

**Testimony of Peter R. Orszag,
Director of the Office of Management and Budget
Before the Subcommittee on Financial Services, Committee on Appropriations
U.S. House of Representatives
May 20, 2009**

Chairman Serrano, Ranking Member Emerson, and Members of the Subcommittee, thank you for giving me the opportunity to discuss the President's Fiscal Year 2010 Budget request for the Office of Management and Budget.

In the face of the worst economic crisis since World War II, the President's 2010 Budget seeks to help lift our economy out of recession, while also laying a new foundation for long-term growth and prosperity.

In laying this new foundation, the Budget focuses on four key priorities:

- **Health care reform.** The Administration is committed to working with Congress to complete health care reform this year that decreases costs, increases quality, and expands coverage. One of the biggest drains on American pocketbooks is the high cost of health care. Health insurance costs reduce workers' take-home pay to a degree that is both underappreciated and unnecessarily large. At the same time, health-care costs are the key to the Federal Government's fiscal future. If costs per enrollee in Medicare and Medicaid grow at the same rate over the next four decades as they have over the past four, those two programs will increase from 5 percent of GDP today to 20 percent by 2050.

Already, the Administration has taken important steps to improve the efficiency of our health-care sector. In February, Congress passed and the President signed the American Recovery and Reinvestment Act (Recovery Act), which is providing resources for electronic medical records, patient-centered health research, and prevention and wellness interventions so that we have the infrastructure in place to lower health spending while enhancing health outcomes. The President's Budget also proposes a historic \$635 billion health care reserve fund as a down payment towards fundamental health reform. The reserve fund includes a set of quality-enhancing changes in incentives for Medicare and Medicaid, such as paying hospitals with high rates of readmission less if patients are re-admitted to the hospital within 30-days after discharge.

The Administration is now working closely with Congress to build from this foundation and to develop a comprehensive plan to reform the health care system in a way that is deficit neutral over the next five to ten years and that puts in place the structural changes needed to improve health-care quality while reducing long-term costs.

- **Education.** Promoting long-term economic growth requires making long-overdue investments and reforms in education. The President's Budget does so by investing in programs that work, cutting those that don't, and expanding educational opportunities—from early childhood through college. For example, the Budget proposes \$800 million in

new investments targeted to high-quality early learning. Rigorous research shows that the strongest early learning programs pay off in higher productivity and lower crime decades hence. Because effective teachers are the most important element of effective schools, the Budget invests an additional \$420 million in new approaches to recruiting, retaining, and rewarding successful teachers in the schools and subjects where we need them the most. The Budget would also launch a planning effort to establish new Promise Neighborhoods modeled on the extraordinary success of the Harlem Children's Zone in improving achievement for poor New York City children. And because every child deserves access to an affordable college education, the Budget proposes to increase the maximum Pell award to \$5,550 in the 2010-2011 school year and index the grant afterward so that it better keeps up with the rising cost of tuition. We would pay for this expansion by eliminating subsidies to banks in the wasteful Federal Family Education Loan program and making loans directly to students instead.

- **Clean energy.** The Administration is pursuing a comprehensive plan to invest in clean energy, reduce our dependence on foreign oil, and address global climate change. This starts by improving energy efficiency, which can be one of the cheapest, cleanest means of reducing greenhouse gas emissions. For this purpose, the Budget includes a \$779 million investment to fund an expanded building technology program, vehicle technologies, and smart grid technologies (a 40 percent increase over 2009 for the sum of these programs). The Budget also supports efforts to make America the world leader in the new clean energy economy. To this end, the Budget includes \$445 million to power the development of solar, wind, and geothermal energy (a 60 percent increase over 2009 for the sum of these programs). The President's Budget also supports a market-friendly cap-and-trade system to reduce carbon emissions, after the economy recovers, beginning in 2012. The expectation that this policy will discourage carbon use in the future should spur a range of clean energy investments and jobs today. In addition, the President announced just yesterday a national policy to increase fuel economy and reduce greenhouse gas emissions for cars and light trucks manufactured in 2012-2016. This new policy calls for national standards that are as stringent as those proposed in California (and the 13 states and District of Columbia that intend to follow the California standard).
- **Fiscal discipline.** Upon taking office, the Administration inherited trillions of dollars in deficits. The Budget would cut the deficit in half by the end of the President's first term. In addition, the Administration is committed to achieving comprehensive health care reform this year. This will lay the foundation for reducing the long-run growth of health care costs and is the single most important step we can take to restore long-term fiscal balance to the Federal Government.

This is an ambitious agenda that is designed to meet the challenges of our times, and bringing it to fruition will require making Government work better—a mission at the core of OMB's activities.

Making Government Work Better

OMB plays a pivotal role in developing and supporting the President's management, budget, and legislative agenda. OMB assists the President in the preparation of the Federal budget and in managing its execution throughout the departments and agencies. In helping formulate the President's spending plans, OMB examines the effectiveness of agency programs, policies, and procedures; assesses competing funding demands among agencies; recommends funding priorities; and provides policy options.

President Obama is committed to improving the performance of the Federal Government and also to operating with a historic level of transparency and citizen engagement. OMB helps to advance this agenda through several efforts.

Evidence-based policy

The President has made clear that policy decisions should be driven by evidence. OMB is committed to evidence-based policy as the primary driver in both our budgetary and regulatory processes. The President's Budget this year included a separate volume of terminations, reductions, and savings in which we outlined how we propose to trim \$17 billion from Federal programs that have been determined to be ineffective, duplicative, or obsolete. In turn, we proposed targeted funding for programs that have demonstrated measurable results, incorporate data collection and evaluation, and utilize cost-benefit analysis and other methods to demonstrate results. The non-partisan Coalition for Evidence-Based Policy has commended the Administration's expansion of funding for proven evidence-based policy initiatives.

Transparency

Transparency promotes accountability and provides information for citizens about what their Government is doing. Moreover, technology increasingly allows the Federal Government to provide citizens with improved access to information about the use of their tax dollars and with the opportunity to give feedback. The Administration will continue to innovate in providing mechanisms for transparency and openness, and in devising new tools to let citizens have their voices heard by those who serve them. For example, the Administration is dedicated to making more Federal data available to the public in more usable forms. To further this priority, several initiatives have been and will be undertaken:

- ***Recovery.gov***. The Recovery Act is an extraordinary effort to jumpstart our economy, create and save millions of jobs, and put a down payment on addressing long-neglected challenges so the country can thrive. To give the public a thorough understanding of how and where Recovery Act funds are invested, the Act itself provides for unprecedented levels of transparency and accountability so that citizens will be able to know how, when, and where their tax dollars are being spent. Recovery.gov, a website maintained by the Recovery Accountability and Transparency Board, allows the public to monitor the progress of the Recovery Act, to track contracts and Federal grants to an unprecedented degree, and to provide feedback on the status and results of those investments at the

community level. This information source will continue to be improved as more data become available.

- ***USASpending.gov***. USASpending.gov is designed to provide a searchable database of Government awards and contracts, including information detailing how, when, with whom, and on what the Government is spending taxpayer funds. Visitors to the site may download data and related information from USASpending.gov to combine into customized data sets for research and analysis. Planned enhancements to USASpending.gov include integration with performance data, budget and financial data, and more detailed investment data.
- ***Data.gov***. The Federal CIO Council is launching Data.gov, an online repository for access to non-restricted Government data. Through information presented in downloadable formats on topics such as the environment, energy, health care, and the operations of Government, Data.gov has the potential to drive innovation in the public and private sector. Just as Internet mapping industries developed from the release of public geographic locational information, data transparency can spur economic, scientific, and educational innovation.

Management agenda

Achieving real and lasting change will require a focus on targeted, high-priority issues combined with Government-wide performance improvements. OMB will be asking each major agency to identify a limited set of high-priority goals and will itself set priorities for cross-cutting management initiatives, such as reducing improper payments, disposing of unneeded real property, reforming the contracting system, and creating a set of Government-wide metrics that will be used to prioritize reform priorities and hold managers accountable for achieving their goals.

OMB will not and cannot complete this work alone. OMB has approximately 50 staff dedicated to Government-wide management, but it is not involved in the day-to-day management of Federal agencies or setting management policies for specific agencies or programs. What OMB will do is collaborate with Federal agencies to improve management, foster partnerships, and drive organizational change via its leadership of the President's Management Council and other interagency councils focused on management reforms. OMB will also work closely with Congress, GAO, and other stakeholders to lay out a regular process for engaging Congress on high-risk or timely agency- or program-specific performance issues.

The framework developed through this collaborative process will further the President's priorities and address longstanding performance and management challenges. The goals OMB will work to achieve include the following:

- ***Putting Performance First***. The President has nominated Jeffrey Zients to serve as the Nation's first Chief Performance Officer and OMB's Deputy Director for Management. If confirmed, he will lead the Administration's efforts to build a Government that performs better, costs less, and provides a historic level of transparency to both Congress

and the public. We are committed to working alongside agency performance offices and to using performance and evaluation information to guide management decisions at all levels of Government.

- *Transforming the Federal Workforce.* Government performance depends heavily on the quality of its workforce. Almost half the Federal workforce is projected to retire during the coming decade. This retirement wave presents a challenge because the Government will be losing top talent, expertise, and institutional memory. At the same time, there is an opportunity to reform and reenergize the Federal workforce by improving how the Government hires, trains, and evaluates individual performance.
- *Reform Federal Contracting and Acquisition.* The Administration's efforts to reform how the Government does business will include strengthening our contracting practices and making sure they are aligned to support program outcomes. Already, the Administration has announced procurement reform that will greatly reduce no-bid contracts and save the Government up to \$40 billion, and Secretary Gates recently announced a courageous set of reforms to reduce hundreds of billions of dollars in waste and cost overruns in defense acquisitions. In the coming months, OMB will issue guidance and promote new practices to (1) strengthen acquisition management, (2) maximize the use of competition, (3) improve how an agency decides what type of contract can best meet its needs, (4) strengthen the acquisition workforce, and (5) clarify when Government outsourcing is appropriate and when it is not appropriate.
- *Program Integrity.* Too often, weaknesses in agency internal controls and program oversight lead not only to inefficiencies in Government operations, but also to avoidable financial errors that compromise citizens' trust in government. OMB will work with Federal agencies to initiate new financial management disciplines that drive efficiencies in operations and improve our track record in preventing significant instances of fraud and error before they occur. In particular, the President's Budget has proposed to establish a \$175 million Partnership Fund for Program Integrity Innovation, which would invest in new efforts to reduce error and improper payments in Federal means-tested programs administered by States, such as Medicaid and the Supplemental Nutrition Assistance Program (formerly Food Stamps). OMB will oversee the development of rigorous methodologies for measuring the potential savings from these investments, including both administrative efficiency gains and reductions in erroneous payments. No projects would be funded unless they demonstrate their potential to result in more than one dollar in administrative and program savings for each dollar invested.

OMB Staffing Levels

OMB could not succeed in its efforts to maintain fiscal discipline and make Government work better without its small cadre of extraordinarily dedicated and highly qualified staff. In recent decades, as OMB has taken on significantly expanded responsibilities—such as for financial management, procurement oversight, and e-government, to name a few—the staffing levels have steadily declined.

By FY 2008, staffing levels at OMB had fallen to 474 full time equivalents (FTEs). Except for FY 2006, this was the lowest level of employment at OMB since comparable data became available starting in around 1980. This represents a drop of more than one-quarter since employment levels at OMB peaked in the early 1980s and a fall of 8 percent since FY 2000.

In its FY 2009 appropriations, Congress recognized that staffing at OMB had become insufficient to meet OMB's considerable core responsibilities. For the current fiscal year, Congress provided funding to increase the number of FTEs at OMB to 528—the level at which the Administration proposes to maintain OMB staffing for FY 2010. I thank the Subcommittee for having funded this additional staffing and believe it represents an important investment in planning and oversight that will yield considerable returns in the future.

FY 2010 Budget Request

For FY 2010, the President's Budget requests \$92.7 million for OMB, which, as noted, would support an FTE level of 528—the same as this year's FTE level.

This requested level represents an increase of \$4.7 million, or 5.4 percent, relative to the FY 2009 funding level. Sixty percent of this increase (or \$2.9 million) is attributable to annualizing the cost of the new FTEs provided for in last year's appropriations bill, which covered half the fiscal year.

Beyond this, we are also requesting an increase of \$1.8 million, or about 2 percent. \$1.6 million of this increase represents pay and benefit adjustments for staff to, for instance, pay for the rising cost of health benefits. The remainder covers inflationary adjustments for materials and other overhead, annualizing the cost of additional Blackberry service started this year, and MAX budget system operation and maintenance costs. This also reflects a reduction of \$355,000 for office furniture and equipment.

I believe that with the level of resources requested in the Budget, OMB will be able to efficiently fulfill its considerable responsibilities to serve the President and meet its duties to Congress and the American people to maintain fiscal discipline and make Government work better for all Americans. I look forward to working with the members of this Subcommittee, and I would be happy to address any questions the Subcommittee may have on the OMB budget or other issues.