## OMB Chief Orszag on Budgets and Their Discontents

**Peter R. Orszag, Director, U.S. Office of Management and Budget Executive Office of the President**
**April 8, 2010**

### SOUND BITES FROM DR. ORSZAG'S REMARKS

**Healthcare reform:** We have now put in place the levers or the infrastructure to move towards paying for quality over time. Everyone agrees that we can no longer afford to just pay for quantity – that is a fee for service system where doctors and hospitals are reimbursed based on volume. We need to pay for quality. **Fiscal health:** …folks have not really focused on the Medicare Commission, the Independent Payment Advisory Board, that's created. This institution could prove to be far more important to the future of our fiscal health than, for example, the Congressional Budget Office. It has an enormous amount of potential power. How that potential is realized is going to have a very significant influence on our future fiscal trajectory. **Spending freeze:** …the reason it's hard to freeze overall spending is that the vast majority of spending is either net interest or Medicare, Medicaid, and Social Security. **Pickup in employment:** …what normally happens, as you know, during a recovery is as economic activity picks up, the first metric or the first phase is rapid productivity growth. We have been experiencing 6, 7, 8, 9% productivity growth rates over the past few quarters. The second stage is the temporary hiring and hours worked stabilize and then start to increase, and we've been seeing that. And then only finally do you get into actual employment growth and it appears, based on at least last month, that we may be moving into that third phase, which would be a very good development for America's workers. **Being lobbied:** …all the people who come visit me and other members of the White House are publicly available, so I guess this question is immediately verifiable, but I don't meet with lobbyists regularly. I do try to see CEOs a lot, and so they'll come in and give their perspectives, not only on their own businesses but on business conditions, hiring and what have you. They will often provide information. I don't know that it sways a decision, but it informs a decision, as one would hope. **Social Security:** …the right way to approach Social Security at this point is to take all of the options that I and others in the past have developed, and feed them into a bipartisan process, which is exactly what we've set up. **Unfunded pensions:** Social Security: we've had a non-answer and a non-discussion of it, but it will be part of the Fiscal Commission proceedings. Beyond that, as you know, there are a lot of temporary problems associated with pension funding, in part because of what happened on the asset side of the funding equation, not only for public pensions, but frankly for private pensions, which then feeds back into the Pension Benefit Guarantee Corporation. **Biggest single economic challenge:** The most immediate challenge is the labor market and unemployment rate. The most serious medium and long-term problems are I think the fiscal deficit and climate change and sort of the future of the globe itself. So you've got an immediate set of problems in the labor market, but the very difficult problems that we face are our large fiscal imbalance and climate change, which I think are the most substantial long-term problems.

DAVID RUBENSTEIN: Welcome to our sixth event this year. I'm David Rubenstein, President of The Economic Club of Washington. This is the 23rd year of The Economic Club of

Washington. We're very pleased to have as our special guest today the Director of the Office of Management and Budget, Peter Orszag.

Peter is the Director of the Office of Management and Budgets. He's the 37th person to hold that position dating back to the time when the Budget Office was created in the 1920s. He is the youngest member of the Cabinet. He was appointed by President Obama when he was 39 years old, assumed the position when he was 40, and is one of the youngest people to be the head of OMB. Prior to that, he was the head of the Congressional Budget Office, which is the independent nonpartisan operation on Capitol Hill that gives Congress budget assessments and costs for legislation that's proposed and obviously has a very important role in our appropriations and budget process. Peter headed that for several years as well. Before that, he was a senior fellow at the Brookings Institute, a specialist in Social Security, and healthcare economics, among other things, and headed the Hamilton Project while he was there.

Prior to that, he taught at Berkeley. He has been involved in a number of consulting projects and is a widely published author in many of the subjects that he cares most about including, Social Security and healthcare. Dr. Orszag is a graduate of Philips Exeter, graduated *summa cum laude* from Princeton with a major in economics, and as a Marshall scholar earned a Ph.D. from the London School of Economics. A very impressive academic background, and I should add, perfect SAT scores. Laughter.] But in his family, that wasn't that unusual, because I think his brothers both had perfect scores as well. His father is a very prominent mathematician at MIT and at Yale. So Peter, let's start. Which job was actually better, being the head of CBO or the head of OMB, and how are they different?

PETER ORSZAG: I actually think the OMB job is much more challenging because you have all of the responsibilities that you had at CBO, analytics, running an organization. CBO is about 250 people. OMB is about 500 people, external and media relations. But then layered on top of all of that is that at OMB you also have a major management side and you are also part of the President's economics team.

So whereas at CBO I spent most of the time either walking the halls or in my office actually editing reports and doing analysis, the vast majority of my time now is spent in meetings in the West Wing and what have you and so there's it's basically all that CBO was and then another job layered on top of it.

MR. RUBENSTEIN: But do you do have 535 bosses on Capitol Hill, or do you?

DR. ORSZAG: And therefore you don't have one. You see, that's the other thing. At CBO, yes, you had 535 bosses, but there's a lot of independence, which is actually interesting. If you stop and think, if CBO was analyzing CBO, it would say it'd be a completely feckless organization, because its budget is set each year by the Congress. Its Director is appointed by the Congress, can be dismissed by a simple majority vote in either House. Organizationally, you'd look at that thing and say, it will never amount to anything. It has a substantial amount of independence and respect, and I credit that, not only to the people who have been there, but especially to, for example, Alice Rivlin, the first Director, who established a culture of professionalism and independence and created an image of CBO that has persisted to this day. So we'll talk later perhaps about some of the institutions that are being created under healthcare reform, but the fact of the matter is that a lot will depend on execution and how the culture of institutions develops. CBO is a remarkable success story, despite some of the institutional limitations that, if you just looked at it on paper, you'd say it wasn't that powerful.

MR. RUBENSTEIN: But did you ever have a Senator, a Member of the House come up to you and say, look, I really need a favor here, just a little….

DR. ORSZAG: Oh, of course not.

MR. RUBENSTEIN: Could you just say this doesn't cost that much or [laughter] you had some of those?

DR. ORSZAG: Never.

MR. RUBENSTEIN: Never happened.

DR. ORSZAG: Never happened. I've gotten used to some of my kids saying, you know, they'd say we want this. And I'd say how does it feel to want? And there's a little bit of – yes – constant tension with Members of Congress is that they'd like things to always cost less than CBO believes them to cost, and it's just a constant tension.

What I try to do is to go and explain ourselves, so if Senator X called up and said, I'd like this to be zero, instead of just saying, no, which may well have been the right answer, we'd actually go and visit and say, here's why it's not zero. Here are the studies. Here's the basis for why it's not zero. And actually that took a lot of the bite out. I noticed that in maybe 6 months many fewer calls came in because we were actually proactively going out and trying to explain ourselves.

MR. RUBENSTEIN: I know in recent years, maybe the past decade or two when CBO does things or OMB does things, they say these are the 10-year numbers.

DR. ORSZAG: Yes.

MR. RUBENSTEIN: Why do we project things 10 years in advance? Nobody can really predict that far in advance. Are these numbers at 10 years down the road really that reliable?

DR. ORSZAG: There's a lot of uncertainty around forecasts 5 to 10 years out – and I'll come back to that in a second. But those are the metrics. That's the budget window that the Congress has adopted and it sort of developed over time, and that's the norm. There's inertia in these things just like in lots of human endeavor. But just to get a sense of the degree of uncertainty, if you go out 5 years – say in 2015 or so – the 95% confidence band around whatever your deficit projection is plus or minus 5% of GDP, which is roughly plus or minus $1 trillion. So if you're projecting a deficit of 5% of GDP, $1 trillion, what you're really saying is with 95% confidence it will be somewhere between zero and 10% of GDP or somewhere between zero and $2 trillion.

MR. RUBENSTEIN: I didn't want to mention deficits, but now that you brought it up – [laughter] – you –

DR. ORSZAG: First mistake.

MR. RUBENSTEIN: Right. Well, right now, we have, you would say, $9 trillion of net federal debt and not counting Fannie Mae and Freddie Mac debt, which maybe the federal government really has, and not counting unfunded pension liabilities for Social Security, Medicare, and Medicaid, the deficit is very, very high and high in historic terms compared with almost anytime except World War Two.

MR. RUBENSTEIN: Can we really sustain this much of a deficit, and do you see any trend on the way down, because I thought you're projecting another $9 trillion of deficit over the next 10 years or so?

DR. ORSZAG: Let me answer that in 3 pieces. First, let's be very clear that in the very short term, 2010, 2009, what has happened is that private borrowing has collapsed. Total borrowing, public and private combined, has gone from about 30% of GDP in 2006, 2007, to roughly zero last year, because despite the uptick in public borrowing, private borrowing collapsed so much that the Treasury Department was effectively the last borrower left standing.

So we have been running significant deficits in 2009 and 2010 which, by the way, given the state of the macroeconomy, is what every introductory economics textbook would suggest is exactly the right thing to do. And it has not put significant upward pressure on interest rates because alternative investments have collapsed. Ultimately, – second point – as you move out over time and private borrowing picks up again, those two competing needs, private borrowing and public borrowing, are going to come into conflict, and that's why we'd like to get ahead of the problem. So specifically let's talk about what is projected for the next 10 years or so. The deficit last year was about 10% of GDP. As the economy recovers, that will come down to about 5%.

We have put forward more than $1 trillion in deficit reduction, including not continuing parts of the tax cut which, by the way, is more deficit reduction than has been included in any Administration's budget in more than a decade. That $1 trillion, however – given how deep the hole is – gets you from about 5% of GDP down to 4% and that's still too high. At 4% of GDP, debt is rising as a share of the economy. It's above where we need to be. And we believe that the right way to get the rest of the way there is through a bipartisan process, which is why we've set up a Fiscal Commission which will be reporting back by the end of the year.

Final point – I've spent a lot of time in discussions at Brookings and at CBO and what have you with what I will call the traditional budget school types, and I am a proud member of that group. But I would say that if all we did was address in a traditional way banging down on provider payments, adjusting revenue, adjusting traditional spending categories, if that's all we did to address the medium term-deficit, we would still face a massive long-term problem. And the only real solution to our long-term fiscal imbalance, because it's driven disproportionately by the rate at which healthcare costs grow, is to move towards a healthcare system that's based on quality and efficiency rather than quantity.

I don't mean to be giving such a long answer, but just to pause on that for a second, I think to a degree that is not yet fully appreciated. We have now put in place the levers or the infrastructure to move towards paying for quality over time. Everyone agrees that we can no longer afford to just pay for quantity – that is a fee for service system where doctors and hospitals are reimbursed based on volume. We need to pay for quality. But I would challenge everyone in this room, since I have spent years and years studying this, to tell me precisely how we should pay for quality, exactly what should bonus payments be for high-performing doctors, exactly what should the penalty be for hospitals that have high readmission rates, exactly what condition should be covered by bundled payments, exactly how should accountable care organizations work. There are lots of promising ideas, but the details are now yet known with enough precision to write them into law hardwired.

Furthermore, healthcare is a dynamic market. It's always going to evolve. In that setting, the only sensible approach in my mind is an evolutionary one where you try lots of things, throw lots of thing up against the wall and have a mechanism in place to move to scale immediately on the most promising ideas, and that's exactly what the legislation does, both through the innovation center that's created and importantly through – I think folks have not really focused on the Medicare Commission, the Independent Payment Advisory Board, that's created. This institution could prove to be far more important to the future of our fiscal health than, for example, the Congressional Budget Office. It has an enormous amount of potential power. How that potential is realized is going to have a very significant influence on our future fiscal trajectory.

MR. RUBENSTEIN: Some people would say healthcare is going to cost over 10 years $900 billion. You would argue that it doesn't cost anything like that because it's actually going to reduce the deficit. Is that right? You argued that the healthcare bill will not really cost us anything net or it will cost us net.

DR. ORSZAG: Well, keeping this net, again, so there's a gross cost, but in terms of the deficit impact, yes. I believe, not only will the bill reduce the deficit as the Congressional Budget Office suggests – and I hope we can actually have the debate about some of the critiques like the excise tax won't take effect or the various critiques that are out there, because I'd like to just go through them and rebut them one by one.

I think, if anything, the deficit impact may well turn out to be larger than what was projected by the Congressional Budget Office for two reasons. One is, if you look at the history of projections on major pieces of legislation, they have tended to actually be too conservative rather than too optimistic, and second, the scoring largely does not take into account this evolution towards paying for quality, which I think even within the next decade will start to pay off.

MR. RUBENSTEIN: Let me ask you this. Right now, the public option did not, of course, get into the bill. Will the administration ever again propose a public option in its term, or is public option dead as long as this president is president?

DR. ORSZAG: I think we're at this point focused on executing and implementing the law that was just passed. There's a huge amount of execution and implementation that needs to be done, and that's where our primary focus is.

MR. RUBENSTEIN: Getting back to the deficit before we get on other subjects – people who run for office, sometimes people who run for President, say I'm going to reduce the deficit by eliminating waste, fraud, and abuse. And there's never a budget item for waste, fraud, and abuse. [Laughter.] Where is waste, fraud, and abuse? How much can you pick up by reducing waste, fraud, and abuse, or is it just nothing you can really deal with as Budget Director?

DR. ORSZAG: My view on that set of activities is it's almost like the broken windows theory on education, which is when there is clearly identifiable waste, fraud, and abuse, even if it's not going to move the deficit number from 5% of the economy to 2% of the economy, it's going to move it from 5% to 4.9% or what have you. The existence of clearly identifiable waste leads to a culture and a perception that is harmful just like a broken window, even though it's not the direct cause of poor educational outcomes, leads to an atmosphere and a culture that is problematic.

So we have been aggressive in trying to identify programs to terminate and inefficiencies including by, frankly, just asking federal employees ways of improving our internal operations, partly because it will help save money. But I think everyone acknowledges it's not going to be the primary determinant of how the budget gets back towards balance, but rather just because why not do it? Why waste $1 billion here or $500 million there even if in the scale of the large federal budget it's not the end all, be all.

MR. RUBENSTEIN: Explain why budget freezes don't tend to work or Budget Directors don't like them.

DR. ORSZAG: We did one.

MR. RUBENSTEIN: Sometimes somebody says, let's freeze all spending for a year.

DR. ORSZAG: Okay. Well, we did propose for 3 years, and I think we're going to succeed in achieving this, a freeze in non-security discretionary spending. So I guess maybe one way of answering your question is, why not freeze all spending? Why only non-security?

MR. RUBENSTEIN: Why does that not work?

DR. ORSZAG: And why only non-security? Well, let's look at the categories of spending: net interest – unless we're going to violate debt contracts, you're not going to freeze that category of spending. Entitlement, especially Medicare, Medicaid, and Social Security by design are determined by benefit eligibility and other factors so that it's inconsistent with their underlying structure and purpose to just freeze them. Then you get to discretionary spending, where you could freeze spending and we did outside of the security sphere, especially when the nation is at war, more challenging to actually freeze security spending. We can talk more about that. But the short answer is, the reason it's hard to freeze overall spending is that the vast majority of spending is either net interest or Medicare, Medicaid, and Social Security.

MR. RUBENSTEIN: When you're in a meeting with Larry Summers, the President, and you, who is the smartest person in that room? [Laughter.]

DR. ORSZAG: You know, I guess I became the youngest member of the Cabinet by saying there's only one answer, which is the President, right? [Laughter.]

MR. RUBENSTEIN: That's the best thing for job tenure in Washington.

DR. ORSZAG: There you go. There you go.

MR. RUBENSTEIN: Let me ask you. The Commission that you mentioned, its proposals won't come back until after the election midterm, so it won't have any impact on that, but would you support or does anybody in the Administration support it? Would the President support a Commission whose recommendations would have to be approved, let's say, on a fast-track basis, up or down, by Congress? How would you actually get these recommendations implemented because, as you know, it's very difficult to get Congress to increase taxes and cut spending? How can you do it short of a base-closing type Commission, where its recommendations go into effect unless Congress overturns it?

DR. ORSZAG: Well, let me just first pause and point out that's exactly what we just created for Medicare. So this Independent Payment Advisory Board has the power and the responsibility to put forward proposals to hit a pretty aggressive set of targets over the long term. And furthermore, the proposals take effect automatically, unless Congress not only specifically votes them down but the President signs that bill. So the default is now switched in a very important way on the biggest driver over long-term cost, which is the Medicare program.

MR. RUBENSTEIN: Was that explained to Members of Congress very carefully?

DR. ORSZAG: Yes, it was and that's why this was something that was very difficult to actually – this is why I think it was underappreciated, that this is a very substantial change. Again, a lot will depend on whether it realizes its potential, and how the culture develops, but it has statutory power to put forward proposals to reduce healthcare cost growth overtime and improve quality, and those proposals take effect automatically if Congress ignores them, or if Congress votes them down and the President vetoes that bill. So in other words, inertia now plays to the side of this independent board.

Now, with regard to the Fiscal Commission, no one has ever actually proposed a true fast track like on base closing for a Fiscal Commission. There was a proposal for a statutory commission, which we supported, but all that did was it guaranteed a vote in Congress, not that the Commission's recommendations would automatically take effect regardless of what that vote said.

MR. RUBENSTEIN: So no one's proposed it, but you wouldn't support something like that or you think it's unrealistic to have a fast track for the Commission?

DR. ORSZAG: Yes. I think the reason no one's proposed it is it's unrealistic.

MR. RUBENSTEIN: Okay. And nobody would propose unrealistic things in the budget, right?

DR. ORSZAG: Never. [Laughter.]

MR. RUBENSTEIN: Okay.

DR. ORSZAG: Especially not in this town.

MR. RUBENSTEIN: Okay. Now, the President was not deeply involved in budget issues when he was in the Senate. So when you became the head of OMB, I assume you had to get him up to speed on a lot of these issues. How much time did it take you to work with him on the budget issues, to deal with him? How much time does it take of the President's time to get involved in preparing a budget? Like this most recent budget, did you spend 10 hours, 20 hours, 30 hours with the President kind of briefing him and getting him to approve or not approve various positions?

DR. ORSZAG: On this budget cycle, for the fiscal year 2011 budget, we probably had about two dozen meetings with the President on budget issues, and I wrote him approximately that number of memos too. So, you know, a very high level of personal involvement. During last year's budget, the fiscal year 2010 budget, it's different, because you're in a transition, and the transition period was very intense because we not only had to get the budget out, and again, that's doing something in a month-and-a-half that normally takes 6 months but we also had the recovery act and financial crisis going on too. So there is a very high level of intensity. And in fact, I remember very clearly I spent 4 or 5 hours of my 40th birthday in a snowy Chicago in a very intense meeting with the President and other advisers going through the budget, healthcare and Recovery Act issues.

MR. RUBENSTEIN: But for a birthday present for someone like you –

DR. ORSZAG: It couldn't have been better. Right. Perfect.

MR. RUBENSTEIN: So right now, if somebody's a Cabinet officer –

DR. ORSZAG: Although actually then I remember – you might not find this all that amusing, although I did, which was the roads were all closed and so we had to get back to the airport and no one did – the roads were too snowy and we had a flight to catch. And somehow, the metro in Chicago was still running, and so I still have this very vivid image of Tim Geithner's security detail clearing a metro train and we continued the meeting on the metro back to the airport.

MR. RUBENSTEIN: They don't have presidential motorcades for OMB Directors?

DR. ORSZAG: No, they don't. Waste, fraud, and abuse. It wouldn't be pretty. [Laughter.]

MR. RUBENSTEIN: Suppose somebody is a Cabinet officer and they really want something and they don't get you to agree to it. How often do they try to appeal to the President and even go around you and not tell you that they're going to go to the President? Has that ever happened?

DR. ORSZAG: I was told that this was quite rare. Last year in the fiscal year 2010 budget, there were no appeals to the President and I was going around town saying this is the first time that's ever happened. And someone corrected me that, during the Bush Administration it didn't happen either, but that's because all the appeals went to the Vice President and he said, you will not be seeing the President. [Laughter.]

But in any case, last year there were – I don't know if that's apocryphal or not, that's just what I was told – last year there were no appeals. This year, there were a small number. And I think that's in part because the President in various Cabinet meetings early on said, we are going to do this non-security freeze. Peter is going to be difficult. He's not being difficult because he's freelancing. He's being difficult because I told him to be. And so I think if he had not done that, there would have been a lot more end runs appeals.

MR. RUBENSTEIN: On taxes, you have proposed in your budget that the Bush tax cuts so called will lapse and will go back to the tax rates we had before then?

DR. ORSZAG: Oh, wait. Only part for those – yes.

MR. RUBENSTEIN: Not all of them?

DR. ORSZAG: Only for those making $250,000 a year or more.

MR. RUBENSTEIN: Right. I should have added that.

DR. ORSZAG: Okay

MR. RUBENSTEIN: But that – for this audience. That's –

DR. ORSZAG: Yes. I know. [Laughter.] Sorry, guys.

MR. RUBENSTEIN: Actually, Congress has time to deal with it this year, and we'll be ready on January 1st to know what the new tax rates are, or do you expect a retroactive kind of tax increase because Congress won't be able to deal with it this year?

DR. ORSZAG: I think this issue will be addressed this year, and some clarity will be provided about it. Before the end of this calendar year, this tax question will be resolved.

MR. RUBENSTEIN: Okay. And your proposal, capital gains rates would go to 20%. Would you oppose a movement to increase it above 20%?

DR. ORSZAG: Well, we've put forward our proposal.

MR. RUBENSTEIN: Okay.

DR. ORSZAG: It's obviously brilliant and wise.

MR. RUBENSTEIN: All right. Just wanted to have you on record being against higher capital gains tax.

DR. ORSZAG: Well, I said I favor our proposal.

MR. RUBENSTEIN: Okay. Let me talk about unemployment. Right now, it's officially 9.7% but if you count people who have part-time jobs and on full-time jobs it's said to be 16.5%, very high. You don't project in your budget that it's going to come down all that much over the next year or so.

When do you think it's possible to get unemployment rate – use the 9.7% number – down to let's say 8% or the 7% that you had when you came into office? When do you think that that's possible or is it not realistic in the next couple of years to get it down to 7 or 8% again?

DR. ORSZAG: I know sometimes people get a little sick of hearing this, but it is worth emphasizing again how stark the turnaround has been in terms of real GDP and the real economy from minus 6% real GDP declines at the end of 2008 to roughly 6% increase at the end of 2009. The labor market is lagging behind and unemployment is higher than anyone would want and it's going to take time for it to turn around.

But what normally happens, as you know, during a recovery is as economic activity picks up, the first metric or the first phase is rapid productivity growth. We have been experiencing 6, 7, 8, 9% productivity growth rates over the past few quarters. The second stage is the temporary hiring and hours worked stabilize and then start to increase, and we've been seeing that. And then only finally do you get into actual employment growth and it appears, based on at least last month, that we may be moving into that third phase, which would be a very good development for America's workers.

MR. RUBENSTEIN: So you think it's getting better, but you can't say exactly when it's going to get –

DR. ORSZAG: Look, it is better than it was, but it's still not where it should be.

MR. RUBENSTEIN: Let me ask you just a personal question before I get into another subject. You're said to be a jogger, a runner and you run – used to run 30 to 40 miles a week and now you do only 20 or 30 miles a week. How do you have time to do that? And do you actually run home at night?

DR. ORSZAG: I do run home.

MR. RUBENSTEIN: And do people interrupt you and ask for budget cuts or budget – [inaudible] – when you are running? [Laughter.]

DR. ORSZAG: No, although actually I got some clothing advice because apparently people were Tweeting that – you know, Orszag spotted in bright yellow, whatever. And I was told that my running gear had to evolve. I either run very early in the morning so I would get up at about 5:00 a.m. and run then, or I run home so that I'm transporting myself and exercising at the same time. And what I'd really love to develop is – and I go back and forth – occasionally we try to listen to books on tape or lectures, but the ideal would be transporting myself, exercising, and having memos or other information being inputted at the same time, but I haven't been able to accomplish that.

MR. RUBENSTEIN: Well, okay. I'm sure you'll work on that, but I am trying to get 20 to 30 miles over the course of my lifetime. [Laughter.] I'm still about 18 miles short.
If the Chinese and the Japanese and other foreign buyers of our debt were just to say, we don't want this anymore, not the interest rates that we think are attractive or affordable, what would we do? In other words, right now, you're paying how much in interest a year in the budget?

DR. ORSZAG: About $200 billion.

MR. RUBENSTEIN: Two hundred billion. If the interest rates were to go up one or two points, we'd be paying $500 billion a year in interest. But do you worry very much about our inability to sell debt at the price we're now paying?

DR. ORSZAG: It wouldn't be that much but, again, if it's $9 trillion, 100 basis points, it would be about 90, right, a year. But look, the whole reason we want to get ahead of the medium-term fiscal problem – one of the main motivations behind that Fiscal Commission — is to make sure you don't actually wind up with a fiscal crisis, that you get ahead of the problem.

Right now we have, as I said before, a collapse in private borrowing, and there's not an immediate concern. But overtime, the projected deficits are too high. They need to come down, and we absolutely must get ahead of that problem or else we are going to face an excruciating set of tradeoffs that no one would ever want to live through.

MR. RUBENSTEIN: Now, let's suppose that somebody's the head of a trade association and they have a position on what OMB should do or they want federal spending to increase or something –

DR. ORSZAG: Or something.

MR. RUBENSTEIN: Or something. They usually don't come in and say they want to decrease federal spending, I suspect. But do you actually meet with lobbyists and trade association people?

DR. ORSZAG: Yes.

MR. RUBENSTEIN: And have they ever convinced you of anything?

DR. ORSZAG: First, I should say all the people who come visit me and other members of the White House are publicly available, so I guess this question is immediately verifiable, but I don't meet with lobbyists regularly. I do try to see CEOs a lot, and so they'll come in and give their perspectives, not only on their own businesses but on business conditions, hiring and what have you. They will often provide information. I don't know that it sways a decision, but it informs a decision, as one would hope.

MR. RUBENSTEIN: Do Cabinet officers ever change your position when they come in and make a personal appeal, or that doesn't happen that much in terms of changing your view on what appropriate numbers are?

DR. ORSZAG: We have a collaborative working relationship, so of course, in that kind of relationship various Cabinet members will call up and say, this is my highest priority. You may not know X. Can you look into it? An example of that occurred yesterday where there was a proposal floating around to do – unfortunately I can't get into any details so this is going to seem ridiculously vague – but to do X. A Cabinet officer had been complaining that that wasn't realistic. We had a full briefing, and it turns out that Cabinet officer was right.

MR. RUBENSTEIN: So do you have any tips on how to be a persuasive purveyor of use to you? I mean, what's the best thing to do?

DR. ORSZAG: Well, personally, I favor analytical rigor so when folks come in and it's blather and – I think my staff have gotten sick of my saying content free. I don't like content free. So coming in with facts and figures and analytical arguments at least for me is –

MR. RUBENSTEIN: Let me ask you about Social Security. It's often said that Social Security is probably not sustainable unless we make some major changes in it. You're an expert in Social Security. If you could make one or two changes in Social Security as an academic, not speaking as the head of OMB and nobody –

DR. ORSZAG: Yes, yes, yes. This is all off the record, right?

MR. RUBENSTEIN: We won't tell anybody. We won't tell anybody what your views are.

DR. ORSZAG: One, two, three, four. Right.

MR. RUBENSTEIN: What would you do? Would you means test Social Security? Would you increase the age for Social Security retirement or would you avoid that question?

DR. ORSZAG: He doesn't seriously expect me to answer this question. Look, back when I was a scholar at Brookings I coauthored a book on Social Security. There are lots of ideas out there. Social Security is fundamentally – I think it's not a technical problem in the sense that the options are largely known. We have the menu of choices. It is fundamentally a political question or a political economy one. That's fundamentally different from Medicare.

No one knows right now – back to my evolutionary point – exactly how to eliminate Medicare's long-term actuarial imbalance, which is why an evolutionary approach is necessary. In Social Security, the options are, I think fairly well known, and what has to happen is the political system reaches agreement on what should be done. That is one of the motivations and one of the topics that the co-chairs of the Fiscal Commission have said that they are studying – Social Security. So I think the right way to approach Social Security at this point is to take all of the options that I and others in the past have developed, and feed them into a bipartisan process, which is exactly what we've set up.

MR. RUBENSTEIN: Let me ask you this right now. How would you improve the budget process? We have a fairly standard process now – the President proposes, the Congress reviews it, takes a period of time, sometimes the appropriation bills get passed in time, sometimes they don't. If you could change the whole budget and appropriations process, what would you do to improve it?

DR. ORSZAG: Lots of people have correctly noted that the budget process is unduly cumbersome and slow moving and complicated and jurisdictionally difficult. The problem really is how to move from what we've got in a feasible way to a different system, and I think that's a much harder question. So if it were just tabula rasa, we were starting afresh, I could give you a good answer.

But the fundamental problem at this point is that we've got a system, and once you have a system in place, it's much harder to move off that system than if you were designing something anew.

MR. RUBENSTEIN: In terms of the economy, we are out of a recession – I mean, we haven't had official declaration we're out of the recession, but most people would say we're out of the recession.

DR. ORSZAG: The Business Cycle Dating Committee has not yet – yes.

MR. RUBENSTEIN: Right. And they often tell us a year after we should know.

DR. ORSZAG: Yes.

MR. RUBENSTEIN: But do you see any prospect of a double dip recession?

DR. ORSZAG: Look, the way I would put it is there's always uncertainty on both the upside and the downside, but we are much better along a whole variety of dimensions than we were a year ago today. So are there risk factors that we need to be monitoring? Sure. But there does seem to be now a growing sense of momentum, which is exactly what you need – the whole purpose behind the Recovery Act was to create a jolt or a jumpstart that would then start a self-propelling sense of momentum in the economy. And I think if you're just looking at current indicators, right now it seems like that basic theory of the case is succeeding.

MR. RUBENSTEIN: Today, what do you think the country's biggest single economic challenge is? Is it the budget deficit, is it the unemployment rate? What would you say is the biggest?

DR. ORSZAG: The most immediate challenge is the labor market and unemployment rate. The most serious medium and long-term problems are I think the fiscal deficit and climate change and sort of the future of the globe itself. So you've got an immediate set of problems in the labor market, but the very difficult problems that we face are our large fiscal imbalance and climate change, which I think are the most substantial long-term problems.

MR. RUBENSTEIN: Now, you are the 37th person who's been the head of the OMB or its predecessor. Do you have any views on who were the most effective OMB Directors, the people whose tenure you actually admire that you think did a very good job?

DR. ORSZAG: I don't know that I'm going to get into rating my predecessors, but the way I would put it is that the OMB job is very interesting because you're walking various lines. You're part of the White House, but you're also Senate-confirmed and testify and run a 500-person agency. You're part of the President's team, but you're also supposed to stand for independent analytical rigor. You're managing an organization but you're also part of the White House staff. So I think the most successful OMB Directors are those who have not gone too extreme in walking all of those lines. I probably should have started with that too. That's one of the things that makes this job both interesting and challenging.

MR. RUBENSTEIN: The average OMB Director lasts maybe 2 years or so in the job, maybe even less, but many of them go into other jobs in the government. Some have become Secretary of the Treasury. Then, one has become Vice President of the United States. Do you have any desire to take another job in this Administration, or are you happy to stay in this position for, let's say, the remainder of this term?

DR. ORSZAG: I don't know about you, but I found in life that you wind up being most successful if you just focus on what you're doing at the time. So I'm mostly focused on what I'm doing.

MR. RUBENSTEIN: Well, that's the answer I would expect you to give.

DR. ORSZAG: There you go.

**QUESTIONS AND ANSWERS**

MR. RUBENSTEIN: But – okay. We have some questions. Gary Shapiro.

QUESTIONER: Thank you. Gary Shapiro. I'm president of Consumer Electronics Association. We're 2,000 technology companies. You represent the most open Administration. The healthcare bill, though, when I talked to our CEOs, is like the latest nail in the economic coffin of the United States. They're just shocked and they view it as Enronesque in terms of its deception. I'd like you to – I mean, I'd love to go through each part of those….

DR. ORSZAG: Let's do it. [Laughter.]

QUESTIONERE: Let's start. April 1st, doctors' pay was cut 21% for Medicare reimbursement. That was the assumption in the bill. Congress is ready to put that 21% back in. Why wasn't that scored as part of the deficit, 200 billion? I'm sorry.

DR. ORSZAG: I think this has actually been quite misleading. Look, there was a preexisting problem with regard to not only doctors' payment but frankly things that are outside of Medicare and Medicaid, the alternative minimum tax, some of the other tax extenders.

The fact of the matter is, regardless of whether healthcare reform was passed or not, Medicare payments to doctors would be addressed, period. I don't think there's any ambiguity about that whatsoever. Therefore, in looking at what the impact of the new legislation is by itself, relative to a world without that legislation, the right thing to do is to compare with and without. And for that question, the 21% sustainable growth rate formula is not relevant.

QUESTIONER: So the $200 billion should not be part of the cost?

DR. ORSZAG: I don't think so. No.

QUESTIONER: That's [obvious] about the cost of healthcare.

DR. ORSZAG: No, no. But let's – okay. This is a great example. Let's just pause, because this has been one of the critiques. Let's just pause and be very clear.

There was a preexisting $200 billion problem that would be addressed one way or another regardless of whether healthcare reform was passed, period. I don't think there is any debate about that whatsoever. So the folks who were saying somehow this was hiding the ball or what have you are saying somehow that preexisting problem should be added to this legislation, even though it would have been addressed anyway.

My view, analytically, is the right way to view a piece of legislation is what is the partial impact of enacting it? The partial impact of enacting this legislation I think was done exactly correctly and that's what's reflected in the bill.

QUESTIONER: But that's the cost of the healthcare. I disagree – $350 billion dollars –

DR. ORSZAG: Wait. Do you disagree that it would be addressed regardless?

QUESTIONER: It's a political question whether it would be addressed. Doctors deserve to be –

DR. ORSZAG: I'm asking you the question.

QUESTIONER: Doctors do deserve to be paid, but that was the assumption in the bill and that's how it got scored.

DR. ORSZAG: But again, do you believe that that 21% reduction would have been eliminated even if healthcare reform did not happen?

QUESTIONER: I don't know.

DR. ORSZAG: Okay.

QUESTIONER: I don't know why it's not eliminated as part of the [inaudible] but that's how – that was the assumption that allowed the scoring to occur. Next, $350 billion in Medicare savings. You said these great Commissions would do it. How are you going to cut $350 billion? Are you going to tell people to not go to the doctors', or will Americans go nine billion times to tanning salons to get that revenue, or why do you have 10 years of revenue and 6 years of expenses?

DR. ORSZAG: All right. Let's deal with the last one first. I'm glad you're asking these, because it's sort of like these urban myths that just float out there.

Look, there is a classic game in budgeting that would involve 10 years of offsets – I'll give you a numeric example. So you have $6 a year of savings for 10 years. That's $60. And then you have 6 years of spending at $10 a year. That's $60. Voila, you say, over 10 years, 60 equal 60 balance. Classic budget game, okay? If that is what was done in this legislation, then the way you see that, the way it would manifest itself is in the 10th year, you'd have $10 of spending, $6 of savings, you'd have a $4 deficit.

So the classic game that is played of mismatches between offsets or savings and spending manifests itself in falling off a cliff at the end of the 10-year window, even though it's balanced over 10 years. Look at the score. That is not what this legislation entails. It actually entails, not only a surplus in the 10th year but a growing surplus, which is why CBO has said in the second decade it would reduce the deficit by more than $1 trillion. So again, this is just sort of one of these myths that's perpetuated out there. Look at the score very clearly. If that were the game being played, there would be a deficit in the 10th year and that's not the case.

QUESTIONER: What about the annual $100 billion cost of just executing this? That's a side expense, right?

DR. ORSZAG: No. It's not $100 billion –

QUESTIONER: Is it part of the scoring?

DR. ORSZAG: It is not $100 billion a year. Congress often authorizes these things. Authorizations are different than appropriations. None of that money, except what is specifically appropriated in the legislation, happens unless the Appropriations Committee comes along in the future – this happens all the time, unfortunately, in Washington. So it's almost like some of the critics are waking up and saying things that have happened under a Republican Administration, under a Democratic Administration and which, by the way, don't trigger spending automatically – they don't – all of a sudden this is now a newsflash as part of this legislation.

So we could keep going through the critiques, but I think the bottom line is this. The history of implementing Medicare reductions and Medicare savings is actually quite positive in the sense that when Medicare savings are put on the table, they do tend to be implemented. Second, the bill, according to the official scoring, leads not only to deficit reduction over the first decade, but growing deficit reduction into the second decade. More important than any of that – and I am a member of the Institute of Medicine – at CBO I formed a panel of health advisers. I bulked up the health staff because I was searching out every single idea that is out there to try to move away from paying for quantity and towards paying for quality, because everyone agrees, from Bill Frist on the right and Mark McClellan to my friends on the left that that is what has to happen. I believe this legislation includes every serious idea that has been put on the table in order to accomplish that transformation.

And I see you're shaking your head no. We can discuss this afterwards because after sitting through hours and hours and hours – do you think 20 miles a week is a lot? I'm telling you, I sat through much more than that in terms of healthcare seminars. The legislation embodies basically every serious idea that's been out there.

MR. RUBENSTEIN: Actually I said 20 miles a year. A lifetime.

DR. ORSZAG: A lifetime.

QUESTIONER: There is a corollary to the Social Security deficit, and that is the underfunding status of both public and private pension plans.

DR. ORSZAG: Yes.

QUESTIONER: And what I personally see as the genetic predisposition of politicians to just say yes to organized labor and continue to run these increasing deficits. Is there any hope in sight?

DR. ORSZAG: Well, look, let me answer that in two different ways. One, obviously, Social Security, we've had a non-answer and a non-discussion of it, but it will be part of the Fiscal Commission proceedings. Beyond that, as you know, there are a lot of temporary problems associated with pension funding, in part because of what happened on the asset side of the funding equation, not only for public pensions, but frankly for private pensions. which then feeds back into the Pension Benefit Guarantee Corporation.

All I will say is I agree with you that it's manifested in the PBGC and it's manifested in a variety of state and local government pensions. There is a serious issue with regard to adequacy of pension funding. The difficulty is, again, given the depth of the crisis that we just went through, how quickly one moves to addressing it.

MR. RUBENSTEIN: And one more question from audience? Here is one right here.

QUESTIONER: This week, Paul Volcker joined his voice to others calling for a VAT [Value Added Tax] in the United States. The question is simple. I think the answer's probably not. Do you think it is either necessary or desirable for the United States to move to a VAT system in order to address the medium-term fiscal problems that we face?

DR. ORSZAG: I should clarify that Mr. Volcker was speaking in his private capacity, not in any official capacity. Look, the whole purpose of the Fiscal Commission is to allow policymakers to explore various options for addressing our not only medium-term but long-term fiscal imbalance. So I think beyond that, we'll just let the Fiscal Commission do its work as it should.

MR. RUBENSTEIN: Okay. Peter, I want to thank you very much for coming.

[Mr. Rubenstein presents Dr. Orszag with a framed historical map of the City of Washington, designed in 1791 by Pierre L'Enfant.]

DR. ORSZAG: Thank you. [Applause.]

## PETER R. ORSZAG

Peter R. Orszag is the Director of the Office of Management and Budget in the Obama Administration, having been confirmed by the Senate on January 20, 2009. In this role, he oversees the Administration's budget policy, coordinates the implementation of major policy initiatives through the federal government, and reviews federal regulatory action, among other responsibilities.

From January 2007 to December 2008, Dr. Orszag served as the Director of the Congressional Budget Office (CBO), supervising the agency's work in providing objective, nonpartisan, and timely analyses of economic and budgetary issues. Under his leadership, the agency significantly expanded its focus on areas such as health care and climate change.

Prior to CBO, Dr. Orszag was the Joseph A. Pechman Senior Fellow and Deputy Director of Economic Studies at the Brookings Institute. While at Brookings, he also served as Director of The Hamilton Project, Director of the Retirement Security Project, and Co-Director of the Tax Policy Center. During the Clinton Administration, he was a Special Assistant to the President on Economic Policy, and before that a staff economist and then Senior Advisor and Senior Economist at the President's Council of Economic Advisers. Dr. Orszag has also founded and subsequently sold an economics consulting firm.

Dr. Orszag graduated *summa cum laude* in economics from Princeton University and obtained a Ph.D. in economics from the London School of Economics, which he attended as a Marshall Scholar. He has co-authored or co-edited a number of books, including *Protecting the Homeland* (2006), *Aging Gracefully: Ideas to Improve Retirement Security in America* (2006), *Saving Social Security: A Balanced Approach* (2004), and *American Economic Policy in the 1990s* (2002). He is a member of the Institute of Medicine of the National Academies of Sciences. Dr. Orszag is an avid runner and has completed several marathons.