OMB DIRECTOR SHAUN DONOVAN SAYS 2016 FEDERAL BUDGET WILL HELP IMPROVE U.S. ECONOMY, LOWER DEFICITS

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Excerpts from Mr. Donovan's Remarks

U.S. economy is improving. Our economy is growing and creating jobs at the fastest pace since 1999....Businesses have added 12 million jobs over the last 60 months, the longest streak on record. And over the last year alone, private-sector employment has risen by more than 200,000 each month for 12 straight months – that is for the first time since the 1970s.

Our near-term fiscal picture has brightened as well. Since 2010, federal deficits have shrunk by about two-thirds, the most rapid sustained deficit reduction since World War II. The 2014 deficit was 2.8 percent of gross domestic product, below the 40-year average and, more important, roughly the level consistent with a stable debt-to-Gross Domestic Product (GDP) ratio....

Since 2010, OMB's estimate of the 2020 deficit under current policies has come down by $491 billion, or about 40 percent. Congressional Budget Office's (CBO's) estimates have shrunk by similar amounts. And our estimate of the 25-year fiscal gap, as we call it – the amount of deficit reduction needed to put the Nation's finances on a more stable footing for the next 25 years – has shrunk by an even larger percentage. Notably, only a tiny fraction of that improvement is due to sequestration. Instead, the improved budget outlook is mostly the result of lower projected health spending, higher revenues, and non-sequester spending restraint.

Rise in health care costs slowed. As of 2010, virtually every expert and forecaster assumed that per-person health care costs would always rise faster than per-capita GDP, as they did nearly every year of the last 50 years. And then that simply stopped. From 2011 to 2013, we saw the three slowest years of growth in real per-capita national health expenditures since recordkeeping began. Even as more than 10 million people have gained access to health insurance under the Affordable Care Act (ACA), all evidence shows that per-enrollee health cost growth has stayed low.

Need to control budget deficits. In putting together the 2016 budget, we continued to hold ourselves to the fiscal standard most economists agree is important: bringing deficits below 3 percent of GDP while stabilizing debt as a percentage of the economy and putting it on a downward path. We met that standard by focusing on the true drivers of our long-term deficits: the aging population, health care cost growth, and insufficient revenues to keep pace with these trends. Meanwhile, this year's budget goes further than previous budgets to grapple with the biggest issues facing our economy over the long term: productivity growth, labor force participation, and rising inequality and stagnating middle-class incomes.

Highlights of the 2016 budget: First, in health, the budget includes an additional $400 billion in specified health savings that build on the ACA and will help sustain the slowdown in costs while improving health care quality. These savings grow to about $1 trillion in the second decade and extend Medicare Trust Fund solvency by about five years.

Second, the budget proposes to reform our business tax system to reduce incentives for shifting profits overseas and barriers to investing at home. It would use the temporary transition revenue from these reforms to finance the first long-term surface transportation reauthorization in 10 years, spurring growth by encouraging states to invest in modern infrastructure. Meanwhile, the budget reforms and strengthens tax policies that help middle-class families afford childcare, higher education, and a secure retirement, while raising revenue from reforming capital gains and financial-sector taxation, and curbing inefficient high-income-tax expenditures.

Third, the budget again reflects the President's support for common sense, comprehensive immigration reform along the lines of the bipartisan Senate-passed bill from 2013. Immigration is pro-growth for reasons that go directly to our core economic challenges. It helps balance out an aging population, it increases labor force participation, and it raises productivity. CBO projected that immigration reform would increase the level of real GDP by 3.3 percent at just the end of 10 years, and by 5.4 percent at the end of 20 years. Meanwhile, it would reduce deficits by $160 billion in the first decade and by an estimated $700 billion in the second decade, and would help the Social Security Trust Fund, closing about 8 percent of the Trust Fund's shortfall.

What about deficit reduction? Compared to our current path, we are achieving about $1.8 trillion in deficit reduction.

What about a balanced budget? Remember where we started, we had a deficit that was close to 10 percent of GDP. It's come down by roughly two-thirds. We've seen the fastest deficit reduction in the last 50 years, basically since World War II actually, that period right after. So we've actually achieved a great deal.

What if the Supreme Court rules against the government in the current case involving the Affordable Care Act? That would be a terribly flawed decision.

How about your budget proposal to raise capital gains and dividend tax rates? One way to look at it is if the capital gains rate was good enough for President Reagan, we think it's good enough to do now. What we're proposing is to go back to the same capital gains rate.

Will there be a shutdown this year? It would be disastrous to go back to that policy.

DAVID M. RUBENSTEIN: Welcome, members and guest of The Economic Club of Washington, welcome to this luncheon event in the Grand Ballroom, Fairmont Washington, DC, Hotel, our ninth event in our 28th season. Our special guest today is Shaun Donovan, who is the Director of the Office of Management and Budget.

Shaun is the 40th person to hold that job, and he assumed that job in July of 2014, confirmed by the Senate 75 to 22. He previously served as Secretary of Housing and Urban Development (HUD), the 15th Secretary of HUD. Actually, he was confirmed for that position unanimously, so 22 people he may have offended while he was – [laughter] – Secretary of HUD, but actually I doubt that. He served from the beginning of the Obama Administration until his appointment as OMB Director as the Secretary of HUD.

Prior to serving as Secretary of HUD, he was the Commissioner of Housing Preservation and Development in New York City, known as the Housing Commissioner, and he had that position for five years during the Bloomberg Administration. Prior to that, he had served in the Clinton Administration as Deputy Assistant Secretary of HUD for multifamily housing and also as Acting Commissioner of FHA, the Federal Housing Administration. And he had worked prior to that in the private sector in New York City, following graduation from Harvard, where he worked in various housing preservation and multifamily housing areas. He is a graduate of The Dalton School in New York, Harvard College, Harvard Kennedy School, and the Harvard Graduate School of Design, where he got a degree in architecture.

So it's my pleasure to introduce Shaun Donovan. [Applause.]

SHAUN DONOVAN: Let me begin first by thanking you, David, for hosting us today, and thank as well all of you and the Economic Club here in D.C. And this is my first opportunity to address you as OMB Director, and in particular having just come through a first full budget process, I think it's a particularly important time to stop and reflect on the work that we're doing and the opportunities that we have.

During my confirmation hearing before the Senate Budget Committee, I said that the federal budget is not just numbers on a page, it's a reflection of our values. And that has never been truer than with the President's 2016 budget. The ideas the President offers in this budget are designed to bring middle-class economics into the 21st century. These proposals are practical, not partisan. They'll help working families' paychecks go further, help American workers upgrade their skills, and help our businesses keep generating good new jobs for workers to fill.

The budget will do these things while fulfilling our most basic responsibility: to keep Americans safe. We'll do this in part by ending harmful spending cuts known as sequestration and pay for our investments by cutting inefficient spending and closing tax loopholes. We'll also put our Nation on a more sustainable fiscal path, achieving $1.8 trillion in deficit reduction, primarily from reforms to health programs, the Tax Code, and a broken immigration system.

The President released his budget on time on February 2nd, and next week we expect that the House and Senate will release their visions. What I think we'll see clearly next week is that we have a choice to make, a path to choose for our Nation's future. Will we go back to an era of harmful austerity and manufactured crises like the one we just experienced with the Department of Homeland Security, or will we work together to build on the progress that we've made since 2013?

As we wait to hear the details of the Republican budget, I wanted to take this opportunity to make three points that I hope will frame this choice.

First, let's talk about the progress that we've made. After a breakthrough year for America, our economy is growing and creating jobs at the fastest pace since 1999. Thanks to the hard work and resilience of the American people, the shadow of crisis is past and the recovery has truly taken hold. Businesses have added 12 million jobs over the last 60 months, the longest streak on record. And over the last year alone, private-sector employment has risen by more than 200,000 each month for 12 straight months – that is for the first time since the 1970s.

Our near-term fiscal picture has brightened as well. Since 2010, federal deficits have shrunk by about two-thirds, the most rapid sustained deficit reduction since World War II. The 2014 deficit was 2.8 percent of gross domestic product, below the 40-year average and, more important, roughly the level consistent with a stable debt-to-GDP ratio.

But what many people have missed or simply aren't talking about is that the medium- and long-term budget outlook has improved as well. Since 2010, OMB's estimate of the 2020 deficit under current policies has come down by $491 billion, or about 40 percent. CBO's estimates have shrunk by similar amounts. And our estimate of the 25-year fiscal gap, as we call it – the amount of deficit reduction needed to put the Nation's finances on a more stable footing for the next 25 years – has shrunk by an even larger percentage. Notably, only a tiny fraction of that improvement is due to sequestration. Instead, the improved budget outlook is mostly the result of lower projected health spending, higher revenues, and non-sequester spending restraint.

Let me focus on health spending for a moment. As of 2010, virtually every expert and forecaster assumed that per-person health care costs would always rise faster than per-capita GDP, as they did nearly every year of the last 50 years. And then that simply stopped. From 2011 to 2013, we saw the three slowest years of growth in real per-capita national health expenditures since recordkeeping began. Even as more than 10 million people have gained access to health insurance under the Affordable Care Act, all evidence shows that per-enrollee health cost growth has stayed low.

The consequences of this slowdown for both the budget and the economy are enormous. Revisions to health spending forecasts since 2010, which assume that just a portion of the slowdown will continue, have already reduced projected health spending in the year 2020 by over $200 billion. If more of the recent slowdown is sustained, the effects for the budget and for middle-class wages would be even greater in later years.

We don't yet know the full set of factors behind this dramatic slowdown. No one doubts that the recession played a role, at least in the private sector, by putting pressure on families' and businesses' budgets. But it's increasingly clear that structural changes in the health care sector are playing a major, and quite possibly the lead, role. The slowdown affected Medicare as much or more than private health spending, even though Medicare beneficiaries and the program itself are largely insulated from a recession's effects. And it's continuing today even as the economic recovery strengthens.

The Affordable Care Act is not the only structural factor behind the slowdown, but it's an important contributor and it provides our strongest set of tools for making sure that the slowdown continues. The Council of Economic Advisers has estimated that the Affordable Care Act's Medicare reforms, which are reducing excessive payments to providers and insurers in Medicare, and are likely having spillover effects in the private market as well, may account for about half of the slowdown in health care price growth over the past few years.

Meanwhile, the ACA has put in place strong incentives for hospitals to reduce readmission rates, and it's letting Medicare and Medicaid experiment with a range of approaches to shift health care payment structures from volume to value. These delivery system reform efforts will have a growing impact as they scale up from pilots to policy, but even today they may be having a substantial indirect effect by powerfully signaling to private insurers and providers that fee-for-service payment will soon be a thing of the past, driving toward better payment models and ways of providing care.

Other policy changes have also positively impacted the fiscal picture, including restoring Clinton-era tax rates for the highest 2 percent of Americans, winding down the wars in Iraq and Afghanistan, and other discretionary savings of which sequestration is a small fraction. Let me be very clear: I am not minimizing the fiscal challenges we still face, especially related to the Baby Boom generation's retirement. But the improvements in the long-term fiscal outlook show that the actions that we've taken are working and that we're not helpless in the face of those challenges. We will miss important lessons if we ignore the progress that we've made.

The second point I want to make is that the President's budget prioritizes both fiscal responsibility and economic growth. Some reactions to our budget seemed to start from the premise that a budget that invests in growing the economy and helping the middle class can't be fiscally responsible. I couldn't disagree more. On the contrary, any budget that fails to support growth and help all Americans succeed in the labor market isn't truly fiscally responsible. By the same token, any budget that lacks a plan for fiscal sustainability isn't truly supporting economic growth.

In putting together the 2016 budget, we continued to hold ourselves to the fiscal standard most economists agree is important: bringing deficits below 3 percent of GDP while stabilizing debt as a percentage of the economy and putting it on a downward path. We met that standard by focusing on the true drivers of our long-term deficits: the aging population, health care cost growth, and insufficient revenues to keep pace with these trends. Meanwhile, this year's budget goes further than previous budgets to grapple with the biggest issues facing our economy over the long term: productivity growth, labor force participation, and rising inequality and stagnating middle-class incomes.

I'd encourage you to take a look at the Council of Economic Advisers' *Economic Report of the President*. I know you all regularly read that. [Laughter.] CEA has done a truly impressive job of documenting how these economic challenges have developed over time. The sobering reality is that these problems are the product not just of the Great Recession of the last 10 years, but really of the last four decades. Particularly striking, they found that if productivity had continued to grow after 1973 at the rate it grew in the previous 25 years, inequality had not increased and female labor force participation had continued to rise in parity with men, the typical household would have seen its income nearly double by 2013. That's an additional $51,000 a year per family. While there are many factors underlying these changes over a period of decades, that figure illustrates what's at stake in making the economy work better for the middle class.

Moreover, at least as much is at stake for the budget outlook. Our budget estimates that for each one-tenth of a percentage point increase in projected productivity growth and interest rates would shrink the size of the long-term fiscal gap by about one-third, so huge improvement just from small movements in productivity growth. That's why our budget is so focused on the dual goals of promoting growth and opportunity, and achieving fiscal sustainability, by making investments that are more than fully paid for and paid for by measures that are themselves in many cases pro-growth.

Since I can't lay out the entire budget in the time we have here today, let me just highlight a few examples. First, in health, the budget includes an additional $400 billion in specified health savings that build on the ACA and will help sustain the slowdown in costs while improving health care quality. These savings grow to about $1 trillion in the second decade and extend Medicare Trust Fund solvency by about five years.

Second, the budget proposes to reform our business tax system to reduce incentives for shifting profits overseas and barriers to investing at home. It would use the temporary transition revenue from these reforms to finance the first long-term surface transportation reauthorization in 10 years, spurring growth by encouraging states to invest in modern infrastructure. Meanwhile, the budget reforms and strengthens tax policies that help middle-class families afford childcare, higher education, and a secure retirement, while raising revenue from reforming capital gains and financial-sector taxation, and curbing inefficient high-income-tax expenditures.

Third, the budget again reflects the President's support for common sense, comprehensive immigration reform along the lines of the bipartisan Senate-passed bill from 2013. Immigration is pro-growth for reasons that go directly to our core economic challenges. It helps balance out an aging population, it increases labor force participation, and it raises productivity. CBO projected that immigration reform would increase the level of real Gross Domestic Product (GDP) by 3.3 percent at just the end of 10 years, and by 5.4 percent at the end of 20 years. Meanwhile, it would reduce deficits by $160 billion in the first decade and by an estimated $700 billion in the second decade, and would help the Social Security Trust Fund, closing about 8 percent of the Trust Fund's shortfall.

Now, just as an aside, the President's executive actions on immigration would have the same effects in miniature, boosting GDP by about $100 billion to $250 billion after 10 years, reducing the deficit by about $7 billion over 10 years, and modestly improving 75-year Social Security solvency.

Now, there's another important thing our budget does, of course, which is to reverse sequestration, and that brings me to my third and final point. How we cope with the return of sequestration in 2016 is among the most important immediate budget choices we face for the near-term health of the economy and for our ability to make investments with long-term benefits.

Let me briefly review the history. Sequestration was supposed to force balanced long-term deficit reduction by presenting such a harsh and mindless alternative that no one would let it take effect. But when Congress failed to act, sequestration went into effect. The Congressional Budget Office estimated that the 2013 sequestration reduced the GDP by 0.6 percentage points and cost about 750,000 jobs, equivalent to wiping out almost all of the last three months of job growth. Now, in 2013, Congressman Ryan and Senator Murray brought together policymakers on a bipartisan basis to replace a portion of sequestration for 2014 and 2015 with longer-term reforms. Murray-Ryan contributed to our stronger job market growth in 2014 and helped to stabilize the labor market, encourage investment, and improve consumer confidence.

But next year, we're set to return to sequestration, dropping discretionary funding to its lowest levels, adjusted for inflation, in a decade. This is despite the fact that, since 2006, the U.S. population has grown by 7 percent and costs in some key areas have grown much faster than inflation. For example, Veterans Affairs medical costs have nearly doubled in that period.

The consequences of return to sequestration are very real. First, and most basic, sequestration puts our national security at unnecessary risk. The Joint Chiefs have made clear that it would significantly reduce our ability to fully implement the President's defense strategy. It would lead to a military that would be unbalanced and eventually too small, and insufficiently modern to meet the needs of our strategy, leading to greater risk of longer wars with higher casualties. Sequestration also puts future economic growth at unnecessary risk by shortchanging investments by returning federal research funding to the lowest inflation-adjusted level since 2002 outside of when sequestration was last in full effect.

Finally, sequestration impacts the basic functioning of government. For example, the 2013 sequestration cuts were particularly hard on the Social Security Administration, which relies on annual funding to pay the people who answer the phone, help seniors complete applications, and review disability applications. Harder to quantify, but equally tangible, OMB witnessed firsthand how sequestration funding levels undermined morale across the federal budget, undercut agencies' ability to make investments, and forced some short-term cuts that will actually increase costs down the road. At a time when Americans' faith in government has been eroded too far, sequestration simply makes that loss of faith worse.

The choice we have to make is clear, and the consequences associated with that choice are stark. That's why the President has laid out two bright lines: He will not accept a budget that locks in sequestration going forward, and he will not accept a budget that severs the vital link between our national security and our economic security. We will not fix defense without nondefense.

The President's not alone in his position that sequestration is dangerous for our economic and national security. Democratic and Republican Members of Congress are saying that maintaining sequestration is not the right course. Both the House and Senate Armed Services Committee chairmen have come out publicly against sequestration for defense. During my budget hearing, Senator Graham noted that he's concerned about the effect of sequestration not just on the military, but on medical research and public health programs. And during my colleague Secretary Lew's budget hearing, Congressman Ryan told him that he thinks the Murray-Ryan agreement is the right model to build on.

So we do have a choice. We're not doomed to have a budget fight through the end of the fiscal year. We don't have to expose the American people and the economy to unnecessary risk.

Republicans in Congress have an opportunity next week to join us in our effort to strengthen our middle class, support hardworking American families, while also keeping our Nation safe and improving our long-term fiscal outlook. And we look forward to working with them toward those goals.

Thank you. [Applause.]

CONVERSATION WITH MR. RUBENSTEIN

MR. RUBENSTEIN: So let's start with the fact that you were Secretary of HUD and, as I mentioned, you were confirmed unanimously to that position. It's a job where you get to help people get housing and make people feel good. The job of Director of OMB is not one that people generally say is associated with making people feel good.

Your job is generally to say no. So what were you thinking when they called you and said, would you like to be the head of OMB? Was there a graceful way to say no, or that wasn't in the cards? [Laughter.]

MR. DONOVAN: Well, I didn't call up Senator Rob Portman. I probably should have. He said in my confirmation hearing, "Congratulations, Shaun, you've been nominated to the worst job in Washington." [Laughter.] He then went on to say it's also the best job in Washington. But, you know, it's clear to me, David, that you haven't been HUD Secretary during the worst housing crisis of our lifetimes. [Laughter.] I didn't always get to say yes to people at HUD either, so I actually said yes very quickly to the President.

MR. RUBENSTEIN: Before we get into the substance of the budget, talk about the process. People may not understand it. How long does it actually take to put the budget together? And do you actually sit down with the President and go through the issues? And do Cabinet Secretaries, when they object to what you say, can they go right to the President? Does that frequently happen?

MR. DONOVAN: So first of all, the process of putting together a federal budget is probably the most remarkable and complex process I've ever been part of. In many ways, we're actually working on three budgets at the same time, so three years of budgets, because the planning takes so long. Right now, after introducing the President's 2016 budget – which, by the way, as we were finishing it, we were working on the 2015 budget and getting that completed through votes up on Capitol Hill – while we were doing that, agencies across the Federal Government are already planning for the 2017 budget. They'll need to present those plans to us early in the summer. My team then works throughout the rest of the year, up till February, putting that budget together. So it is a remarkable process and is really, in some ways, the most important policymaking process we have in government.

MR. RUBENSTEIN: When I worked in the government, Cabinet Secretaries, they would go directly and appeal to the OMB Director. Has that happened to you?

MR. DONOVAN: Once or twice, once or twice.

MR. RUBENSTEIN: Did you ever appeal to the OMB Director when you were Secretary of HUD?

MR. DONOVAN: Never.

MR. RUBENSTEIN: Never.

MR. DONOVAN: Of course. [Laughter.]

MR. RUBENSTEIN: OK. All right. So, when I worked in government, when the Cabinet Secretaries didn't get what they wanted from OMB, there would be a meeting with the President and staff people would sit there and they'd make their presentation. Does that ever happen in this Administration, where they get to appeal directly to the President in person?

MR. DONOVAN: It has not happened in my experience. My hope is that – and to be serious about this for a moment – having served as the head of a Cabinet agency as well as sitting now in this , I think has actually given me a picture on both sides of this process. OMB at its best is actually an enormously important tool for many agencies. There are many examples I can think of where OMB actually helped me put together a better budget, and the vast majority of things we dealt with were actually quite constructive within the process.

MR. RUBENSTEIN: How many employees does OMB have?

MR. DONOVAN: Just under 500.

MR. RUBENSTEIN: And how many of them are so-called political appointees?

MR. DONOVAN: Very few. It's –

MR. RUBENSTEIN: Most are career.

MR. DONOVAN: About a dozen, actually.

MR. RUBENSTEIN: OK. So let me ask you, for the last 15 years or so, when President Bush was President and now President Obama, every time a budget is announced, the immediate call on Capitol Hill is to say it's DOA, dead on arrival, so it's become very common to have that said. Does it feel bad, you work on something for a year – [laughter] – and all of a sudden they say "dead on arrival"? Or you expected that?

MR. DONOVAN: Well, as you said – [laughs] – you're sort of expecting it these days. First of all, the budget is a document that shows, as I said in my remarks, your values and your vision, and so it should be the most comprehensive place where the President can lay out not necessarily what is, but what ought to be. At the same time – and one thing I actually think is encouraging – that sort of beneath those calls of "dead on arrival," there are actually many, many things, from infrastructure to trade to taxes, where there actually is a fair amount of agreement, and where we're actually building on ideas that have come not just from Democrats, but from Republicans. And I actually think, in that sense, there are a range of ways that the budget has actually been effective to advance the potential for getting some legislation done.

MR. RUBENSTEIN: So, on your budget, it's roughly a $4 trillion spending budget and you have revenues of roughly $3 ½ trillion so that means you have a gap of $500 billion. So you've proposed, in effect, a $500 billion deficit. And as a percentage of GDP it's coming down, you could argue, but under your budget – with the $500 billion you're proposing as a deficit, and over the next 10 years you're adding $6 trillion to the deficit. Is that a good thing to do, add $6 trillion, under your proposed budget?

MR. DONOVAN: Hopefully you got a chance to see the slides that I just presented. –

MR. RUBENSTEIN: Right. As a percentage of GDP, it's going down.

MR. DONOVAN: Well, and compared to our current path, we are achieving about $1.8 trillion in deficit reduction. And so we are making changes that are pushing us much closer to where we need to be, and in fact achieving what most – you know, these are not our economists, most economists in the real world would say – if economists are in the real world; I guess that's another question – [laughter] – but that say that putting debt on a stable and then declining path is the single most important step that we can – that we can take.

MR. RUBENSTEIN: OK. During the Clinton Administration – you served in the Clinton Administration – you may remember there was a fight between President Clinton and Newt Gingrich over when the budget should be balanced, and originally the fight was that President Clinton said we can balance it in 10 years and Newt Gingrich said no, we can balance it in seven years. And ultimately, it went to seven years, but actually they balanced it in about two or three years after that. But under your budget, there is no proposal to actually get the budget balanced, even in 10 years. So why is there no effort, not just by the Administration but people in Congress, to talk about a balanced budget anymore at all? No one seems to talk about it.

MR. DONOVAN: Well, look, it's a couple things. First of all, remember where we started, we had a deficit that was close to 10 percent of GDP. It's come down by roughly two-thirds. We've seen the fastest deficit reduction in the last 50 years, basically since World War II actually, that period right after. So we've actually achieved a great deal. And as I laid out, that's not just in the short term, it's in the long term. The other critical thing we have to remember here is that we are in the teeth of – and we weren't yet during the Clinton Administration – we are in the teeth of the effects of the Baby Boom generation and what that will mean for our programs, and that is basically happening for the next few decades.

And so we have to do a combination of things that we're doing in our budget. We have to bring down health care costs. We have to bring in more workers to balance all our retirees. That's what immigration is about. And we have to get revenues to a place where we can keep our promises to those seniors.

Now, having said that, what we have done in the budget is to lay out a series of strategies – and I talked about some of them – that start to have real effects in 10 years, but actually accelerate dramatically in the second decade and in the third decade. And many of those actually we can't score yet, right? How effective will the delivery system reform be? Health care costs are the single most important driver. We've laid the groundwork for much more progress on that, things that we can't score yet. But we have, I think, really focused on the most important things that will grow in the out years, and we need to work collaboratively with Congress to get those passed.

MR. RUBENSTEIN: Now, you mentioned scoring. For those who may not be experts in budgeteering, you ask people what something will cost and they come back with a number. And how much confidence do you actually have that people can project 10 years into the future what something will cost?

MR. DONOVAN: Well, there are many who are calling for us to do 30-year budgeting, and in some cases we look out 75 years, for Social Security and in other areas. The truth is that there are some things that we know pretty well and there's lots of estimating that's involved. And the fact is, we know we're going to be wrong. [Chuckles.] The question is, how do we plan for and look at those ranges?

MR. RUBENSTEIN: Well, for a number of years the Federal Government's had 10-year budgeting, which means that, you know, we project out for 10 years what the costs are going to be, revenues and so forth. But some people say that you can backend things, you can put some of the bad news in years seven, eight, and nine and the good news in a couple of the early years. So do you think we'd be better if we had five-year budgeting, or is 10-year budgeting really appropriate?

MR. DONOVAN: Look, let's recognize where we are. Discretionary spending I think there's broad agreement – Republican and Democrat – is not the problem. The sort of short-term decisions that we're making about, you know, how much we spend on education and research and all those critical things, there's pretty broad agreement – infrastructure – we're not doing enough to invest in those things. The real issues are the longer-term drivers. And so I actually believe, even if there is uncertainty, it's critical for us to be looking out in that sort of medium to long term if we're actually going to get to the challenges that are really driving our deficits and debt.

MR. RUBENSTEIN: Now, you mentioned in your presentation and you've said in your testimony that the Affordable Care Act has reduced health care costs below what people actually thought it would be and in fact there are some savings there. But let's suppose the Supreme Court says the Affordable Care Act as written doesn't really work and they overrule the government's position in the case now before the Supreme Court. Do you have a contingency plan to deal with that?

MR. DONOVAN: Well, first of all, the law is working and we're implementing it according to the law. So that would be a terribly flawed decision if that's where they ended up.

Second, you know, to be frank, David, there is no way to fix that problem that wouldn't imperil the health insurance of millions and millions of families. The idea that somehow there's a contingency plan that could fix it is flawed as well, frankly.

MR. RUBENSTEIN: OK. So let's talk about sequestration for a moment. The U.S. economy's in reasonable shape compared to virtually any other economy in the developed world. We're going to grow maybe at 3 percent this year. Inflation's under 1 ½ percent. You've got unemployment rate about 5.5 percent, as low as it's been in many, many years. So all that's happened with sequestration in place, so some people would say, well, why not just keep it in place because we're doing pretty well with it.

MR. DONOVAN: Well, actually that's happened when we lifted at least a significant portion of sequestration, again. And it isn't just the austerity that was produced by sequestration. That alone – and don't take my word for it; the numbers I cited from sequestration, 750,000 jobs lost based on that. It also is the uncertainty by the way that we were budgeting, the sort of manufactured crises, and you can see a direct impact that has on consumer confidence, on business confidence. And again, don't take my word for it: reports have showed, independent economists, about 300,000 jobs were created directly out of the piece of sequestration that was reversed, and close to a million jobs out of the increased confidence. So, in my mind, what the history shows is the reverse, that by lifting sequestration, by moving away from kind of mindless austerity, and by budgeting in a way that is responsible/predictable, we actually give confidence to consumers, to businesses to allow the economy to grow. And so we ought to follow that model and do more of it.

MR. RUBENSTEIN: So if Congress does what you suggest and they eliminate the sequestration limits, suppose they come to you and they pass legislation that increases the discretionary spending by 3 ½ percent or 4 percent – you proposed 7 percent, I think – but domestic spending is increased by less than the defense. Would you recommend a veto if it wasn't one for one?

MR. DONOVAN: From our perspective, you cannot separate our national security from our economic security. And two different points I would make on that.

First of all – and we talk sort of generally about this defense and nondefense. Let's remember what's on the so-called nondefense side of the budget: veterans, homeland security, a broad range of things that are actually intimately connected to our national security. But I think even more importantly – and don't take my word for it; ask the Secretary of Defense and a range of others – if we're not educating our kids, if we're not investing in research, if we're not building infrastructure, if we're not doing all the things that are going to grow our economy, we're not going to secure our country's future on the international stage. Think about what's happening in Ukraine, in a range of other places around the world. We actually use military power and economic power in very aligned ways. And both of those are critical to protecting our future, not just the defense budget alone.

MR. RUBENSTEIN: But you would think it should be even, is your point? Any increase should be roughly parallel?

MR. DONOVAN: Dollar for dollar is the model that Murray-Ryan followed. Again, it isn't like we've invented this from whole cloth, right? This is a precedent from a few years ago that was largely bipartisan.

MR. RUBENSTEIN: The defense budget and you propose about $560 billion, more or less. So explain to me why – I know you didn't invent this – the defense budget is $560 billion under your proposal, but you have another $50-some billion in OCO, which is overseas contingency operations.

MR. DONOVAN: Contingency. Been doing your homework.

MR. RUBENSTEIN: Why is it that we have to have $50 billion for war that doesn't count in the defense budget?

MR. DONOVAN: [Laughs.]

MR. RUBENSTEIN: Why not just lump it in there and say it's $600 billion? Why don't we do that?

MR. DONOVAN: You know, it's a very good question. And in fact, in our budget this year, we proposed a plan to eliminate OCO and to put it all back into the base defense budget.

Look, the truth is that this came out of originally the so-called War on Terror, and a kind of emergency account that could be used for crises that didn't count against the caps was created. It was over $180 billion when the President came into office. What we're proposing for next – this coming year is $51 billion. So that alone we've reduced the cost by well over $100 billion. But we agree that we ought to be planning for the defense budget in the same way we plan for every other budget, and we ought to over the next few years eliminate this OCO account and put it back into the base defense budget.

MR. RUBENSTEIN: OK. Let's talk about everybody's favorite subject, tax increases. You propose tax increases which some people say would be tax increases of $1.4 trillion over 10 years. But that's a 10-year number, so let's just talk about this year. You propose an increase in the capital gains rate and the dividend rate. Do you think there's a chance that that will actually happen this year, or that's just what you would like to happen?

MR. DONOVAN: Well, one way to look at it is if the capital gains rate was good enough for President Reagan, we think it's good enough to do now. What we're proposing is to go back to the same capital gains rate.

I think more importantly – and I referenced this in my remarks – there are things that we can do to raise revenues that actually also contribute to economic growth. And so just think about this so-called stepped up basis. Right now what we basically have is a system where, if you can hold an asset in a relatively illiquid form until your death, you can pass it on and the basis gets stepped up to the then-market value for the purpose of capital gains taxes.

MR. RUBENSTEIN: And hasn't that been the law for, like, 100 years or so?

MR. DONOVAN: It has, but just because we've always done it doesn't mean we should always keep doing it, right? And here's the thing: If you're somebody who actually needs to access that asset – i.e., somebody who's, you know, low/moderate income, middle class – you don't have that same option, often, because you need to either liquidate or move that asset during your lifetime, and you're going to pay a very different capital gains rate.

But I think equally important is that what the Tax Code is actually doing is encouraging people to take what could otherwise be productive investment in our economy and to hold it in relatively illiquid forms, not only for their lifetime but often over multiple lifetimes. And we think that thinking of ways to both increase the revenues that we need to support many other critical investments, middle-class tax cuts, but at the same time that will make our economy more dynamic and encourage growth, those are the kinds of things we ought to be doing.

MR. RUBENSTEIN: Well, how do you deal with the famous example of the family farm? Somebody has a family farm, it's worth $20 million, the father dies and leaves it to his children. They're going to have to liquefy, won't they? And isn't that going to be destructive to family farming?

MR. DONOVAN: A couple ways. First of all, the examples that you're talking about are very, very few in number, and they can be dealt with relatively easily. You can have a limit – we propose about $500,000 – where they would be exempt from this. And for closely held family businesses, you can allow taxes to be paid over a significant period of time, rather than doing it all at once.

MR. RUBENSTEIN: All right. A famous issue that people have talked about for years is the repatriation of dollars overseas that companies have parked overseas, a trillion dollars or maybe even more than that. Under your proposal, if you don't bring it back, you're going to be taxed just for keeping it there. Is that right? In other words, you keep the money there, you're still going to impose – it was a 13 percent tax on the money that's already there. Is that right?

MR. DONOVAN: So it's a 14 percent toll charge, which – actually, you know, even if you don't repatriate, then we charge a one-time charge for those. Future earnings would be at a higher rate. And what we're proposing to do – and by the way, this is a structure that is very consistent with – both Democrats and Republicans have supported a structure like this, where we would create a single, clear minimum tax so that in countries around the world, and we would basically rebate to you the taxes that you're paying overseas against that minimum tax rate.

MR. RUBENSTEIN: But the novel thing of your proposal, I thought, was that if you don't bring your money back, you're still going to be taxed. I thought the original idea that many people had talked about is you bring the money back and we'll give you a lower tax rate. You're doing both. Is that right?

MR. DONOVAN: Well, here's the problem. If it's a voluntary repatriation, basically you're saying you as a company have the option about whether to bring it back to the U.S. The problem with that is that not only will folks choose to keep a lot of that money overseas, it actually encourages keeping money overseas in future years. It leads to CBO scoring those proposals as costing potentially hundreds of billions of dollars. And again, it is actually not novel. Dave Camp, in his plan, proposed a similar structure, where there would be a mandatory toll charge. And a growing number of both Democrats and Republicans have actually supported that kind of structure.

MR. RUBENSTEIN: But can you explain this? If you do bring it back, you pay a – I can't remember – was it a 14 percent rate, right?

MR. DONOVAN: It's 14 percent.

MR. RUBENSTEIN: Under your budget numbers or CBO's, you are assuming this money would come back eventually during a 10-year period of time and you're assuming it would come back at 35 percent. So aren't you increasing the deficit, in effect, by bringing it back at a lower rate than you were assuming eventually it was going to come back in years seven, eight, or nine? I thought the budget numbers always assumed it was going to come back at some point.

MR. DONOVAN: So they don't assume everything will come back. And without getting way into the weeds of scoring, our proposal actually scores we're able to bring back almost $300 billion over 10 years of increased revenues. And what we're proposing – which I think is also an idea that's gaining significant support – would be to take most of that revenue, about $240 billion, and put it toward a six-year extension of the Highway Trust Fund. So what we would be able to do is that, combined with gas tax revenue, we'd get a 40 percent increase in our investment in infrastructure and get a six-year period, which, you know, feels like a lifetime given the way we've been sort of kicking the can down the road on infrastructure.

MR. RUBENSTEIN: Well, you mention the gas tax. The federal gas tax, gasoline tax, hasn't been increased in many, many years. Oil prices are very, very low. Why would you not propose a gasoline tax and use that money to enhance the infrastructure in the country and fix some of the potholes that we have running around Washington?

MR. DONOVAN: Look – first of all, these are not either/or, right? What we're proposing is a six-year, fully-paid-for plan. A longer-term solution, if we could get even longer than six years, we would be open to it, and I think we're not taking any option off the table. What I would say is that lots of people have talked about the gas tax. It hasn't gotten done. And meanwhile, we've got infrastructure projects around the country that are desperately waiting for funding.

MR. RUBENSTEIN: Now, your budget assumes that this year interest rates will be relatively low, so the interest charges for the Federal Government for a year, we're paying 3 ½ percent of the budget or something like that for interest. But if interest rates go up over the next couple years, won't you be paying a higher amount? You're assuming that's going to happen?

MR. DONOVAN: The budget fully builds that in. Our interest-rate assumptions are very consistent with, you know, where CBO is and the Federal Reserve and others. But that's fully built into the projection.

MR. RUBENSTEIN: So when you testified in Congress, what was the reaction to the budget? Did people say let's pass it right away, or did they say maybe we have to think about these things, or? [Laughter.]

MR. DONOVAN: There was a standing ovation, actually.

MR. RUBENSTEIN: Really? [Laughter.]

MR. DONOVAN: And we passed it last week. You didn't –

MR. RUBENSTEIN: Right, I missed it.

MR. DONOVAN: You missed the press release, so. [Laughter.]

Look, what is interesting, I think, about the moment that we're in is that you have a potential solution, building on Murray-Ryan, which recognizes that we need to invest more on the discretionary side, which is not driving our deficits, and you pay for it – more than pay for it, actually, in our budget – by making the reforms on key things that are driving our deficits in the long run. So despite, you know, the dead on arrival, we're seeing many Republicans, as well as Democrats, say that this kind of model, the Murray-Ryan model, is one that we ought to build on: Paul Ryan, Lindsey Graham, John McCain, a range of others. And really, if you – if you care about our long-term fiscal picture, this is the right thing that we should be doing. We ought to be making reforms in the long-term mandatory programs. We ought to be looking at our tax system. That's where the challenges are.

And so what you have here is the potential for a win-win. That's why Murray-Ryan got done. The question really is, can we act? And that was the challenge that we saw with the Homeland Security budget. Congress needs to be able to do the people's business. The budget is, in some ways, the most basic act of Congress. And there is a solution that is not new; it's one that was, you know, taken just a few years ago. We should build on that and pass an agreement like that one laid out in our budget.

MR. RUBENSTEIN: The Budget Act of '74 set this whole process up with the CBO and Budget Committees in Congress. Before we had the Budget Act, appropriation bills got passed on time and, you know, the government was never shut down. With the Budget Act, it seems like we have this problem. Do you think we're better off with the Budget Act than before?

MR. DONOVAN: So it's interesting, I had never heard the Budget Act as being the cause of the dysfunction in Congress.

MR. RUBENSTEIN: Well, before everything got passed quickly. While you're thinking about that, do you think there's going to be a shutdown this year?

MR. DONOVAN: Look, I think hopefully DHS was a reminder of this. Certainly you've heard Leader McConnell and others say, you know, we can't let the government shut down. It would be disastrous to go back to that policy. And so, look, I can't tell you what will happen. What I can tell you is there's a pretty clear choice, and we're going to see starting next week which choice Republicans make.

MR. RUBENSTEIN: Now, you propose a number of tax increases. We've discussed them: stepped-up basis, capital gains, dividends, overseas tax, and so forth. Will you actually propose legislation to Congress to do this? Or it's just in the budget and you'll wait and see what Congress says?

MR. DONOVAN: You know, look, the problem here is not in the details of the legislative language. There have been, you know, plenty of tax commissions, as recently as last year Dave Camp's proposal, which as I said earlier has lots of things in terms of structure — maybe not in rates, but in structure — that match the approach that we've taken. The real issue here is not the language; it's the larger willingness to do something.

Let me just step back for a moment, because I think there's an important context here. Since the President came into office, we've achieved about $4 trillion in deficit reduction. Eighty percent of that deficit reduction has come from spending cuts, only 20 percent from tax changes. Even if you just took our budget and passed it tomorrow – we would end up with close to $6 trillion of deficit reduction – 60 percent of it would still come from spending cuts. And so seen in the larger context of a balanced way to reduce our deficit, we think taxes have to be part of the equation. And in fact, whether it's Camp's plan or many things that Paul Ryan has proposed, there are lots of places where I think we can agree we have inefficient spending in the Tax Code. It's not just in our, you know, direct spending where we have inefficiencies. And you know, there's just no reason why we shouldn't take those on, particularly in the face of what we're going to be long-run challenges with the Baby Boom's retirement. Remember, the last time we had a balanced budget, during the Clinton Administration, revenues were at 20 percent of GDP. We're well below that. And so, unless you're being, you know, dogmatic and ideological about it, taxes need to be part of the equation.

MR. RUBENSTEIN: Do you think the goal of having a balanced budget is one that the government should have?

MR. DONOVAN: The goal that we should have is to ensure that we bring down our deficits and our debt over the long run. In the context of where we started, the consequences of balancing the budget in five years or 10 years would be potentially disastrous to all the other critical investments we need to make in the economy. So, you know, no pun intended here, but it's a balance of the approach.

We are achieving the key fiscal metrics that most economists agree on: getting below 3 percent of GDP, stabilizing debt, and then putting it on a downward path. We're doing it through things that will grow in importance in the out years. But the goal of a budget is not just to balance. The goal of a budget should be to make the investments that we need to grow our economy, protect our national security, and we should do it in a fiscally responsible way.

MR. RUBENSTEIN: One of the initiatives that was new in your budget was $60 billion for community colleges, and essentially you could go to a community college with no tuition, in fact. How would you pay for that?

MR. DONOVAN: So that is part of a package that is fully paid for through some of the tax changes that we already talked about. It includes a financial fee on large financial institutions – again, something that was included in Dave Camp's plan last year.

MR. RUBENSTEIN: You like Dave Camp. You should bring him back from – [laughter] –

MR. DONOVAN: [Laughs.] So that is a package of things. So we don't have a, like, exactly $60 billion that we would pay for. It's part of a group of things, and that includes lowering taxes on paying for college, on childcare, on retirement, a range of things that really go to the kind of key drivers that I talked about that have lowered or, you know, stopped the growth that we saw in middle-class incomes over the last 30 years.

MR. RUBENSTEIN: So today, as we mentioned earlier, your budget's roughly $4 trillion. And of the $4 trillion that you're proposing to spend, what percentage of that is really so-called discretionary? Because if you add up defense and veterans and Social Security and other entitlements, you're at 80 percent, I guess. But what percentage of the 20 percent do you really have any flexibility on? Are we talking about 1 or 2 percent of the budget?

MR. DONOVAN: Well, of the $4 trillion you talked about, discretionary is roughly a quarter in total. But here's the thing. I think the implication of your question may be a little bit that there are lots of things we can't control, and the truth is we can control those, whether it's Medicaid and Medicare – the focus I have and the reason I spent so much time in my remarks is that we can bend the cost curve and we are doing that. On defense, we've actually proposed a serious set of reforms, not just to our force structure and to our weapons systems but also to health care and retirement for the military as well. Those are plans that haven't been enacted in past years, but there is a set of reforms that could get done if we got serious about controlling those costs.

MR. RUBENSTEIN: And today what would you say is the prospect – obviously you can't predict with certainty – that we won't get down to, at the end of the fiscal year, one big omnibus bill that deals with your budget and all the appropriations, as opposed to having the separate appropriation bills passed on a timely basis separately without one omnibus bill? Do you think there's any incentive or desire from Congress to do that?

MR. DONOVAN: Ask me that question a week from now and I'll have a lot better answer for you. And the reason for it is this: If what we see is a budget potentially like last year where, to be specific, defense spending was increased by lowering nondefense spending, what that led to was an attempt – the beginning of doing individual bills and then a train wreck because nobody could write bills at the lower level. The consequences would have been too devastating. And so I think if we see a bill that keeps sequestration on the nondefense side or actually even cuts spending on the nondefense side, I think it will have a similar effect, that they won't be able to write a bill. On the other hand, if there's a budget that follows the Murray-Ryan precedent, then

I think you'd see what we saw last year and the year before in the ultimate resolution is that individual bills could get done at the higher levels.

MR. RUBENSTEIN: Well, let's suppose you get what you want out of the budget this year. Do you expect that next year you'll have a budget that does other things like this, make changes beyond where you are now? In other words, are you thinking of next year having another lot of initiatives that would be beyond what the current spending programs would be?

MR. DONOVAN: I think what you've seen generally is that there were a few key new initiatives, but the vast majority of what we're focused on in the budget – as the President likes to say, we're in the fourth quarter, and it is cementing and accelerating the legacy of what we've done. So, for example, on health care, lots of things that make sure that we can institutionalize the advances we've made with the Affordable Care Act and build on those in terms of some new innovative delivery system [workarounds?]. But it's not – you know, the last year of an Administration is not the time to start, you know –

MR. RUBENSTEIN: Well, then you can propose lots of stuff. It's easier to propose it then.

But, OK, let's suppose I'm a person in Washington, D.C. – I'm a lobbyist or I represent some organization and I want to influence your budget. Can I just call you up and get in to see you? [Laughter.] Do you see lobbyists or do you see businesspeople or labor people coming in? Or how do you –

MR. DONOVAN: They don't let OMB Directors out at all.

MR. RUBENSTEIN: Really? Nobody gets access to you? Or how do you –

MR. DONOVAN: Look, I meet with individual citizens. I have a meeting with mayors this afternoon. We see CEOs, a range of folks. I spend more time doing that, I would say, than when I was HUD Secretary. But –

MR. RUBENSTEIN: What's the best way to influence you and get what you want? [Laughter.] Or what – is there something – what's your – the best way to kind of appeal to you?

MR. DONOVAN: Come to an Economic Club luncheon, I guess. [Laughter.]

MR. RUBENSTEIN: OK, all right. So, now, we mentioned you have a background in housing. That was –

MR. DONOVAN: Can I –

MR. RUBENSTEIN: Yes, go ahead.

MR. DONOVAN: Just a serious point about that. What I am influenced by is actual results. And I think one of the things that the President's focused on and I think we need to do more of in government – and this is actually an interesting thing that Paul Ryan and Patty Murray have worked on – is getting better at measuring the impact that we're having and the results from government programs. And the truth is, we have a revolution in information technology. We have an opportunity – I spent a lot of time in the Bloomberg Administration thinking about these things as well. And one of the things – we have a lot of proposals in the budget this year, we're spending a lot of time really thinking about, how do you measure and manage performance in government? And really that's, I think, the most effective way not just to convince me, but to convince the American people – (inaudible).

I started an initiative at HUD. We set out a plan to end veterans' homelessness. Veterans, when we started this Administration, were twice as likely to end up on our streets as an average American. Four years later, after starting this initiative, we've lowered veterans' homelessness by a third. The number of veterans sleeping on our streets is down by over 40 percent. And a lot of the way that we did that was by really measuring what was happening, not just nationally but in the places where veterans were most likely to end up homeless. And that's – to me, if you think about the role that OMB – we've talked a lot about the budget today – the management side, there's huge potential for us to advance the way that we measure and manage performance in government that can be very, very powerful.

MR. RUBENSTEIN: So, by my standards you're a teenager. You're not even 50 yet. And so you have devoted your entire life to public service, and as a result you haven't – when you go to your Harvard class reunions and you see the private equity people and the hedge fund people, you're – you know, you might feel a little jealous of their incomes, maybe not.

MR. DONOVAN: I tell them I'm in public equity.

MR. RUBENSTEIN: OK. [Laughter.] So why have you decided to devote your life to public service? And is this what you expect to do after you leave this position?

MR. DONOVAN: I expect to nap when I'm done. [Laughs.] Look, I went to the Kennedy School of Government and I never expected to work in government, and I think too much in our society the cynicism about government pervades what too many young people think about. The truth is, I get to wake up every day and think about how I can make a difference on really, really big issues at a scale that matters to millions of people. I have a lot of friends who have made a lot more money than me who, you know, don't necessarily get to do that every day. And I actually feel enormously lucky to be a public servant because of that.

MR. RUBENSTEIN: So you're not likely to join a private equity firm when you leave.

MR. DONOVAN: Are we negotiating here? [Laughter.]

MR. RUBENSTEIN: One final question. You know, when you were an undergraduate – you told me earlier when you were an undergraduate you went on a double date with a woman who was your predecessor as the head of OMB.

MR. DONOVAN: That is correct.

MR. RUBENSTEIN: And did you ever think on that double date that both of you would have eventually become Directors of the Office of Management and Budget? And what was that double date like?

MR. DONOVAN: We actually planned it out on the date.

MR. RUBENSTEIN: Really?

MR. DONOVAN: Yeah. [Laughter.] No, it – farthest thing from my mind would have been to end up as Budget Director.

MR. RUBENSTEIN: OK. Well, I want to thank you for the job you're doing for the country. You obviously know this material very well, and I appreciate your taking the time here.

MR. DONOVAN: My pleasure. Thank you for doing it.

MR. RUBENSTEIN: Thank you. [Applause.] Thank you for coming. You did a great job. [Applause.]

Shaun Donovan, Director

Shaun Donovan was sworn in as the 40th Director of the Office of Management and Budget on July 28, 2014. Mr. Donovan has committed his life to public service focused on good government and smart investment, while also building his leadership skills in the private, non-profit, and academic sectors.

Prior to OMB, Mr. Donovan served as the 15th Secretary of the U.S. Department of Housing and Urban Development, where he managed the Department's $47 billion budget — helping families buy homes, aiding households in fighting off foreclosure, revitalizing distressed communities, and combating homelessness. While at HUD, Secretary Donovan made critical investments to speed economic growth, while also offering new savings proposals and ensuring fiscal responsibility.

Prior to his service in the Obama Administration, Mr. Donovan served as Commissioner of the New York City Department of Housing Preservation and Development (HPD), where he created and implemented HPD's New Housing Marketplace Plan to build and preserve 165,000 affordable homes, the largest municipal affordable housing plan in the Nation's history.

Before his service as HPD Commissioner, Mr. Donovan worked in the private sector on financing affordable housing, and was a visiting scholar at New York University, where he researched and wrote about the preservation of federally assisted housing. He was also a consultant to the Millennial Housing Commission on strategies for increasing the production of multifamily housing. The Commission was created by the United States Congress to recommend ways to expand housing opportunities across the Nation.

Mr. Donovan also served as acting FHA Commissioner during the Clinton/Bush Presidential transition. Prior to his first service at HUD, he worked at the Community Preservation Corporation (CPC) in New York City, a nonprofit lender and developer of affordable housing. He also worked at the Joint Center for Housing Studies at Harvard University and as an architect.

Mr. Donovan holds a B.A. and Master's degrees in Public Administration and Architecture from Harvard University.