

# THE ECONOMIC CLUB

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O F W A S H I N G T O N, D. C.

**Excerpts from the Signature Event featuring The Honorable Jacob Lew, Director, Office of Management and Budget (OMB)**

**May 23, 2011**

We're obviously a long ways off from getting a bipartisan agreement on the future tax policy for the country. But I think we've made it clear that shared sacrifice means that people who have been lucky enough to be in the top tax bracket have to bear part of the burden. The cuts that we're making on the spending side fall disproportionately on people below that line.

Our assumption about long-term growth is that this recession – the recovery from it – will ultimately return us to the same level of potential GDP that we had before the recession. That's been the experience of the recovery from every previous recession including every financially-led recession. The Congressional Budget Office assumes that here's some permanent loss of potential in the economy. That's a legitimate difference. Our assumption is in the mid-range of the Fed's assumptions.

Our view is if you make the right policy, the United States has always returned and we don't think anything about this recession should make us bet on the opposite.

It takes a long time to bring down accumulated debt. In the years that we were balancing the budget in the 1990s – we worked our way out of the deficits that were built up in World War II.

... We always made the case when you look at a deficit as large as we're looking at -- if you're talking about a deficit that's roughly \$1.5 trillion and all of the non-security spending is only several hundred billion dollars, there is no way you can solve the deficit problem no matter how much you cut non-security spending.

One of the reasons that everything has to be on the table is, if you try to solve this deficit problem with anything off the table, you'll end up with choices that are frankly the wrong policy outcomes. So if revenue is not on the table, it pushes you to go deeper into discretionary spending and entitlements. You take entitlements off the table completely, there's no way you can solve the problem just on discretionary spending. The only way this can be solved, in a way that's really in the best interest of all the people, is for everyone to bear part of the burden, for it to be truly shared sacrifice.

I was very proud to leave OMB with a surplus [*at the end of the Clinton Administration*]. It was the first time there had been three years of surplus since Andrew Jackson was president. It's going to be a long time before somebody can say the same thing again, I think.

... if at the end of my tenure [*at OMB during the Obama Administration*] we've stabilized the deficit, we've restored confidence that we have our fiscal house in order and that we're on a path that we can manage our business in an effective way, that's an enormous accomplishment.

OMB is one of the real crown jewels in the federal government and paying attention to it as an organization matters to me.

... our general view on inflation is not inconsistent with the numbers that the Fed looks at. We don't see enormous risks in the immediate future. But at the same token, there are very

significant things going on that are creating real burdens for the American people. I mean, oil prices, gasoline prices are – they are a real problem. And it's having an impact on consumer confidence and the like. You look across the economy at all the factor inputs – labor and where we stand vis-à-vis other countries – overall inflation does not seem to be something that we need to worry excessively about.

We do have to worry about energy prices and that's one of the reasons the President has been so determined to develop new technologies to make sure that we can safely explore U.S. fossil fuel resources and work as hard as we can to make sure that companies that are making substantial profits are doing it in a way that's not unfair to consumers. It kind of ties back to our tax policy. I mean, one of the things that we would like to do on the tax side is take away some of the special tax provisions for companies that have benefited from oil and gas profit