIENTS. That is a corporate tax, or it is an individual tax?

Mr. CHAFFETZ. No, it is an individual tax. I would appreciate if you would look into that.

Mr. ZIENTS. I will look into that.

Mr. CHAFFETZ. The indoor tanning tax, the tax on tobacco, the individual mandate, there is a long list of things that have already been implemented that I think violate that pledge, and I would appreciate your perspective on it because to say that is true and will continue to be true in the future, I just think is factually inaccurate.

Mr. ZIENTS. Let me have my staff follow up with your staff on those individual taxes and how they actually relate to individuals.

Mr. CHAFFETZ. Thank you. You refer to a sustainable rate of debt as a percentage of the GDP. What is that actual number? What do you think is an acceptable level of debt for this country?

Mr. ZIENTS. Well, this budget has it come down to about 76 percent of GDP.

Mr. CHAFFETZ. But if you look at the total debt that is offered by the Treasury, the total percentage, what percentage do you think is an acceptable level?

Mr. ZIENTS. Well, I think that importantly, at this stage, the most important milestone is to stabilize it as we have talked about. Our work is not done.

Mr. CHAFFETZ. But, it is like 100 percent now, right?

Mr. ZIENTS. I think that is not the right way to look at it. I think the right way to look at it is the debt that is held by the public.

Mr. CHAFFETZ. So, what is the case to say why would we not look at the total debt? Why would we not look at all the obligations.

Mr. ZIENTS. I think it makes sense to look at debt that is within the federal government, that is sort of inside the family, if you will. This is looking outside. Debt held by the public, I think, is the right metric. It is what most people would agree is the right metric, but I just want to get back to you on the percent. Currently, in 2012, that is about 74 percent, and stabilized at 76 percent.

Mr. CHAFFETZ. Would I be inaccurate to say if you look at the total debt, which is on this Page 203 of the budget, debt issued by the Treasury, that when President Obama took office, it was in the range of $9 trillion, and that under this plan that has put forward by the president, it would go to $26 trillion. Can you see why people are concerned about this?

Mr. ZIENTS. Absolutely, and I would say a major root cause of that problem is the fact that in the prior administration.

Mr. CHAFFETZ. You are going to actually blame President Bush?

Mr. ZIENTS. Well, if you want me to answer your question as to where the bulk of that debt come from, it comes from unpaid for tax cuts, it comes from unpaid for Medicare Part D, it comes from unpaid for wars, and then inheriting the great recession, which we absolutely needed to dig ourselves out of. The hole was very, very deep.

Mr. CHAFFETZ. Let me move on. I totally and fundamentally disagree with you from top to bottom. The bottom line is the president was elected at $9 trillion in debt and we are going to grow it to over $26 trillion under his plan, under his numbers, and I think that is fundamentally wrong.

Mr. ZIENTS. Can I make one comment?

Mr. CHAFFETZ. Let me move on. No, I cannot. I have got a minute and 15 seconds. You said your part; I want to say mine. I want to talk about the federal payroll, because if federal payroll continues to increase, the reality is there are 145,000 additional federal workers, not counting the uniform, military, postal, or census workers, 145,000 additional federal work. The president has stood before the American people and said he was putting a pay freeze in place. I think that was a farce, because through step increases, through rewards and bonuses, the payroll went up, and it continues to go up. Can you please explain to me at point do we think we can actually justify increasing the payroll even more and more?

Mr. ZIENTS. Well, this year's budget actually calls for, essentially, a flat number of employees in those agencies that you are citing. Of your 145,000 89 percent of that is security related. I think we all would agree that our veterans should get care in the hospitals, that we should protect our borders at DHS.

Mr. CHAFFETZ. You have made your point. Let me ask this last thing, Mr. Chairman. I know you do not have this whole thing memorized, but on Page 114 of the Analytical Perspectives it says, "This pay increase proposal permits savings of approximately $28 billion over 10 years," and it continues. If your staff could help explain how a pay increase has a savings over the course of times?

Mr. ZIENTS. Well, I want to be very clear. The president froze civilian pay for two years. This proposal is for 50 basis points, one-half percent of an increase, and the savings is the difference between that and what happens in the private sector with 1.7 percent.

Chairman RYAN. And with that, Ms. McCollum.

Ms. MCCOLLUM. Thank you. Thank you, Mr. Zients. I would like to shift gears here a little bit and talk about a part of the budget that we usually do not ever discuss here in a budget committee, and I am hoping I can capture the chairman's interest and we can talk about this some more in the coming months, and that what this budget request means for our nation's private sector. The Red Cross, Meals on Wheels, Habitat for Humanity, these and thousands of other non-profits are working to solve problems, improve the quality of life in communities all across the United States. The country's estimated 1.5 million non-profits are a distinct sector of America's economy and they employ 10 percent of our country's workforce.

Now, there is no doubt that non-profits that are part of being job creators. Non-profits tackle issues that are often beyond the reach of government and below the bottom line of the business sector. That is why the work that non-profits do is not an extra; it is essential. Every American community depends upon the non-profit sector. The federal government depends upon non-profits to implement many federal programs, from worker retraining to crime prevention.

All of us in Washington and in OMB, and Congress need to start paying attention to the help of the non-profit sector, much like we do with the small business sector. This budget requests $948 million for the Small Business Administration to protect, strengthen, and represent the interest of our nation's small business, but the non-profit capacity building program authorized at $5 million is now recommended for zero, zeroed out.

So, I would like to ask you a couple of questions. Do we know how much of this budget would be implemented by the non-profit organizations in this community and across the country? Do we know how much federal funding is being leveraged with local government and private funds by non-profits? Do we know how many jobs non-profits will create within the federal funds in this budget, and this is not a "got you," because nobody normally asks these questions.

Mr. ZIENTS. No. They are good questions. They are very good questions.

Ms. MCCOLLUM. I would very much like to work with you, as you get these answers, because none of us on this committee, to my knowledge, since I have been on the Budget Committee, has asked about the non-profit sector, and so I do hope that the chair takes some interest in this and looks at how this is interrelated.

I would like to follow up with you about how we increase the focus on non-profit's sector, to strengthen it, and to strengthen local economies because, as I said earlier, they implement a lot of things that the federal government needs to have happen in this country, and they do a lot of the work that the poor profit sector just will not get involved in because there is not profit in it. Yet, the poor profit sector relies on many of the programs that they provide. I know I asked you some questions you did not have direct answers for, but if there is anything that you would like to maybe say about the non-profits.

Mr. ZIENTS. No, I agree with you that they are essential, both to making sure that our programs are effectively implemented in the federal government, and to our society at large. As to your specific questions, I look forward to my staff following up with you, and your staff to address some of the specific data that you are looking for, but I do not have that handy.

Ms. MCCOLLUM. Thank you. I think we need to talk about this, because you and I both know in our communities how integral they are to the fabric of our communities.

Chairman RYAN. So, these mediating institutions are critical to a civil society flourishing, and I would just simply say we want to get back to a virtuous cycle, because the non-profit sector thrives on donations from the profit making center, meaning the private sector, and so we clearly need to have a vibrant, profitable, private sector, so that we can have a flourishing non-profit sector. It is a virtuous cycle that we want to get on and we have different approaches on how to achieve these things.

Ms. MCCOLLUM. Mr. Chair, let's leave the politics aside.

Chairman RYAN. No, that is my point.

Ms. MCCOLLUM. I think we need to understand how the non-profit sector is working and as members of Congress, sometimes we say well, we will have the private sector do that. We just assume that the private sector can pick up the slack, and to your point, the business sector sometimes says the bank is closed on that.

Chairman RYAN. I indulged because we had time and now we do not, and want to be mindful of this gentleman's time. So, Mr. Huelskamp.

Mr. HUELSKAMP. Thank you, Mr. Chairman. I appreciate the opportunity, Mr. Zients. I appreciate the opportunity to question you today. I appreciate the budget presentation. Going through the budget, I have not dug into it as much as I will shortly. If you had to pick one thing as the absolute highlight of this budget, what would it be? What are you most proud about in this particular budget?

Mr. ZIENTS. I think it is the combination of investing in the short term, to make sure that we put people back to work, and at the same time, putting us on a sustainable path, by getting our debt deficits under control. So, it is the combination. It is doing both at once. It is not an either, or.

Mr. HUELSKAMP. And I appreciate that, and we have had the earlier question, and I stepped out for a little bit. There was another committee visiting with folks about their budget in a particular area, but again, you did not answer the question earlier about exactly when do we actually balance. When I visit with constituents, they are worried about a deficit, but more importantly, they are worried about the debt. They understand the math, and until you do not have a deficit, you cannot propose to pay down the debt. So, maybe I will ask the question a little differently. When does the president's proposal actually reduce the debt on America?

Mr. ZIENTS. Well, he stabilizes the debt in this budget, and this budget makes major progress. The president looks forward to working with both Houses to continue to bring down our deficits, and bring down our debt.

Mr. HUELSKAMP. What year does he actually stabilize the debt? That would suggest that there is a year in which this budget will balance.

Mr. ZIENTS. 2018.

Mr. HUELSKAMP. That is when the budget will balance?

Mr. ZIENTS. I think the question you asked was when does the debt stabilized. The debt stabilizes in 2018, as a percent of GDP.

Mr. HUELSKAMP. As a percent of GDP.

Mr. ZIENTS. Which we keep coming back to it. You have to think about it that way, because nominal dollars do not make any sense. If I would told you that you could have a dollar today, or a dollar 10 years from now, I think we would all take the dollar today.

Mr. HUELSKAMP. Does the debt stabilize, or the additional debt that the president's budget proposes, that stabilizes, correct? The debt load continues to increase as a percentage of GDP?

Mr. ZIENTS. No. Debt stabilizes a percent of GDP, starting in 2018.

Mr. HUELSKAMP. But the president does not propose to ever actually balance the budget, is that correct?

Mr. ZIENTS. We are not at the point in this budget window where we are balancing the budget. This takes us a significant step toward that, and then we need to work together to continue to drive toward a balanced budget.

Mr. HUELSKAMP. The window you discuss is in the next 10 years. So, there is no balanced budget in the next 10 years, correct? But looking long term, it is a question I get from constituents, you have understand, they ask when will Washington, instead of talking about a balanced approach, actually give us a balanced budget? Can you foresee how many years, decades that might occur?

Mr. ZIENTS. I do not think any of us can project out that far. What I can tell you is this budget makes significant progress. We bring down our deficits to below three percent of GDP. We stabilize our debt as a percent of GDP. That is a major milestone. There is more work to be done.

Mr. HUELSKAMP. In the next 10 years, another question, how much more debt is added to the bottom line in this president's budget?

Mr. ZIENTS. Well again, I do not think you should think about it in nominal terms.

Mr. HUELSKAMP. No, but what is the nominal term? Humor me, if you would, please.

Mr. ZIENTS. I think your colleague before was saying some numbers. I can try to track them down. The debt held by the public is currently in 2012, about $11.6 trillion dollars, and in 2022, $19.5 trillion.

Mr. HUELSKAMP. So, to you, stabilizing the situation is just adding debt, but not as quickly? I mean this president is comfortable with never having a balanced budget, maybe in the next 20 to 30, to 40 years?

Mr. ZIENTS. I think what we are talking about is making serious progress in a period of time when you can actually talk about progress. Who knows what happens across 30, 40, 50 years of time? We are making that progress. We are making that progress while we maintain the basic compact we have with our citizens.

Mr. HUELSKAMP. Well, I would hope that maybe your staff would actually kind of project what the administration would like to see. Give us a date when we would actually have a balanced budget, not a percent of GDP, but actually spend less in one year than we are taking in, and that has not happened in decades, and I would like to see that happen.

Another thing, quick question, what part of the budget, and particularly the president's tax increases, actually create jobs. I know it is a short, short time. I only have 22 seconds left, but I wish your staff would get back to me and identify. I know the president has proposed a bunch of new tax increases, and I am concerned about jobs. Exactly which one of these tax increases and how will they actually create jobs, because that is what the American people want.

Mr. ZIENTS. Well, I think in terms of the medium-term, having a balanced approach of deficit reduction, which creates an investment environment.

Chairman RYAN. And we will, as he said, let you get back to him in writing, if you want, just in the interest of time. Mr. Ryan.

Mr. RYAN OF OHIO. Thank you, Mr. Chairman. I feel like I am living in an alternative reality here, because I just left the Armed Services Committee, in which Secretary Panetta, head of the Joint Chiefs, were presenting $500 billion worth of cuts to the military, making very significant cuts that many people were uncomfortable with, and it was my friends on the other side of the aisle were saying well, wait a minute. Maybe we should not make those cuts. Maybe we got to be careful about how deep we go. And then I come to the Budget Committee, and we are not cutting enough. So, I think that is always proved that we are, I think, striking the right balance, and I think you guys are doing that.

I think it is also important for us to know that the Republican budget adds almost $9 trillion to the debt over the course of the next 10 years. The Republican Study Committee budget adds almost $6 trillion to the debt over the next few years as well. I think it is also important to point out that the policies that this president, and in many instances, the Democrats passed, that stabilized the economy, made investments, the stimulus package, stabilized the economy, got us to where we are going now, in the right direction, they were opposed by the Republicans.

The auto industry bailout in Ohio, thousands of people, one in every eight jobs in Ohio is related to the auto industry, because of what President Obama did, and that is helping us stabilize things. I think you hit the nail on the head with the issue of Medicare. I will ask you is Medicare a Medicare problem? Is it an entitlement problem or is it a health care cost increase problem that is leading to the increases in the Medicare loss?

Mr. ZIENTS. Well, I think we need to make sure that we keep the compact that we have with the American people, and if we can do that through smart changes to the Medicare system; the Affordable Care Act saved over $100 billion.

Mr. RYAN OF OHIO. Medicare costs are going up because health care costs are going up.

Mr. ZIENTS. For two reasons, health care costs are going up and the baby boomers are retiring. So, it is a demographic issue and it is a health care cost issue. Fortunately, some of those health care costs are starting to come down. We still do have our demographic issue.

Mr. RYAN OF OHIO. Right, and we see in hospitals like Summa Hospital, in Akron, Ohio, that is focused on the patient centered medical home, where they are beginning to use that way of reorganizing the system and the delivery of health care, to drive down costs.

Mr. ZIENTS. What makes me optimistic are examples like the one you cite. We have those examples all around the country. Let's take working and transfer it around the country, so we have best practices throughout; and best practice is defined as cost efficient care that has the best possible outcomes.

Mr. RYAN OF OHIO. Right, and I agree with you. I think that the Affordable Care Act is essential to all of this, and the medical homes, and those kinds of things. I think it is important to point out, somebody brought up President Reagan. You know, President Reagan did cut taxes, and then a few years later he raised taxes, several times. Do you know how many times President Reagan raised taxes?

Mr. ZIENTS. I do not know the number of times.

Mr. RYAN OF OHIO. Six, seven, eight, something like that. So, I would like to remind my friends who worship at the altar of Ronald Reagan, that he would be beneath Ron Paul and the presidential primary election right now, and as far as support from the Tea Party.

Quickly, the research and development, because I love what you guys are doing with the community colleges. Youngstown, Ohio, Akron, Ohio, these are decisions in a value based document, which is our budget, that are going to help my constituents, $10,000 tax credit for tuitions, Pell Grants, community colleges.

Mr. ZIENTS. They add to the list, ensuring that the interest rate does not go up on student loans, which it is scheduled to go up to 6.8 percent from 3.4 percent. The budget keeps it at 3.4 percent.

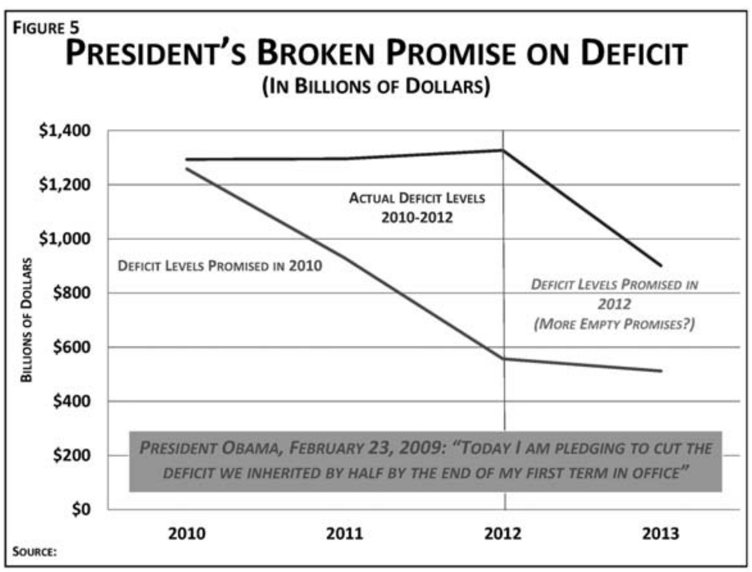
Mr. RYAN OF OHIO. So the average person is not only going to get a payroll tax cut, but if we start implementing some of the budget priorities from this administration, they are going to see more help with their student loans, as you just stated, more money for Pell Grants, and getting them in the community college.

Mr. ZIENTS. Encouragement to make sure that colleges are more affordable. I mean this is a major emphasis of this budget.

Mr. RYAN OF OHIO. I appreciate what you guys have done. This has been very difficult and I think what we are seeing now in Ohio and around the country is people start to appreciate what has been done as we have weathered the storm over the past few years, and as the question now, is now what. Now what do we do? Now where do we go? And I think what you are talking about with STEM college and investments in the community colleges, they are going to ramp America up to be competitive, and that high end manufacturing that we are going to need. So, I appreciate what you are doing and thank you very much. We are here to support you.

Chairman RYAN. Thank you. Mr. Mulvaney.

Mr. MULVANEY. Thank you, Mr. Chairman. If the staff could bring up the first slide.



Mr. ZIENTS. My eyesight is not good enough. Can I get a paper copy?

Mr. MULVANEY. You can, actually, and it is simply a pledge that he made when he ran for office and said today, I am pledging to cut the deficit we inherited by half during this first term. I am not going to ask you about that because in response to a Washington

Post criticism of this promise yesterday, I understand the administration's official position is now that they had to break that promise because things turned out to be much worse than they thought they were.

Then, I was going to ask you about this next promise about not raising taxes on any families making less than $250,000 a year, but I think you have been asked about a couple of those already. Mr. Garrett asked you about the Individual Mandate Excised Tax for failing to purchase government qualifying health care, and I think you said that was not a tax. Then I believe Mr. Chaffetz asked you about things such as the medical devices tax.

Mr. ZIENTS. Can I make one 10 second comment on that front? The president actually has cut middle class taxes by $300 billion.

Mr. MULVANEY. Except for everything that is on this list.

Mr. ZIENTS. $300 billion.

Mr. MULVANEY. Again, when you make a pledge I guess you do not really get to say listen, I am going to raise it someplace and reduce it someplace else. That is not my question. My question actually focuses on something you said earlier, which is on the next slide.

Mr. ZIENTS. There is absolutely no way I will be able to read that one.

Mr. MULVANEY. And I will read it to you because it is right out of your budget. Table S-4, you mentioned several times that this is a responsive budget as to deficit, and then you were loathe, at times, to talk about nominal dollars; and I agree that when you are talking in 2012 about $1 in 2022, it is not the same thing. I would suggest to you that you can talk apples to apples, nominal dollars, when you are talking about, for example, net interest payments in 2015 versus, say, Medicaid payments in the same year, 2015. I would suggest to you, sir, that the budget that you offered to us today has net interest payments in 2015 exceeding what we will spend on Medicaid. The budget that you have offered us today has net interest payments exceeding the money that we spend on non-defense. Medicaid, you have got a budget for $372 billion of spending in 2015, net interest 384.

Mr. ZIENTS. Yes.

Mr. MULVANEY. You go to non-defense by 2017, 553 versus net interest of 570. And then by 2020, net interest payments will exceed defense. So, what you have offered us, sir, is a budget with the fastest growing line item being net interest, and a future for this country where net interest by 2020 will exceed what we spend on defense. That interest will exceed what we spend on non-defense discretionary, and what we will pay also for Medicaid. I ask you, sir, if you really do believe that that is a responsible budget as to deficit?

Mr. ZIENTS. I really want to be responsive, and maybe this just needs to be done, chairman, in follow up, because Table S-4 is the adjusted baseline. That is not actually the president's budget. So, it would be very difficult for me to comment off of an adjusted baseline.

Mr. MULVANEY. But I believe the data is off of your budget.

Mr. ZIENTS. No, this is the baseline that in the beginning of my presentation that I described as an accurate reflection of business as usual. So I think that if we want to start to comparing numbers, we should probably do it off of the actual budget, rather than adjust the baseline. In cognizant of the time that we have, I think it is probably best just done in follow-up.

Chairman RYAN. Just to interject, just go to S-5, which is the next page in your budget, and the same point can be made.

Mr. MULVANEY. And let's go to the next one then because this is back to the president's own words then. In that same promise when he said he was going to cut the deficit by half, there is actually a line that they caught my attention, which is the one that says, "but I refuse to leave our children with a debt that they cannot repay." So, I will ask the same question that has been asked several times here today, which is, when my children ask me when we can expect to start repaying the debt, what is the answer?

Mr. ZIENTS. I think what the answer is that we have to do two things here in this budget, and we are not alone in saying this. CBO has said this. The Fed has said this. Major economists have said this. We need to put get people back to work. We need to create jobs. We need to put ourselves in a position where we are more competitive as a country. That is step one. Step two, if we do not do step one then we are in real trouble. With step one done, we are able to get ourselves on a sustainable path.

Mr. MULVANEY. I thought this budget was designed to put people back to work and create jobs.

Mr. ZIENTS. It absolutely is. So step two, gets us to a point where our debt stabilizes a percent of GDP, and that will allow us to continue to be a place to invest in. You can see it in our current credit markets that we are the chosen place. We can maintain that status. American companies will grow here. Global companies will grow here and we will be in a much better spot than we are in today. There is more work to be done.

Mr. MULVANEY. Then, I guess my last question; I know my time is up, but your party had control of both Houses of Congress and the White House for all of 2009 and 2010. Why did you not do those things when you were in control?

Chairman RYAN. We will let you get back to him in writing.

Mr. ZIENTS. Please.

Chairman RYAN. Let's go to Mr. Young next.

Mr. YOUNG. Thank you, Mr. Chairman. Mr. Zients, thank you so much. We have almost hit the end here, only a couple more questioners. I really appreciate being here today to explain this budget. I do have to say when I visit my constituents in southern Indiana and I do town hall meetings, I frequently go through a budget presentation, a PowerPoint presentation. Where I start is where the money goes and I think many Americans do not really appreciate how much money is spent on so called mandatory expenditures: Medicare, Medicaid, and Social Security being the largest of those expenditures. They account for approximately 70 percent of all expenditures. Now, under the president's budget, net Medicare spending increases, by my reading, about $135 billion over the next 10 years, correct?

Mr. ZIENTS. If you have done the math, you have done the math.

Mr. YOUNG. Okay. President's budget: Medicaid spending more than doubles over the next 10 years. President's budget: Social Security runs a permanent cash deficit over the next 10 years, accounting for about $1.1 trillion. Again, these are the largest programs of our federal government, the largest mandatory programs. Under the president's budget for 2013, 6.5 percent of federal outlays will go to debt service. That increases more than doubling to about 15 percent in 2022. Under the president's budget, mandatory spending over the next 10 years will increase to almost 80 percent of total federal expenditures. I have a pretty obvious question here, and I just want to dig fairly deeply on this, why did the administration not address this entirely predictable situation where mandatory spending continues to tick upward at a rapid rate, driving our debt crisis.

Mr. ZIENTS. Well, let's break it apart a little bit here. On Medicare, the Affordable Care Act actually saves over $100 billion in its first decade, and $1 trillion in its second. In this budget, there is $360 billion of health care savings, and as we have talked about repeatedly today, we will continue to work together to figure out how we make care more effective and more efficient, but we have a basic compact with our citizens.

Mr. YOUNG. Agreed. So, let me pivot off of that compact.

Mr. ZIENTS. We need to make sure that we don't break that compact by creating a system of vouchers where we transfer risks to our citizens. That is not the right way to go about that.

Mr. YOUNG. I am going to reclaim my time here and agree that we need to maintain the trust, and not break the faith with the American people. These are important programs that my constituents are demanding. We lay out a coherent plan to make them solve it, to make them sustainable. Why have you not done that?

Mr. ZIENTS. We have made significant progress.

Mr. YOUNG. What does that mean, significant progress?

Mr. ZIENTS. Look at the budget. The budget brings the deficit down below 3 percent of GDP. It stabilizes debt as a percent of GDP. It maintains that compact that we have, which we both believe in.

Mr. YOUNG. Mr. Zients, I am going reclaim my time. A budget is a roadmap as to how you would solve these fiscal problems I the future. All right? It does not lay down some weak marker so that in the future we can cooperate. It is supposed to lay out an optimal plan. It is supposed to lay out, frankly, what the priorities of the administration are, what your ideas are, and then we can find compromise after that.

Let me continue, please. Without any specifics, you know what we are left with? We are left with talking points. We are left with political arguments. If we would lay out a scorable plan for each of these different programs, then we could find common ground, which is exactly what the American people want. I will give you an opportunity to respond to that point.

Mr. ZIENTS. Well, I think that I have told you about the president's budget and why I think it is the right way to go. I would contrast it with the Republican budget, which creates vouchers and transfers risk to our citizens on health care.

Chairman RYAN. Mr. Zients, I would be happy to show you in writing how it does not do that, and I would be happy to share that with you later.

Mr. ZIENTS. Okay. And at the same time, it creates block grants for Medicaid at very low levels, and continues tax cuts for the wealthiest Americans; that does not strike me as a good plan.

Mr. YOUNG. Mr. Chairman.

Mr. VAN HOLLEN. He is trying to answer the member's question.

Mr. YOUNG. It is not about your plan. It is the same plan the members of Congress have.

Mr. VAN HOLLEN. Since the Chairman interjected on the last point. I will show you why it is not at all the same plan members of Congress.

Mr. YOUNG. It is based on the same model of competition where plans have to compete for your business, provide more value, and you still enjoy the benefits of competition, while saving the American people money.

Mr. VAN HOLLEN. I will tell the gentlemen the plan the members of Congress have is a much better deal in terms of shared contribution than the plan proposed by the Republicans.

Chairman RYAN. Since all time has expired.

Mr. YOUNG. I look forward to seeing your plan, Mr. Van Hollen.

Chairman RYAN. I could go on and on. I am going to risk the temptation. It is Mr. Lankford's turn.

Mr. LANKFORD. Thank you, Mr. Chairman. Mr. Zients, thanks for being here.

Mr. ZIENTS. Thank you.

Mr. LANKFORD. It has been a long day, and getting a chance to do this yesterday, and doing it again today. I do thank you honestly for your experience in the private sector, both with Bain and with Portfolio Logic. Those are successful companies and then I assume you would much rather be here talking about Washington National's baseball today then you would about the budget today, and the history that you have with that. So, thank you for what you have done on that, and sometime we will visit offline about baseball?

Mr. ZIENTS. I look forward to that.

Mr. LANKFORD. Let me tell you somewhat the frustration, I guess, as we come into this, and just looking at the budget and starting to go through it, because there is this sense when we are home in our districts, and people talk to us and they just want to know when are we going to get control of our debt, and how is that going to happen, and when is that going to come down. Their perspective is, from their business and from their home, that there is this plan that I am going to pay off this big mortgage. In business you do not have a CEO of a company that says for the rest of this company we are going to run in the red. We are never going to run in the black. So, that just does not translate, and when you use terms like stabilize our debt to try to get us down to 3 percent of GDP, that does not translate anywhere else.

Last year, the term in the same committee from Jack Lew, and from Timothy Geithner was sustainable deficits. That was the term last year. We want to get us to sustainable deficits. We had the same frustration trying to figure out what in the world is that. Is there ever a point, and again, the same conversation's are not new to this year. It was the same with last year. I go back, for me, somewhat past is prologue and all this, and I go back to 2009, when the president said, "Today, I am pledging to cut the deficit we inherited in half by the end of my first term in office." And I pull up the 2010 budget from the president, and go to this year, 2012. So, in the 2010, and look to what was the expected deficit in this year. The expected deficit this year was 581 billion. It is actually going to be 1.3 trillion. So, you understand our frustration in coming into this. It is easy to look at some future documents like this did, and to say I have this great plan, and we are going to spend this, we are going to do this, but it ends up in this case being almost three times higher this year than what was anticipated by the president in 2010. That is the frustration. So, I do not say that in a form of a question.

I do have a question for you. I say that just to say hear our empathy with this as well. It is easy in Washington to say we are going to stabilize our debt. No one outside of these 10 square miles processes that. We said three years ago it was going to be $581 billion; it is actually $1.3 trillion, and then we look at the projections now and think these are guesses, but we have got to figure out how to budget.

I do want to ask though about some of the tax pieces. There is a segment in there about energy taxes. I think it is about $40 billion or so, if I remember the number correctly, for companies that are producing energy. Do you know some of the specifics of that?

Mr. ZIENTS. What sector of the energy market are you talking about?

Mr. LANKFORD. For this particularly, I think it was on fossil fuels. So, there was a whole series of taxes saying it is about $40 billion. Do you know what some of those taxes may be?

Mr. ZIENTS. What I do know is that oil and gas profits are a record high, that we no longer need these types of incentives, that production is at record high, and our imports are down.

Mr. LANKFORD. Actually our imports are down because we are producing more.

Mr. ZIENTS. That is right. That is where I started. I think production is at the highest point it has been in eight years.

Mr. LANKFORD. Yeah, it has been great.

Mr. ZIENTS. Part of that is making sure that we continue to open up properties, both onshore and offshore for production.

Mr. LANKFORD. I completely agree, but you are not sure which taxes that would be or which areas?

Mr. ZIENTS. We can get you the details.

Mr. LANKFORD. For instance, intangible drilling costs is one that gets hit on a lot. They really do not seem to be any different for a company that is doing drilling than it is for any other business writing off their business expense. We are trying to figure out what the dynamic is to say you do manufacturing, if you do something else, I mean you write off your business expense, but if you happen to produce oil, or you happen to produce natural gas, you cannot write off that business expense. That is no longer manufacturing. Is that kind of the plan at this point or do you know if there is a breakdown of large companies, small companies? Will a company that is a drilling company, or a lot of these small independents, the majority of the drilling and operation that comes out of the ground is this very small company. So, they may have five to 12 employees. Will they have the same tax burden that a company that has 5,000 that also produces oil? Is it the same across that?

Mr. ZIENTS. Well work with Treasure to get your answers to those questions.

Mr. LANKFORD. Yeah, because that would be helpful to know, because if you are talking about the energy companies, everyone goes to Exxon. Exxon is a pretty rare breed in this field. The majority of them are mom and pop shops that are family owned businesses. Their business model is based around when they have business expenses. They can write them off, just like every other small business in America.

Mr. ZIENTS. We will work with Treasury to follow-up.

Mr. LANKFORD. I yield back. Thank you.

Chairman RYAN. Because he has been generous with his time, and we are going to limit to the remaining members here, meaning if another member shows that we are closing the roll with who is here. So if a members coming they are not going to be able to get time. So with that, Ms. Wasserman Schultz.

Ms. WASSERMAN SCHULTZ. Just under the wire, Mr. Chairman. Thank you very much. Welcome.

Mr. ZIENTS. Thank you.

Ms. WASSERMAN SCHULTZ. Congratulations. Getting back to something that Mr. McClintock talked about in extolling the virtues and the record of former President Reagan in helping to bring us out of a significant recession at the time, I want to just read a quote. "We are going to close the unproductive tax loopholes that have allowed some of the truly wealthy to avoid paying their fair share. In theory, some of those loopholes were understandable, but in practice, they sometimes made it possible for millionaires to pay nothing, while a bus driver was paying 10 percent of his salary, and that is crazy. It is time we stopped it." Now, if I was going to quiz the numbers here on who we might have attributed that quote to, I bet it would not be at the top of anyone's mind, but that was from a speech by Ronald Reagan at Northside High School in Atlanta, Georgia, on June 6, 1985.

Mr. ZIENTS. No one would have guessed that Warren Buffet would say the same thing.

Ms. WASSERMAN SCHULTZ. Right, exactly. He said, "I would raise rates immediately on taxable income in excess of $1 million, including, of course, dividends and capital gains, and for those who made $10 million or more. I would suggest an additional increase in rates," and that was on August 14, 2011.

So, that prefaces my question, Mr. Zients. How does the president's budget strike a balance when it comes to addressing our short term and long term deficit reduction needs, because I think there is very little that we are agreeing on in Congress these days, but I think we actually all agree that we need to make a commitment to reducing our deficit, in the short term and in the long term.

Mr. ZIENTS. I agree.

Ms. WASSERMAN SCHULTZ. But the economists that I have heard from across the spectrum, major economists, have really indicated that we need to be careful about not short circuiting what is an obvious recovery that we have begun.

Mr. ZIENTS. I think that is right. So, it is a two step process. It is a focus on job creation, making sure that we continue to have the economic recovery, starting with the payroll tax, unemployment, extending that, the $50 billion of infrastructure, modernizing our schools, just to hit a few of the highlights, and at the same time we move to deficit reduction across the medium term.

The key is that it is a balanced approach and this is at the core of most approaches outside this chamber in terms of looking to Bowles-Simpson as an example; but it is a balanced approach. Our approach has $2.50 of spending cuts for every dollar of revenue.

Ms. WASSERMAN SCHULTZ. That is an important point. The budget proposed by the president has $2.50 in spending cuts for every dollar in proposed revenue?

Mr. ZIENTS. Yes.

Ms. WASSERMAN SCHULTZ. When it comes to subsidies for the oil industry, for example, I mean I think it is important to note that we had an increase in production, the most production of oil domestically that we have ever had, but how does the president's budget treat subsidies, taxpayer subsidies, to the oil industry who are making record profits?

Mr. ZIENTS. It gets rid of them. It gets rid of, I think we heard earlier, it is about $40 billion. I believe that figure is correct. They do not need those subsidies.

Ms. WASSERMAN SCHULTZ. So, the feeling is that those oil companies do not need those subsidies in order to be able to remain very profitable, and still be able to increase domestic production, because we are allowing more lease sales, opening up more areas to drilling, which, by the way, I oppose, at least in terms of lease sales that are not available currently.

Mr. ZIENTS. Production is way up. Our imports are way down and just to correct the figure, it is $30 billion, not $40 billion.

Ms. WASSERMAN SCHULTZ. And this is all being done within the lease sales that are currently available and that we opened up in the GOMESA Agreement from 2006. Is that right?

Mr. ZIENTS. I believe so. If that is not the case, I will have my staff follow-up.

Ms. WASSERMAN SCHULTZ. Okay, thank you very much. I yield back.

Chairman RYAN. Mr. Stutzman.

Mr. STUTZMAN. Thank you, Mr. Chairman, and thank you, Mr. Zients for being here today. I got a couple of questions and I want to kind of follow up on some of the comments that you have made throughout the day. You talk about the compact with Americans, and I guess how do you define that? I assume you are talking about Social Security, Medicare. Can you define what you are saying when you say compact with Americans?

Mr. ZIENTS. I think you are right. You know, we have people who have contributed across the years to Medicare, to Social Security, and they have correctly have relied on a set of promises that we have made, and we need to live up to those promises, while at the same time we do responsible things.

Mr. STUTZMAN. Two the largest expenditure items in our federal budget is Social Security and Medicare. Do you think that we can keep the compact with Americans, and I am assuming you are saying all Americans, that includes you and I, at the current levels of benefits, demographics, payroll tax cuts, all of the games that are played around Social Security and Medicare, can we keep that compact at sustainable levels?

Mr. ZIENTS. I feel like we have talked about Medicare on several occasions today. Let me just quickly summarize that the Affordable Care Act is essential. It expands coverage. It saves $100 billion in its first decade, a trillion dollars in the second decade, the package the president's budget has on health care saves another $360 billion, and we need to keep going at it. So, this is important. We have made important steps, both with the Affordable Care Act and today, in the president's budget, you see $360 billion of savings in health care, Medicare, Medicaid, and other programs. That is an important step, but the same way we do in other sectors. We have to keep going at it.

Mr. STUTZMAN. What about Social Security?

Mr. ZIENTS. Social Security is solvent until 2036.

Mr. STUTZMAN. What happens then?

Mr. ZIENTS. At the same time, the president has expressed his desire to begin to lean into that issue, to do it in a balanced way, and he looks forward to working with members of both the House and the Senate, but I want to be clear.

Mr. STUTZMAN. So the compact will change.

Mr. ZIENTS. But I want to be clear on Social Security. That is not our immediate problem. We should get on to it, but that is not our immediate problem.

Mr. STUTZMAN. But the compact will change. It has to change. I mean you are a smart guy. You are a successful guy. It is not going to be the same for you when you are ready to retire as it is for those who are 55 and above.

Mr. ZIENTS. We need to keep the basic compact that we have and we need to go about any reform that we do in a balanced and fair way.

Mr. STUTZMAN. Okay, so it will change? So, I want to touch a little bit on something, and I am a farmer from Indiana, and I support eliminating direct payments. I have been an advocate of that. I am glad that the president is following Congress' lead on that and including that in his budget, but if we are going to eliminate direct payments, will the federal government employees to administer direct payments being needed?

Mr. ZIENTS. Well, I do not know about the exact employees and what they have in terms of their portfolio. I can tell you that Secretary Vilsack has been very aggressive in managing administrative costs. He is out there with a very strong position in terms of consolidating administrative costs, proposing to close offices, and being incredibly efficient.

Mr. STUTZMAN. The reason I asked is because you have proposed in 2011, enacted, where salaries are at 1208, 2012 estimate is ate 1199, 2013 is 1208.

Mr. ZIENTS. What page are you working off of?

Mr. STUTZMAN. I am working off of the USDA Budget Summary.

Mr. ZIENTS. Right, and you are working off of what line?

Mr. STUTZMAN. It is Page 16. It would be discretionary under Farm Service Agency, FSA Salaries and Expenses. So, I guess my comment and my question is why would you eliminate the entire program, but not adjust federal government salaries to show that this is a program that is not going to be in existence, so we are going to continue to be paying government employees for a program that does not exist.

Mr. ZIENTS. We need to get to the bottom of it.

Mr. STUTZMAN. Okay.

Mr. ZIENTS. As I said, Secretary Vilsack has shown tremendous leadership in cutting expenses and ensuring that taxpayer dollar is well used. So, I would like to come back to you on the specific line item.

Mr. STUTZMAN. That is fine. And the last point, real quick, GDP is estimated at 14.9 in 2011, or assumed, and in 2022, 25.4. Do you think that is even possible?

Mr. ZIENTS. I am sorry, GDP?

Mr. STUTZMAN. 14.9 today, 25.4 in 2022. Is that even possible?

Mr. ZIENTS. Oh, absolutely. This is historical GDP growth, yes.

Chairman RYAN. Mr. Ribble.

Mr. RIBBLE. Thank you, Mr. Chairman. I know it has been a long day. Mr. Zients, thank you for being here.

Mr. ZIENTS. Thank you.

Mr. RIBBLE. Welcome to the party. Like you, I have spent almost my entire life in the private sector, but I do have a couple of questions because I have concerns about the president's budget and it actually concerns how you got there, given your background, but we will talk about that in just a second. Who was president of the United States December 2010?

Mr. ZIENTS. Barack Obama.

Mr. RIBBLE. And who was the Speaker of the House in December 2010?

Mr. ZIENTS. Nancy Pelosi.

Mr. RIBBLE. And who was the Senate Majority Leader in December, 2010?

Mr. ZIENTS. Harry Reid.

Mr. RIBBLE. All right. Good. We have got it. The Democratic Party controlled all three levels of government and at that time they extended the 2001, 2003 tax cuts to everybody. Was that a balanced approach then or was it terribly unbalanced in December 2010?

Mr. ZIENTS. I think in December, 2010 we were in the midst of a very difficult economic situation and a decision was made, in the context of a much larger package, as you know, to do that extension; the president has never believed in the extension for the wealthiest 2 percent and this budget has no tax increases for families making less than $250,000, but I think very rationally and very fairly has the wealthiest 2 percent pay more by returning to the same Clinton era tax rates when we ran surpluses, and as someone who was in the private sector then, it sounds like you were there also, there was plenty of incentive to grow businesses, plenty of incentive to invest, plenty of incentive to hire people.

Mr. RIBBLE. And right now, you are saying that the economy is precarious. We still need to invest in deficit spending to this degree because of it, because if we cut spending too much, we might harm the economic growth of the country. Is that correct?

Mr. ZIENTS. That is true.

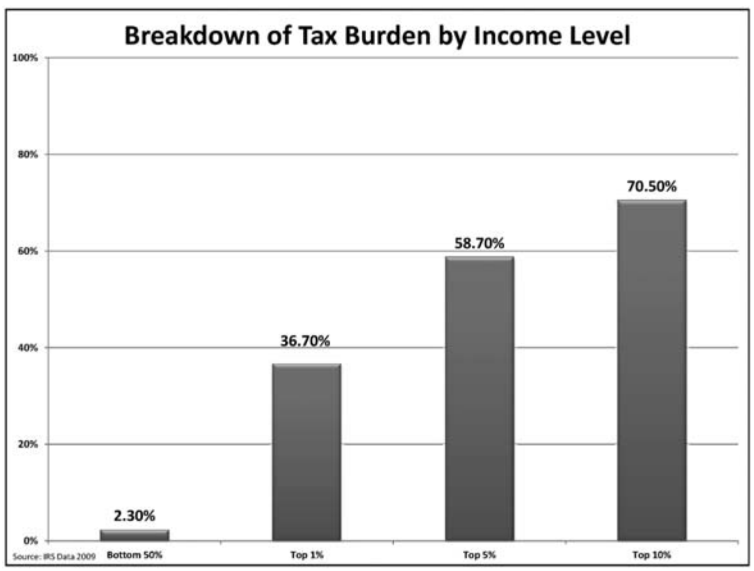
Mr. RIBBLE. Okay. So, we cannot have it both ways, that we have to have it here, but the tax cuts do not belong there.

Mr. ZIENTS. No, but I disagree. You are assuming that targeted investments in areas like infrastructure, research and development, and manufacturing, which we need in order to compete in this global economy and get people employed, equate to the same thing, is asking the richest 2 percent to pay a little bit more. Those are not the same thing. Those are apples and oranges and we can do both, and what that achieves is it gets people back to work and it gets us in a position where we have a balanced approach deficit reduction, which is essential to bringing down our deficits.

Mr. RIBBLE. Let's talk about that balanced approach, because you have used the word probably a hundred times today.

Mr. ZIENTS. I have been here a long time.

Mr. RIBBLE. Yeah, I am sure you have. Right if you look at the slide up there, top 5 percent of American taxpayers are contributing 58.70 percent of the income tax revenue coming into Treasury.



Under your balanced approach idea, should that number be 70 percent, 90 percent, 95 percent, especially in light of the comments in your testimony where I quote on Page Number 1, "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." So, I am curious, going back to your balanced approach, and I will even give you some wiggle room here. Let's use the top 10 percent of wage earners in the country. What is the balanced approach? How much more of the total burden should they bear?

Mr. ZIENTS. Well, I guess again, my eyesight is failing me. What are we looking at here? Is this income?

Mr. RIBBLE. That is the tax burden by income level.

Mr. ZIENTS. These are income taxes?

Mr. RIBBLE. Right, so the bottom 50 percent are paying 2.3 percent of revenue coming to Treasury.

Mr. ZIENTS. But does that include payroll taxes, Medicaid?

Mr. RIBBLE. No, this is just income tax. This is just income tax.

Mr. ZIENTS. This is just income tax. So, I think that it is important.

Mr. RIBBLE. Well, but rich people will pay other taxes, too.

Mr. ZIENTS. I think if you look back across the last couple of decades or more, when we were both in the private sector, there has been such disproportionate wealth creation focused on that very top tier.

Mr. RIBBLE. There have been a lot of middle class people that were brought into that wealthy place as well.

Mr. ZIENTS. Middle class has not done nearly as well, and what we need to do is we need to ask that top 2 percent to do their fair share. The budget has specific proposals.

Mr. RIBBLE. 36.7 percent is not fair for them? It should be 50 percent? I am trying to get a number from you so I know what balance is.

Mr. ZIENTS. The president's proposal has two main pillars. One is to return to the Clinton era tax rate of 39.6 percent, which worked quite well back then. We actually had surpluses, and then to ask that the wealthiest limit their deductions to 28 percent, so their deductions are the same as, or do not so far exceed, middle class. That strikes me as fair.

At the same time, I want to emphasize that the president is in favor of fundamental tax reform and the Buffett Rule would be part of that fundamental tax reform, a simpler code, lower rates would all be part of tax reform.

Chairman RYAN. Mr. Flores, last, but not least.

Mr. FLORES. Certainly not least. Thank you, Mr. Zients.

Mr. ZIENTS. Thank you for waiting.

Mr. FLORES. Thank you for your testimony today. This iPad cost about $600. That is the same as about six barrels of oil that Exxon produces. Who makes more profit?

Mr. ZIENTS. I do not know the answer to that question.

Mr. FLORES. Apple makes substantially more profit on this iPad. So, the question is this. Let's say that Apple is making too much money on this, so let's go to Apple and raise their taxes. Now, are we to assume if we do that that Apple is going to make more of these at a cheaper cost for the American people or for the international community?

Mr. ZIENTS. I do not know what specific tax expenditures or tax breaks Apple has.

Mr. FLORES. You know the answer like I do. Let me get to the rest of my question.

Mr. ZIENTS. I do know that there are outdated tax breaks and expenditures for oil and gas companies.

Mr. FLORES. We expect Apple to be able to reclaim its intellectual property investment and its investment in plant, property, equipment, and people, the same thing that we allow energy companies to do, and to somehow come up with the fact that there should be a differential between these two is not fair to use the administration's language. It is not balanced. It will create winners and losers.

Just overall I am disappointed in the budget. It fails to address the president's competitiveness council that deals with jobs, it fails to address the deficit commission that talks about our looming financial crisis, it does not deal with the looming insolvency of Medicare, Social Security, Medicaid, those programs.

I have a few questions, on stimulus spending we have tens of billions of dollars of so-called targeted spending in here. What metrics do we have to prove that this is going to better spent than the $800 billion we spent the last stimulus package. I guess the overall question is, why does government do it better? Chairman Bernanke, last week, of the Federal Reserve, said that the private sector generally invests better and more efficiently for the greater good the American people than does the government, so why are we re-upping on this failed program? If you take the wildest job estimate of 2.7 million jobs, it costs $300,000 per job created. I guarantee the private sector can do it for less than that.

Mr. ZIENTS. Let me answer it actually in the context of the President's Council on Jobs and Competitiveness because I actually worked very closely with Jeff Immelt, Ken Chenault and others, and it is not to say that everything in this budget is consistent with everything they recommended, but the focus on education, first and foremost for that group; the focus on infrastructure, top of the list; an infrastructure bank, which we propose in this budget for $10 billion is something the jobs council recommends. The president has worked very closely with his jobs council and has adopted many of its recommendations, both administrative actions that we have taken, including speeding up payments to all contractors.

Mr. FLORES. Thank you. Reclaiming my time. Thank you, I appreciate you addressing that. We are going to have to agree to disagree. I think it is just version 2.0 of a failed stimulus program. I did not see anything in the budget having to do with program integrity. In other words, and I will ask this question in every hearing that I go to with respect to this budget, what is it that prevents future Solyndras? What is it that prevents the administration from picking winners and losers? What is it that will make the American hard-working taxpayer feel confident that their dollars are being properly spent? In other words, what makes them feel confident that we are not going to be bailing out some of the president's contributors in the future? Do we have any provisions like that in this budget?

Mr. ZIENTS. Well, in terms of program integrity, there is significant investment in program integrity because program integrity has a heck of a good return. For every $1 you spend on IRS program integrity, you return $5.

Mr. FLORES. I am talking about the way we are spending dollars, not IRS collection dollars.

Mr. ZIENTS. Same in Social Security in terms of program integrity, same in health care in terms of program integrity. The president put a statement out.

Mr. FLORES. Okay, you are telling me this provisions are included in this budget, is that correct?

Mr. ZIENTS. Absolutely.

Mr. FLORES. Okay. Thank you.

Mr. ZIENTS. They are.

Mr. FLORES. The next thing I have to do has to do with GDP growth assumptions. I noticed that in looking at the 2012 budget versus the 2013 budget, during the years 2015 through 2019, now the GDP growth assumptions have been amped up a fair amount, this does not compare well with the recent CBO update that we got that paints a much bleaker future for economic growth. So how does OMB come up with numbers that are pretty optimistic in my view?

Mr. ZIENTS. Well the CBO assumptions, I think that you are talking about, assumes that none of the president's policies are adopted. In fact, the 2001 and 2003 tax cuts disappear, both for the middle class and the upper, the wealthiest. So I think the CBO is based on current law and, therefore, is a projection that is not reflective of the kinds of policies that we would agree on, even if we do not agree on all of them.

Mr. FLORES. Probably not many of them.

Mr. ZIENTS. Well, I do not think any of us are looking to increase taxes on the middle class, for example, so a CBO assumption would have that. So I really think you are comparing apples and oranges.

Mr. FLORES. Thank you, I yield back.

Chairman RYAN. Guess what, time has expired. Hearing is adjourned. Mr. Zients, welcome to your first trip to the Budget Committee.

Mr. ZIENTS. Thank you. Thank you for having me.

Chairman RYAN. Hearing is adjourned.

[Whereupon, at 1:02 p.m., the Committee was adjourned.]

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