

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

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

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

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

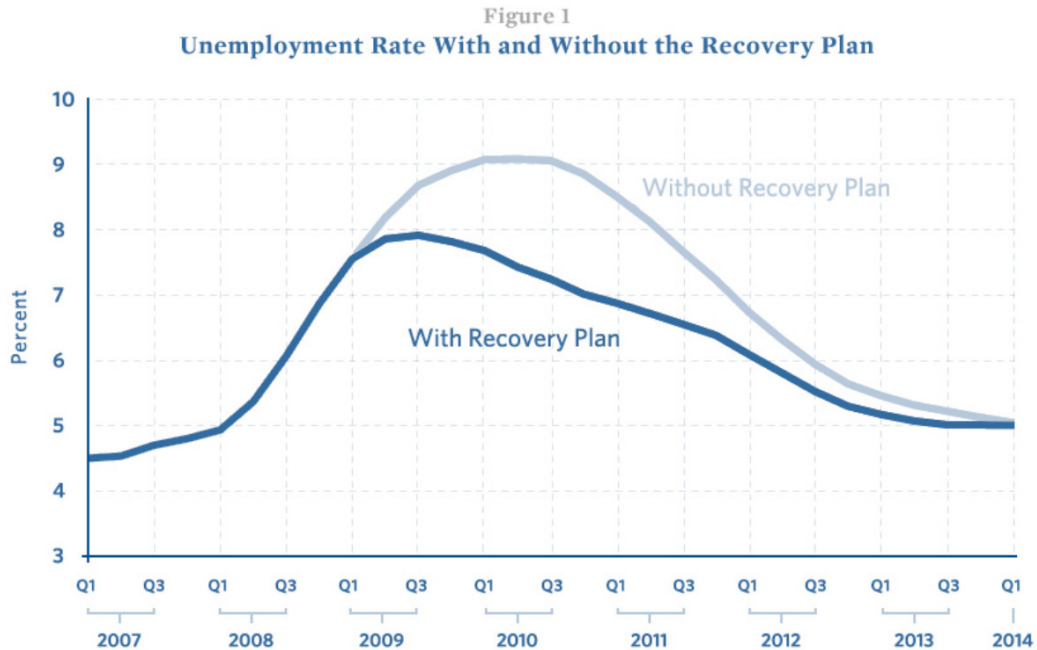
I am also delighted this morning to be joined by my daughter, Leila, and my son, Joshua. My children have already informed me that they find much of what I spend my days doing to be terribly boring. So if they depart early, please know it is only an indication of their views regarding their father's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

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

### **Short-Term Challenges**

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

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



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

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

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

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

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

### **Longer-Term Challenges**

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Better Performance**

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

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

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

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

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

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

## **Conclusion**

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