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**TESTIMONY OF  
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BEFORE  
SENATE COMMITTEE ON THE BUDGET**

**March 5, 2014**

Chairman Murray, Ranking Member Sessions, members of the Committee, thank you for welcoming me here today, and giving me the opportunity to present the President's 2015 Budget.

**Opportunity for All**

The President's Budget outlines his economic vision, defining the investments and choices that will accelerate economic growth, create opportunity for all Americans, and ensure fiscal responsibility. The Budget proposes fully paid for investments in infrastructure, job training, preschool, and pro-work tax cuts, while accelerating growth and reducing deficits through health, tax, and immigration reform.

The Budget adheres to the 2015 spending levels agreed to in the Bipartisan Budget Act and shows the choices the President would make at those levels. But the Budget also shows how to build on the progress made by that compromise agreement with a fully paid for \$56 billion Opportunity, Growth, and Security Initiative that supports investments we need in education, infrastructure, research, national security, and other areas. The Initiative is split evenly between defense and non-defense priorities and is fully paid for with spending reforms and the closing of tax loopholes.

In the remainder of my testimony, I will describe the Budget's major policies in more detail. These include:

- An ambitious, four-year \$302 billion surface transportation reauthorization proposal paid for with the transition revenue from pro-growth business tax reform. Both components of this proposal have bipartisan support and would create jobs and promote strong economic growth;
- A proposal to strengthen our manufacturing base, transforming regions across the country into global epicenters of advanced manufacturing and building a network of 45 manufacturing institutes;
- Proposals to maintain U.S. leadership in research by making the R&D tax credit permanent and continuing to support ground-breaking basic and applied research across a range of fields;
- A major early childhood education initiative to make high-quality preschool available to every four-year-old child;

- Investments in on-the-job workforce training, apprenticeships, and other steps to equip workers with skills that match the needs of employers;
- Pro-work, pro-family tax cuts, including an Earned Income Tax Credit (EITC) expansion for workers without children, and improvements to middle class child care, education, and retirement tax benefits; and
- Enhanced management efforts to deliver a Government that is more effective, efficient, and supportive of economic growth, including initiatives to deliver better, faster, and smarter services to citizens and businesses.

Meanwhile, the Budget continues to reduce our deficits through a balanced approach focused on the primary drivers of long-term deficits and debt – health care cost growth and inadequate revenues to care for our aging population – while making needed investments to grow our economy. It builds on the savings and reforms in Affordable Care Act with additional measures to strengthen Medicare and Medicaid, maintain the recent, historic slow-down in health care cost growth, and improve the quality of care. The Budget would also reform our tax system by curbing inefficient tax breaks for the highest-income Americans, and it supports commonsense reform of our broken immigration system, which independent economists say will grow our economy and shrink our deficits. By paying for new investments and tackling our true fiscal challenges, the Budget reduces deficits to 1.6 percent of GDP by 2024 and puts debt on a declining path, reaching 69 percent of GDP in 2024.

### **Building on our Progress to Date**

Despite challenges, under the President’s leadership the economic recovery has been sustained and durable, creating more than eight million private-sector jobs over the last four years and bringing unemployment to its lowest level in over five years. Deficits have been cut in half since the President took office – the fastest period of sustained deficit reduction since the demobilization immediately following World War II – and the actions the President has taken to invest in job creation and growth, bipartisan efforts to cut spending, changes to the tax code that ensure that the wealthiest Americans pay a fairer share, and a slowdown in the growth in health care costs, supported in part by the Affordable Care Act, have all contributed to this improving economic and fiscal picture.

Ensuring that the Federal Government is helping, not hurting, economic growth and fiscal stability is critical to maintaining this momentum. Unfortunately, avoidable crises in the recent past, including sequestration, a government shutdown, and uncertainty over the lifting of the debt ceiling, have unnecessarily harmed the economy and job growth and cast doubt on the government’s resolve to meet commitments to seniors and the most vulnerable. For example, the Congressional Budget Office estimated that the 2013 sequestration reduced real GDP growth by about 0.6 percentage points in calendar year 2013 and cost 750,000 jobs. And private sector economists estimated that the government shutdown reduced the annualized growth rate of GDP in the fourth quarter of 2013 by 0.2 to 0.6 percentage points.

There are reasons to be optimistic that we will be able to avoid these challenges going forward. Late last year, thanks to the hard work of Chairmen Murray and Ryan and members of this Committee, the President signed the Bipartisan Budget Act (BBA) that made it possible to partially avoid some of the severe cuts to discretionary funding for priorities like education, research, infrastructure and national security. The cuts were replaced with more sensible deficit reduction

measures – including a number of reforms proposed in the President’s 2014 Budget. This was followed in January under the leadership of Appropriations Committee Chairmen Mikulski and Rogers with Congress again working across the aisle to agree to appropriations that provide funding for investments that will help grow our economy, create jobs, strengthen the middle class, and support our national security. While compromise is never perfect and no one got everything they wanted, these were important steps in returning to a more regular budget process, with appropriate give-and-take, that could help our economy move forward.

Our job now is to continue to build on this progress.

### **The President’s Vision for Investing in Our Nation’s Future**

While the recent bipartisan budget and appropriations agreements were important first steps toward ending manufactured crises and replacing the damaging cuts caused by sequestration, the job is not finished. In particular, while the BBA replaced half of the discretionary sequestration cuts for 2014, it replaced only one-fifth of the scheduled cuts in discretionary funding for 2015 and provided no relief in 2016 and beyond. As a result, taking into account projected growth in programs such as veterans’ medical care and other factors, the current non-defense discretionary funding caps for 2015 will be functionally several billion dollars below the levels Congress provided for 2014. The 2015 caps are below 2007 funding levels adjusted for inflation, even though the need for smart pro-growth investments in infrastructure, education, and innovation has only increased due to the Great Recession and its aftermath.

Recognizing the importance of the recent bipartisan compromise, the President’s Budget shows how the Administration would adhere to the spending levels agreed to in the BBA in 2015, and proposes difficult cuts and reforms to make room for investments in priority areas such as research, clean energy, early learning, and ending homelessness. But even with those tough cuts and reforms, the discretionary levels set by the BBA are not sufficient – both in 2015 and beyond – to ensure the nation is achieving its full potential in creating jobs, growing the economy and promoting opportunity for all.

For these reasons, in 2015, the Budget includes a separate, fully paid for \$56 billion Opportunity, Growth, and Security Initiative – split evenly between defense and non-defense funding – that shows how additional discretionary investments can spur economic progress and strengthen our national security. After 2015, the Budget proposes a long-term discretionary path that will allow us to sufficiently and smartly invest in critical priorities such as education, innovation, infrastructure and security, with a focus on long-term savings rather than short-sighted, short-term austerity.

The Opportunity, Growth, and Security Initiative will help restore our global edge in basic research, provide funding to support high-quality early education across the country, and train teachers to take advantage of broadband technology in the classroom. It will invest in our communities through emergency response activities, juvenile justice programs, and Promise Neighborhoods, and will fund a national network of manufacturing institutes that will spur economic development. It will put people back to work, restoring our national parks, renovating veterans’ hospitals, and building resilient infrastructure that will help our communities prepare for the effects of climate change. It will support partnerships between community colleges and employers to train workers for jobs that are in demand, including a bold new expansion of apprenticeship programs. It will help us put a stop to short-sighted cuts to government operations that compromise efficiency and

effectiveness, and cost money over the long run, such as growing deferred maintenance backlogs, sharp cuts to Federal employee training, and erosions in customer service at agencies like the Internal Revenue Service. And it will provide relief from the damage done to core defense priorities due to sequestration cuts, accelerating the modernization of key weapons systems, making faster progress toward restoring readiness, supporting nuclear R&D and infrastructure, and improving defense facilities and investing in military construction projects across the country.

Importantly, the Budget also shows that this initiative is affordable if Congress is willing to enact a few common-sense spending and tax changes. Building on the model established in the BBA, the Budget outlines a specific set of mandatory spending reforms and tax loophole closers that would fully offset the cost of the Opportunity, Growth, and Security Initiative, including reforming Federal crop insurance, reallocating spectrum to promote economic growth, preventing individuals from collecting full Unemployment and Disability Insurance benefits for the same period of time, and reducing tax benefits for multi-million dollar retirement accounts. Discretionary investments after 2015 would also be paid for with targeted mandatory reductions and common-sense tax reforms.

The President agrees that we should continue to responsibly constrain discretionary spending, eliminating wasteful or unnecessary spending and reforming Federal programs to enhance their effectiveness and impact wherever we are able. In fact, discretionary spending under the President's Budget will still be nearly \$250 billion below the original levels agreed to in the Budget Control Act for 2015-2021, and will be brought to the lowest levels as a percentage of the economy in over 50 years. At the same time, the President believes that we need to invest to move our economy forward, create jobs, and expand opportunity for all. And when it comes to reducing our deficits, the President believes the right approach is to focus on the true drivers of our long-term fiscal challenges, not to impose additional short-term austerity that will hold the economy back.

### **Building a 21<sup>st</sup> Century Infrastructure**

Building a durable and reliable infrastructure will create good jobs that cannot be outsourced, and will provide businesses with the transportation and communication networks our economy needs. For that reason, the Budget includes significant investments to repair our existing infrastructure and build the infrastructure of tomorrow.

Last summer, the President introduced a proposal to couple investments in infrastructure with business tax reform that lowers rates, eliminates loopholes and inefficient tax subsidies, cuts taxes for small businesses, and reforms the international tax system to promote investment and job creation in the United States. Specifically, the proposal would devote the one-time transition revenue resulting from business tax reform to the Highway Trust Fund – the same approach House Ways and Means Chairman Camp took in the tax reform plan he released last week. The President's proposal will fill the Highway Trust Fund funding shortfall and make critical new infrastructure investments as part of a four-year, \$302 billion surface transportation reauthorization proposal. The President's plan to rebuild America will increase "fix-it-first" investment to repair and modernize our highways, bridges, and transit systems, while also making new investments to expand transit and passenger rail access, decongest our freight networks, and encourage innovation through competitive programs such as TIGER grants. And it will advance the President's Climate Action Plan by building more resilient infrastructure and reducing transportation emissions by responding to the greater demand and travel growth in public transit.

Beyond this proposal, the Budget would also take a number of other steps to expand infrastructure investment. The President continues to push for efforts that will help catalyze private investment in infrastructure, such as a National Infrastructure Bank with the ability to leverage private and public capital to support infrastructure projects of national and regional significance, as well as the creation of America Fast Forward (AFF) Bonds program that will attract new sources of capital for infrastructure investment in a way that is cost-effective for taxpayers. The Budget includes funding for a new Interagency Infrastructure Permitting Improvement Center housed at the Department of Transportation, which will build on efforts already underway as part of the President's Management Agenda to expedite the Federal permitting process and get job creating projects off the ground faster while delivering better outcomes for communities and the environment. And it will take steps to support our National Parks and lands, including through a new National Parks Centennial Initiative that will put thousands of youth, returning veterans, and other Americans back to work each year restoring some of our greatest historical, cultural, and natural treasures.

### **Investing in Jobs, Economic Growth and Opportunity**

To compete in the 21<sup>st</sup> Century and make America a magnet for job creation and opportunity, we need to invest in American innovation, strengthening our manufacturing base and keeping our nation at the forefront of technological advancement. And to ensure our energy security and address global climate change, we must continue to focus on domestic energy production, the development of clean energy alternatives, and the promotion of energy efficiency. The Budget includes investments in advanced manufacturing, research and development (R&D), and clean energy and energy efficiency technologies.

To help make America a magnet for jobs, the Budget supports investment and accelerates innovation in U.S. manufacturing, including supporting the President's goal of creating 45 new manufacturing innovation institutes over 10 years. It also helps to attract investment to our shores by significantly enhancing and expanding SelectUSA.

Continuing our commitment to world-class science and research, the Budget provides \$135 billion for R&D activities across government, while targeting resources to those areas most likely to directly contribute to the creation of transformational technologies that can create the businesses and jobs of the future. This includes increased funding for clean energy technology investment at the Department of Energy's Office of Energy Efficiency and Renewable Energy and the Advanced Research Projects Agency – Energy. It also includes robust support for biomedical research at the National Institutes of Health (NIH), providing about 9,500 new NIH grants, and investing in the fights against Alzheimer's disease, cancer and other diseases that affect millions of Americans. The funding provided for NIH would also support the BRAIN initiative – which will help revolutionize our understanding of how the human brain processes, stores and retrieves information – and allow for the development of a new health research program modeled after the Defense Advanced Research Projects Agency (DARPA) and designed to fund innovative projects and accelerate the discovery of life-saving treatments and cures. It supports research in areas important to American agriculture, including through funding three multidisciplinary institutes dedicated to crop science and pollinator health, advanced bio-based manufacturing and anti-microbial research. It reforms and makes permanent the Research and Experimentation (R&E) Tax Credit in order to support applied R&D activities. As part of the President's Management Agenda, the Budget invests in accelerating and institutionalizing lab-to-market practices, including through an expansion of the National Science Foundation's "Innovation Corps" program.



To help secure America's energy future and cut carbon pollution, the Budget invests in clean energy, improving energy security, and enhancing preparedness and resilience to climate change. It takes steps to reach the President's goal of cutting in half the energy wasted by America's homes and businesses. It helps move us further down the path towards energy security by reducing net oil imports, including through an Energy Security Trust to help fund efforts to shift our cars and trucks off oil and by continuing to support the President's "all of the above" strategy for developing domestic energy resources. It includes reforms to promote responsible oil and gas development on Federal lands. And it helps meet the challenge of climate change, strengthening U.S. global leadership on climate issues and investing over \$1 billion through the Opportunity, Growth, and Security Initiative to make our communities and our infrastructure more resilient to the damaging effects of a changing climate. All of these investments are critical components of the President's Climate Action Plan, bringing about a clean energy economy with new businesses, jobs, and opportunities for American workers.

### **Equipping Every American with a High-Quality Education and the Skills to Succeed**

Americans must be prepared with the skills and knowledge necessary to compete in the 21st Century economy. Expanding educational opportunities is critical to equipping all children with these skills and positioning them to succeed as adults. The Budget includes investments and initiatives to improve all levels of education, from early childhood through college, as well as significant new efforts to ensure our workforce has the skills needed by American businesses.

To expand early childhood education, the Budget includes the Preschool for All initiative proposed by the President last year, which calls for partnering with States to provide every four year-old child access to high-quality preschool. This initiative will be fully paid for by raising Federal tobacco taxes, which will also help to discourage youth smoking and save lives. In addition, the Budget invests \$15 billion in mandatory funds over the next 10 years to extend and expand evidence-based, voluntary home visiting programs, which enable nurses, social workers, and other professionals to connect families to services and educational supports that improve a child's health, development, and ability to learn. And the Budget builds on the progress made in the 2014 appropriations act with additional resources for Preschool Development Grants, to help states and communities lay a stronger foundation for Preschool for All, and Early Head Start-Child Care Partnerships, to expand access to high-quality infant and toddler care. Funding for these critical initiatives is also included in the Opportunity, Growth, and Security Initiative.

The Budget also takes steps to improve K-12 education, launching a Race to the Top aimed at closing the achievement gap, and providing \$150 million for a new program to redesign high schools to focus on providing students challenging, relevant learning experiences, and rewarding high schools that develop new partnerships with colleges and employers to help develop the skills students need for jobs now and in the future. Building on the President's call to the Federal Communications Commission (FCC) to take steps to connect 99 percent of American students to the digital age through next-generation broadband and wireless in their schools and libraries, the Budget (including through the Opportunity, Growth, and Security Initiative) also makes available \$500 million for the ConnectEDucators program, which will provide 100,000 teachers in 500 school districts across the country access to professional development and digital instructional resources to take advantage of broadband in the classroom.

As a critical part of his education agenda, the President has also placed a high priority on making college affordable and helping Americans obtain a meaningful college degree. The Budget builds on prior efforts by supporting the development and refinement of the new college ratings system the President announced last summer that will identify colleges that provide the best value to students and encourage all colleges to improve. The Budget also provides new incentives to states and schools to focus on improving outcomes, with new College Opportunity and Graduation Bonuses to reward colleges for improving educational outcomes for low- and moderate-income students and a State Higher Education Performance Fund to support states committed to improving performance at public institutions. And the Budget includes an expansion of “Pay As You Earn” (PAYE) repayment options to all student borrowers, and reforms the PAYE terms to ensure that the program is well-targeted and provides a safeguard against raising tuition at high-cost institutions.

In addition to providing a strong educational foundation, the President believes that we need to equip our workforce with the skills to pursue in-demand jobs and careers. The Budget’s approach to skills and training is guided by the principle that all Federal investments should be designed to equip workers and job seekers with skills matching the needs of employers looking to hire. This includes significant new investments at the Department of Labor to drive greater performance and innovation in serving workers with the greatest barriers to employment, as well as investments in the Opportunity, Growth, and Security Initiative such as a new competitive Community College Job-Driven Training Fund and doubling the number of apprenticeships in the United States over the next five years. The Budget also provides resources for new public-private partnerships to help the long-term unemployed transition back into good jobs that can support their families, while continuing to call on Congress to extend unemployment insurance for the 1.7 million Americans who have lost this vital economic lifeline.

### **Expanding Opportunity for Middle Class Security**

To build real, lasting economic security we need to create more opportunities for all working and middle class Americans to get ahead. The Budget includes a series of proposals to make sure that workers have the wages and protections they deserve, while expanding assistance to the most vulnerable.

Over the past 30 years, modest minimum wage increases have not kept pace with the higher costs of basic necessities for working families. That is why the President is calling on Congress to raise the Federal minimum wage in stages to \$10.10 per hour and index it to inflation thereafter, while also raising the minimum wage for tipped workers for the first time in over 20 years. The President is leading by example by signing an Executive Order to raise the minimum wage to \$10.10 for individuals working under new and replacement Federal service contracts. Beyond increasing the minimum wage, the Budget also calls for other protections for workers, including increasing enforcement of the laws that ensure workers receive appropriate wages and overtime pay, as well as the right to take job-protected leave for family and medical purposes. And to help the many working families who cannot afford to take unpaid leave, the Budget supports State paid leave programs, particularly through the Opportunity, Growth, and Security Initiative.

The Budget helps advance the Administration’s Promise Zone initiative, which supports partnerships between the Federal government, local communities, and businesses to create jobs, increase economic security, expand educational opportunities, increase access to quality, affordable housing, and improve public safety. Through a combination of the base budget and the additional

resources provided in the Opportunity, Growth, and Security Initiative, the Budget will support the President's vision for Promise Zones by funding 40 new Promise Neighborhoods and 10-14 new Choice Neighborhoods.

Few things help Americans pull themselves up through hard work like the Earned Income Tax Credit (EITC). However, the maximum EITC available to childless workers (including non-custodial parents) is too small and the credit is unavailable to workers under age 25, which means that it cannot shape work decisions during the crucial years at the beginning of a young person's career. The Budget will double the maximum credit, make the credit available to those workers who have an income consistent with full-time minimum wage work at the current minimum wage, and lower the age limit to 21, as a way to support and reward work. The proposal will also update the childless worker EITC upper age limit to 66, consistent with the Social Security Normal Retirement Age. These changes will be paid for by closing tax loopholes that let some high-income professionals avoid income and payroll taxes. In addition, the Budget also makes permanent important improvements to the EITC and Child Tax Credit for families with children, and it proposes improvements to tax benefits that help middle class and working families pay for child care and college and save for retirement.

Finally, the Budget invests in achieving the ambitious goals set by the President to end homelessness across the country. By investing in homeless assistance and supportive services programs at both the Department of Housing and Urban Development and the Department of Veterans Affairs, the Budget keeps us on a path to end veterans' homelessness in 2015 and end chronic homelessness in 2016. In addition, the Budget makes investments in rental assistance, which plays an important role in helping extremely low-income families avoid homelessness by providing stable and affordable housing.

### **Providing all Americans Access to Affordable Health Care**

The Affordable Care Act (ACA) has taken historic and significant steps toward putting the nation back on a sustainable fiscal course while laying the foundation for a higher quality, more secure health care system. Through premium tax credit and cost sharing assistance to make coverage affordable and increased Federal support to States expanding Medicaid coverage for low-income adults, the ACA ensures that every American can access high-quality, affordable coverage, providing health insurance to millions of Americans who would otherwise be uninsured.

With the full implementation of the ACA beginning this year, millions of people have enrolled in either private insurance through the Health Insurance Marketplace or coverage through Medicaid and the Children's Health Insurance Program (CHIP). Additionally, more than 3 million young adults have already gained coverage under the health care law by staying on their parents' plans until their 26<sup>th</sup> birthday.

Continuing to efficiently and effectively implement the ACA is one of the Administration's highest priorities. The Budget fully funds the ongoing implementation of the ACA, which is already providing coverage for millions of Americans that previously did not have access to affordable health care.

The Budget also invests in the health care workforce to improve access to health care services, including support for 15,000 providers in the National Health Service Corps that will serve areas



across the country experiencing a shortage of medical providers. In addition, the Budget creates new graduate medical education residency slots in primary care and other specialties experiencing shortages. Most of these new residents will be trained in community-based settings, including rural and underserved areas.

### **Ensuring Our Nation's Safety and Security**

Economic growth and opportunity can only be achieved if America is safe, secure, and resilient, both at home and abroad.

At home, the Budget supports the President's "Now is the Time" initiative, a set of concrete policies to help reduce gun violence in our schools and communities in the wake of the Sandy Hook Elementary School tragedy. This includes support for additional background checks, continued focus on inspections of Federally-licensed firearms dealers, improved tracing and ballistics analysis, and efforts to keep guns out of the hands of dangerous criminals and other prohibited persons, as well as training for state and local law enforcement to prevent and respond to active shooters and prevent mass casualties. The Budget also enhances our ability to identify and address mental health issues early and continues support for the Comprehensive School Safety Program and other initiatives to enhance our schools' physical security and create safer and more nurturing school climates that help prevent violence. The Budget also works to maintain high safety standards outside of our schools, addressing risks to our transportation sector through new investments in data-driven safety interventions, research and testing, additional safety personnel, emergency response training, community outreach, and other strategies, as well as a Pipeline Safety Reform initiative to both enhance and revamp the federal standards that help protect the Nation's safety.

Abroad, the Budget advances the Administration's national security objectives and provides the resources and capabilities to protect our security and interests around the world. Funds provided for the Department of Defense will sustain our ability to project power and win decisively against state adversaries and terrorist threats, make progress toward restoring balance to our military and raising readiness levels negatively impacted by sequestration, and ensure a safe, secure, and effective nuclear deterrent. The Budget also continues to support U.S. security, diplomatic, and development goals in Afghanistan while scaling down military operations and assistance. At the same time, the Budget makes strategic, coordinated and Government-wide investments in a wide range of tools that will help rebalance American engagement towards the Asia-Pacific region, which will help create American jobs, empower American businesses, and maintain the security and stability necessary for economic growth. The Budget also provides \$4.6 billion for Department of State security programs, including security staff, construction, and infrastructure upgrades. These and other investments will ensure that the Administration continues to safeguard over 86,000 U.S. Government employees, from more than 30 agency components, in more secure overseas working environments. And the Budget identifies and promotes cross-agency cybersecurity initiatives and priorities to help us stay ahead of constantly evolving cyber threats.

The Budget also makes significant investments in reforms and economic development overseas. As part of the Power Africa initiative, the Budget supports a variety of investments at the Millennium Challenge Corporation, the Export-Import Bank, the Overseas Private Investment Corporation and elsewhere that will support Africa's energy sector and expand the markets for U.S. goods in sub-Saharan Africa. Building on the Administration's significant and continuing response to the transformative events in the Middle East and North Africa (MENA) region, the Budget includes

\$1.5 billion to respond to the crisis in Syria, including providing humanitarian assistance, and continues to support transitions and reforms in the region. And the Budget continues the Administration's efforts to invest toward the goals of achieving an AIDS-free generation and an end to preventable child and maternal deaths.

Our Nation also has a solemn obligation to take care of our servicemembers and veterans. To deliver on this commitment, the Budget provides significant resources to support veterans' medical care, help military families, assist servicemembers transitioning to civilian life, reduce veterans' homelessness, and improve the disability claims processing system. It also calls for reforms to our military compensation system, ensuring that service members continue to be properly compensated for their service to the country while also delivering on our responsibility to provide them with the finest equipment and training possible.

### **Reducing Long-Run Deficits and Promoting Sustainable Growth**

The President's Budget invests in areas that will grow the economy, create jobs, and increase opportunity for all Americans, while focusing squarely on the primary drivers of our long-term deficits and debt – health care cost growth and inadequate revenues to care for our aging population – and making needed investments to grow our economy. The Budget does this by addressing the increasing costs of health care, ensuring the government efficiently and fairly generates the revenue we need to invest in critical areas and make good on our commitments, and promoting common-sense immigration reform that will help balance out an aging population.

To start with, the Budget includes \$402 billion in specified health savings over 10 years that build on the achievements of the Affordable Care Act by eliminating excess payments and fraud and supporting reforms that boost the quality of care, while at the same time extending the solvency of the Medicare Trust Fund by roughly five years. It accomplishes this without shifting significant risks onto individuals, slashing benefits, or undermining the fundamental compact these programs represent to our Nation's seniors, people with disabilities, and low-income families. It includes several reforms that would eliminate excess payments and bring Medicare payments more in line with patient care costs. For example, the Budget recoups excess payments to drug manufacturers by requiring rebates for drugs provided to 12 million low-income Medicare beneficiaries, consistent with rebates provided for Medicaid beneficiaries, and by increasing manufacturer discounts for brand drugs in the Part D coverage gap. It seeks to reduce fraud and waste in our health programs through proposals to reduce improper payments and improve program integrity monitoring and compliance. For example, the Budget proposes to direct States to track high prescribers and utilizers of prescription drugs in Medicaid to identify aberrant billing and prescribing patterns. And it includes reforms that help control long-term costs in the Medicare program, including reforms that would encourage beneficiaries to seek high-value services through targeted changes in cost sharing and premiums.

Slowing health care cost growth – through both the steps taken in the ACA and the Budget's additional health reforms – addresses the most pressing challenge to long term fiscal sustainability. But over the coming decades, an aging population will also put increasing pressure on the budget. Even with reforms to health programs and tough choices that will bring discretionary spending to historically low levels as a share of GDP, we will need additional revenue to maintain our commitments to seniors, veterans, and others, while making the investments that are needed to grow our economy and expand opportunity.

The President believes that we can obtain that needed revenue by reforming our tax code to reduce inefficient tax breaks. Tax reform holds the potential to improve economic growth by reducing complexity for individuals and small businesses, curbing inefficient tax subsidies that distort individual and business decision-making, and reducing the deficit. As a first step toward balanced deficit reduction and tax reform, the President proposes that Congress immediately enact measures that would raise \$650 billion in revenue by broadening the tax base and reducing tax benefits for those who need them the least – without increasing marginal tax rates. These proposals will prevent high-income households from using tax preferences, including low tax rates on capital gains and dividends, to reduce their total tax bills to less than what many middle class families pay. Beyond these measures, the President is committed to working with Congress to further reform the tax code to make it fairer, promote economic growth and job creation, and improve competitiveness.

And finally, the President believes that we must fix our immigration system by continuing to strengthen border security, cracking down on employers who hire undocumented workers, modernizing our legal immigration system, and providing a pathway to earned citizenship for hardworking men and women who pay a penalty and taxes, learn English, pass a background check, and go to the back of the line. In addition to contributing to a safer and more just society and promoting economic growth, common-sense immigration reform will also significantly reduce our long-term deficits, strengthen Social Security, and help balance out an aging population. The Congressional Budget Office estimated that the immigration bill that passed with bipartisan support in the Senate last year would reduce the deficit by about \$160 billion in the first decade and by about \$850 billion over 20 years. Meanwhile, the Social Security actuaries found that the Senate bill would reduce the Social Security shortfall by about \$300 billion over the first 10 years and would close roughly 8 percent of the 75-year Social Security shortfall. The Administration supports the Senate approach, and calls on the House of Representatives to act on comprehensive immigration reform this year.

In total, these measures are more than enough to achieve the key fiscal goal that nearly all economists and CBO have identified as the best measure of our long-term fiscal stability – stabilizing the debt as a share of GDP. If the President’s policies are implemented, debt would peak at 74.6 percent of GDP in 2015 and then decline each year after that, falling to 69.0 percent of GDP in 2024. And deficits would be below their 40-year historical average every year after 2015, declining to 1.6 percent of GDP by 2024.

## **Reforming Government**

The President’s vision for a responsible budget is not only about investing in a fiscally responsible way that cuts deficits and stabilizes our debt. It is also about making the institution of government more effective and efficient, improving government management, cutting programs that do not work, and reforming the way we do business to better serve the public and help grow the economy. The Budget advances this Management Agenda in a number of ways, introducing specific programmatic reforms, improving customer service across government, and investing in government-wide management initiatives that will create a government designed for the 21<sup>st</sup> Century.

The President is also committed to reducing overlap and duplication in Federal programs, improving their effectiveness and eliminating waste. As an example, the Budget proposes a fresh

Government-wide reorganization of science, technology, engineering, and mathematics (STEM) education programs designed to enable more strategic investment in STEM education and more critical evaluation of outcomes, while leveraging government resources more effectively to meet national goals. This proposal reduces fragmentation of STEM education programs across government, and focuses efforts around the five key areas identified by the Federal STEM Education 5-Year Strategic Plan: P-12 instruction; undergraduate education; graduate education; broadening participation in STEM to women and minorities traditionally underrepresented in these fields; and education activities that typically take place outside of the classroom.

The Budget also takes steps to improve the way we fund key priorities, ensuring that Federal dollars are used to maximum effect. For example, the Budget proposes a significant reform to address wildfire suppression costs that have cannibalized forest health and rehabilitation programs, creating a dedicated source of funding in order to provide certainty in future years for firefighting costs, free up resources to invest in areas that will promote long-term forest health and preservation, and maintain fiscal responsibility by addressing wildfire disaster needs through agreed-upon funding mechanisms.

The Budget also commits to expanding the use of evidence and rigorous evaluation in budget, management, and policy decisions, making better use of government data, conducting new program evaluations, and adopting evidence-based decision making structures to ensure that funds are used to their greatest effect. For example, the Budget provides new authority and new resources for the Social Security Administration, in partnership with other Federal agencies, to test innovative strategies to help people with disabilities remain in the workforce. The Budget also includes proposals to build on efforts already underway in areas such as Pay for Success and tiered-evidence programs, for example the Investing in Innovation Fund at the Department of Education, that are designed to encourage innovation while building evidence about what works and shifting resources toward the most promising approaches.

Finally, the Budget makes sure that government itself runs more efficiently and effectively. It includes initiatives to deliver better, faster, and smarter services to citizens and businesses, including supporting critical customer service improvements at the Internal Revenue Service and the Social Security Administration. It advances the Administration's effort to modernize the infrastructure permitting process, cutting through red tape, allowing us to get more construction workers on the job faster, and achieving better outcomes for our communities and environment. It expands the use of shared services between Federal agencies and strategic sourcing to leverage the buying power of the government, bringing greater value and efficiency for taxpayer dollars. It continues to open government data and research for public and private sector use to spur innovation and job creation. And it invests in the Federal workforce, supporting the development of Government-wide enterprise training and resource exchanges and enabling agencies to hire the best talent from all segments of society, helping to ensure that the Federal government can attract, develop, and retain a high-quality workforce to serve the American people.

## **Conclusion**

The President's Budget provides a fiscal roadmap for delivering stronger growth and job creation, expanded opportunity for all Americans, and fiscal responsibility. And it shows how we can build on the progress that has been made over the last five years and ensure that our country remains strong and prosperous, both now and in future. I look forward to working with Congress and this Committee in the coming months to advance that goal.