

**Questions From Chairman Conrad for Peter Orszag,  
Nominee to be Director, Office of Management and Budget**

**1. What do you see as the biggest challenges facing the nation's budget once the economy recovers from the current downturn? Over the next five to 10 years? Longer term? What kind of actions and policies do you think should be in place to address each of these challenges?**

The federal budget is on an unsustainable path, with federal debt likely to grow much faster than the economy over the long term unless we take action.

Even after the economy recovers from the current downturn, over the next five to 10 years the nation faces the prospect of budget deficits that could measure in the range of 5 percent of Gross Domestic Product under current policies. Over the longer term, the situation grows worse. Deficits of the size that we project represent a serious threat to our long-term economic health.

The principal driver of long-term deficits is rising health care costs. 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 5 percent of Gross Domestic Product to 20 percent by 2050. (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 reasonable projections of health care cost growth under current policies shows that they are the key to our fiscal future.) Rising costs for Medicare and Medicaid, in turn, reflect rising health care costs across the public and private sectors. We therefore need to be thinking about ways of slowing overall health care cost growth, rather than just slowing 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.

Massive opportunities appear to exist to reduce health care costs without harming health outcomes. Significant evidence suggests that higher-cost care 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. Embedded in the country's fiscal challenge and the current burdens on state governments and workers are thus opportunities to reduce costs without impairing health outcomes overall.

**2. If confirmed, what actions would you take to foster an environment where a bipartisan compromise could be reached to address the nation's long-term fiscal**

**challenges? Should Congress and the administration begin working on such a compromise right away?**

As director of the Congressional Budget Office, I worked with policy-makers from both parties, and I hope to continue that spirit of bipartisanship if I am confirmed as OMB director. We will need to work together to tackle both the short-term and long-term challenges we face.

With regard to the long term, as I noted in the previous answer, the principal driver of long-term deficits is the projected rising costs of federal health care programs, principally Medicare and Medicaid. And yet substantial opportunities appear to exist to reduce health care costs without harming health outcomes.

In capturing these opportunities, we may need to think about important process changes to the way that we currently make health- and budget-related decisions. I have noted before that our current system to approaching gradual long-term problems – from the fiscal gap to rising health care costs and climate change – does not appear to work that well, which raises the question of whether process changes could help to produce better outcomes. If I am confirmed, I hope to work together with you and others to explore these possibilities.

**3. Is the system of pay-as-you-go (PAYGO) and caps on discretionary spending created in the 1990s an effective mechanism for dealing with deficits? Are there other processes that Congress and the administration should consider in place of or in conjunction with PAYGO and caps on discretionary spending?**

The system of pay-as-you-go (PAYGO) rules and caps on discretionary spending that Congress created in the 1990s proved useful both in forcing the Administration and Congress to pay for new tax cuts or entitlement programs and in forcing all sides to live within specified limits when it came to allocating discretionary resources for defense and nondefense spending. We would be happy to work with Congress on exploring these and other methods of fiscal discipline. Reforms of this type, however, are only as good as the willingness of the Administration and Congress to adhere to them.

**4. How should the government budget for emergencies? What, if any, reforms of the emergency-designation process would you recommend to Congress?**

Congress has a legitimate need to budget separately for emergencies. The federal government must be able to respond quickly to unforeseen situations that demand immediate attention without the ordinary constraints of budget rules. In recent years, however, Administrations and Congresses have stretched the definition of “emergency” to the breaking point, such as by designating costs for the decennial Census as an emergency. In a joint commitment by the new Administration and Congress to fiscal

discipline, we should agree to use the “emergency” designation for demands that are truly emergency in nature.

**5. The IRS estimates the tax gap – the difference between the taxes owed and the taxes collected each year – is about \$350 billion. In addition, experts estimate that approximately another \$100 billion of revenue is lost each year to tax shelters, tax havens, and offshore activities. Do you believe the administration and Congress should aggressively address these compliance problems? If so, what specific measures should be put in place?**

The tax gap is clearly a significant problem. When some taxpayers do not comply with our tax laws, the burden of financing our government falls to those taxpayers who do. Reducing the tax gap would also help to reduce our budget deficits. During the time I served as director of the Congressional Budget Office, CBO convened a forum on the tax gap with the Government Accountability Office and the Joint Committee on Taxation. Participants suggested that, to help close the tax gap, the government should increase reporting requirements on taxpayers, provide incentives or waive penalties to improve compliance, and extend or eliminate the statute of limitations on enforcement actions. Some of these steps would require enacting legislation, and I would be pleased to further discuss these or other steps with you.

**6. A key issue for addressing our nation’s long-term budget problem is to reduce expenditures of the major health entitlements, Medicare and Medicaid. Do you believe that these programs can be substantially reduced in the absence of broader reforms to the nation’s health system, both private and public? Stated another way, do you think it is possible over an extended period for Medicare and Medicaid to grow more slowly than health costs in the private sector? What sort of changes should Congress consider making to the health care system over the next four years?**

As you suggest, the principal driver of our nation’s long-term budget problem is rising health care costs. Improving the efficiency of the health system is not only central to our fiscal future, though. Health care costs are already imposing severe burdens on state governments, and reducing worker’s take-home pay to a degree that is both unnecessarily large and perhaps under-appreciated.

Substantial opportunities appear to exist to reduce health care costs without harming health outcomes. Significant evidence suggests that higher-cost care 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. Embedded in the country’s fiscal challenge and the current burdens on state governments and workers are thus opportunities to reduce costs without impairing

health outcomes overall. To capture these opportunities requires a combination of steps, including:

- Expanding the use of health information technology (IT) and electronic medical records, which is a necessary but not sufficient step 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.

The Obama Administration will be exploring these and other steps as key components of its broad health care reform efforts.

**7. In response to the financial crisis, legislation was enacted last fall authorizing the Troubled Assets Relief Program within the Department of the Treasury. For the purpose of promoting stability in the financial markets, that legislation gave the Secretary of the Treasury broad authority to purchase and sell any asset at any price (up to a purchase price limit of \$700 billion). There has been some disagreement among individuals who follow the budget process as to the proper way to account for the cost of these transactions. In your opinion, what is the proper budgetary treatment for the Troubled Assets Relief Program?**

The law that authorized the Troubled Assets Relief Program (TARP) required that the budget reflect the costs on a net-expected-cost basis. It included procedures similar to those of the Federal Credit Reform Act, except that it adjusted for market risk in ways that the credit law did not reflect. Rather than reflect the gross cash outlays that the government made in purchasing the assets, the budget would reflect the net costs – the purchases minus the earnings from those assets and the proceeds from later selling them. That’s essentially the way the government treats many loans and loan guarantees by the federal government. We will treat TARP as the law requires.

**8. In recent years, the Office of Management and Budget (OMB) has failed with the President’s annual budget request to provide any policy-level detail for discretionary spending beyond the budget year. This lack of transparency makes it**

**difficult for Congress and the taxpayers to fully assess the impact of the President's budget. What is your view of the decision to withhold such data from Congress and the public, and would it be your intent as OMB Director to end this practice?**

I do not agree with the recent practice of withholding policy-level detail for discretionary spending beyond the budget year, and I plan to return to the previous, traditional practice of providing it.

**9. The President's budget under the Bush Administration has repeatedly failed to properly budget for the multi-year cost of ongoing operations in Iraq, Afghanistan, and the Global War on Terror. Do you believe that the budget and accompanying projections should reflect the best estimate of the multi-year costs of ongoing military operations in Iraq, Afghanistan, and the Global War on Terror?**

Yes. I plan to adopt that practice if I am confirmed as OMB director.

**10. The Government Accountability Office has found that a lack of sound business practices exposes DOD to unnecessary risk, wastes resources, and complicates efforts to hold contractors accountable for poor service acquisition outcomes. Do you believe that the Department of Defense, which spends hundreds of billions of dollars on contracts each year, has adequate procedures in place to ensure the best value possible for taxpayers? If not, what sort of steps would you take as OMB Director to address this situation? Are there recommendations you would make to Congress to address this situation legislatively?**

We recognize that this is an area of legitimate concern, and we plan to examine it further. We will work closely with Secretary Gates to see how the Administration can address the concerns and improve the acquisition process. For example, I understand that staffing levels of contracting professionals have not increased with additional spending. Increased spending requires increased oversight, management, and transparency, and this stewardship responsibility must be supported by a qualified cadre of acquisition professionals. Expanding a highly trained acquisition workforce is therefore a top priority.