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**PRESS BRIEFING:
OFFICE OF MANAGEMENT AND BUDGET DIRECTOR PETER ORSZAG
ON HOUSE AND SENATE BUDGET PLANS**

Via Teleconference

9:49 A.M. EDT

MR. BAER: Hi, thank you, everyone, for getting on. Peter is going to say a few words, talking about the House and Senate budget marks, and then we'll open up to questions.

DIRECTOR ORSZAG: Thank you, Ken, and thank you to everyone on the phone. A few comments.

First, we are very pleased that the House and Senate Budget Committees are taking up resolutions that are fully in line with the President's key priorities for the budget. Not only do they embody the four key principles that the President has put forward for the budget, but they are 98 percent the same as the budget proposal the President sent up in February.

With regard to the four principles, as the President said last night and as we have emphasized since the budget was sent up, we want to make sure that the budget reflects key investments in health care, in energy, in education and cuts the deficit in half. And both the House and Senate Chairmen's marks do precisely that. First, with regard to cutting the deficit in half, the House Budget Committee's resolution hits \$586 billion in 2013; the Senate Budget Committee's resolution hits \$570 billion in 2013. Both of those meet the standard of cutting the deficit in half.

With regard to health care, exactly as under our budget submission, both the House and Senate include deficit-neutral reserve funds to kick-start the health reform process. I think there's been some misunderstanding about what a budget resolution does. The way the budget resolution implements the proposals that the President put forward and the concept that the President put forward is through a deficit-neutral reserve fund. The reserve fund that we had in our budget was also deficit-neutral, and so, again, the budget resolution is just reflecting precisely the approach that the President put forward in our budget.

With regard to energy, again, exactly as under the President's budget. We had a deficit-neutral reserve fund, and both the House and Senate marks also have a deficit-neutral reserve fund for clean energy.

With regard to education, in addition to the \$100 billion that was in the Recovery Act, the Chairmen's marks in both the House and Senate include funding for the proposed increases in Pell Grants that the President put forward, albeit they do it on the discretionary side rather than the mandatory side. And in addition to that, they create a deficit-neutral reserve fund, which would permit mandatory proposals in the education sphere, including perhaps making the Pell Grant mandatory.

Now, clearly there were some adjustments that were made, but let's examine what the adjustments are. With regard to discretionary spending, out of the 18 functional categories in the budget, 13 are exactly the same in the Senate; 12 are exactly the same in the House. And even when you incorporate the differences, if you look at overall discretionary spending, the difference relative to the House compared to the President's budget proposal is 0.6 percent, and in the Senate it's 1.2 percent. So, again, some differences, but relatively modest.

Another thing that has been noted is that we had tied the extension of Making Work Pay to revenue from cap and trade. The House and Senate budget resolutions do adopt a different approach. I would note with regard to Making Work Pay that we have already in the Recovery Act gotten two years of that tax credit. So we have two years to figure this out.

And as -- as we -- and we have time to figure it out, we are also forming and tasking the Volcker board, the PERAB, with three tasks: one is tax simplification; the second is closing tax loopholes and reducing tax evasion; and the third is reducing corporate welfare. And it's worth noting that with regard to that first category, one of the key things that the Volcker board will be examining is ways of unifying, streamlining, making more consistent the various credits that are out there: Making Work Pay, the Earned Income Tax Credit, the Child Tax Credit, and what have you. And in addition, with regard to the tax gap, there are hundreds of billions of dollars in uncollected taxes each year.

The Task Force on Tax Reform that will be formed by the Volcker board will be examining ways of being even more aggressive on reducing the tax gap, which could provide funding for tax provisions, including an extension of the Making Work Pay tax credit.

I would also note that the President believes that the following prospective members of the board would be especially well-suited to carry out the mission of the task reform task force, in particular Laura Tyson; Roger Ferguson, the CEO of TIAA-CRED; Bill Donaldson, the former SEC Chairman; and Marty Feldstein, a professor of economics at Harvard University.

That task force will report back to the board, and the full board will report back to the President with options for tax reform by Friday, December 4th. So there have been some changes made, but again, the vast bulk of what is in both the marks are aligned with the key priorities of the President. And I think it's very clear that if you look at the budget resolutions that are being adopted by both the House and Senate, they are from the same family as the President's budget.

The resolutions may not be identical twins to what the President submitted, but they are certainly brothers that look an awful lot alike.

And with that, I will turn it over back to Kenny for questions.

Q Yes, Mr. Orszag, thanks for doing this. On the Volcker board, can you talk a little bit more about the tax gap? How many billions do you expect might be raised, or can you give a range? I know there's been any number of studies on this.

And second, when will this Volcker board actually be named or announced?

DIRECTOR ORSZAG: Okay, so first with regard to the tax gap. The tax gap announced is something like \$300 billion a year. We had, in the budget, some proposals to start to reduce that, but there -- I think there's widespread concern, frankly, that perhaps even this \$300 billion estimate is too low because of the complexity of some of the transactions that are involved, especially involving international transactions and transfer pricing and a whole variety of other topics. So I don't want to give you a precise quantitative estimate. I do want to say \$300 billion a year or more is a lot of money, and we are interested in being as aggressive as possible in trying to reduce that number. And that's something that I know Chairman Baucus and Chairman Rangel are also very keen on reducing.

Q Do you have a date?

DIRECTOR ORSZAG: With regard to naming members of the task force, two points: one is -- sorry, with regard to the date, I already said that the board will report back to the President by Friday, December 4th. In terms of formally naming the task force, my understanding is the President can signal his desire for those four people to serve on the task force, but it is up to the PERAB itself to appoint those members. So I will defer questions to the PERAB, or perhaps to Austan Goolsbee, who is the staff director, on the process for naming that task force.

Q Thank you.

Q Peter, on the health reserve fund, can you just walk us through how the President's proposal was able to peg that 10-year number at \$684 billion and why we don't see numbers pegged in Senator Conrad's blueprint, for instance?

DIRECTOR ORSZAG: Actually, you know, we wanted to provide some specificity about what could go into the reserve fund, but the legislative process plays out in a way that it's not up to the budget resolution to -- let me step back for a second. If you look at table -- in our document -- table S-6, and in particular look at the bottom of it, which is on page -- let me just pull it up -- page 128 -- you see also a deficit-neutral reserve fund. The net total of health reform in our budget was zero-zero-zero-zero. We just identified some of the gross savings that could go into that reserve fund and then would be used for the health reform effort.

In the budget resolution, you just take the bottom line. The budget resolution is written at a high-level generality, and what it needs to do is take that bottom line, which is what it did.

So under both our budget proposal and under the deficit-neutral health reserve fund in the House and Senate mark, what will now happen is the committees are now tasked with reporting out health reform legislation that nets to zero, just as under our budget.

Now, it is true that the level of specificity in our budget proposal it was -- you know, was greater, or there was more specificity about what could go into that reserve fund and in the budget resolution. But that's natural. That's what sort of happens at a -- during a budget resolution. A budget resolution is not legislation and it's typically written at a higher level of aggregation and with less granularity than the President's budget submission is.

Q But they're going to have to -- they're going to have fund that money now, right? I mean, do you have a sense of what, over a five (inaudible) period, (inaudible) that total dollar figure will be? And, you know, it seems like they're saying we don't actually know where that money is going to come from.

DIRECTOR ORSZAG: No, I guess my point is that the legislative process was always going to have to come up with the offset. We put forward specific offsets in the budget proposal, but even those would have to be taken up by the Finance Committee, and whether the -- I guess maybe the way I could put it is whether the budget resolution included specific offsets or not is not particularly relevant. What the key thing is that the Finance Committee has been assigned the task of coming up with the deficit-neutral health reform, exactly consistent with what we had put forward, and the Finance Committee and Ways and Means Committee then needs to follow up to write that legislation, which is, by the way, exactly what would happen in any budget cycle and no different than -- you know, if the budget resolution could have put all of our offsets in there, it would have been kind of misaligned with the way budget resolutions are typically written and it wouldn't have been binding on the Finance Committee anyway.

The budget resolutions are supposed to define a dollar figure for the Finance Committee or the Ways and Means Committee to hit, and under our budget proposal that dollar figure on a net-deficit basis was zero, which is exactly what the House and Senate resolutions embody.

Q Thank you.

Q Thanks, Peter. I was wondering if you could respond to one of the criticisms that some of the Republicans are putting forth -- forward about your budget, which is that -- you know, they're comparing the situation that President Obama sees himself with the situation that Bill Clinton inherited. And they say, well, when Clinton came into office he made a bunch of tough choices, he raised taxes, and he used that to defray the deficit and build confidence in the markets; whereas Obama makes a bunch of tough choices but uses it to expand the role of government in things like energy and health care. Can you talk about that?

DIRECTOR ORSZAG: Sure. Let me first start with I think it's easy to lob criticisms, but part of governing needs -- or part of the policy process needs to involve putting forward alternatives. I haven't seen on the Senate side an alternative budget and my understanding is there won't be one. So it's kind of -- it seems off to be criticizing without putting forward an alternative.

The alternative that has been put forward by Representative Ryan in an op-ed in The Wall Street Journal a few weeks ago embodies \$3 trillion in tax cuts, including for very high-income individuals and for corporations. It involves -- and let's look at this from a fiscal perspective -- it involves setting up privatization under Social Security and having the federal government bear all the downside risk there. So if that system had been in place over the past

few years, the federal government would have incurred massive amounts of liabilities to make individual accounts whole for the stock market declines that have occurred. And it involves an approach to health care in which you're given a check for 80 percent of the cost of health care, which then declines over time, and told to go off and just sort of fend for yourself.

So in terms of an alternative vision, I think -- at least it's my impression, that that is the only thing that's been out there. And I think the flaws in it are pretty clear. And with regards directly to your question, I'd also note that, you know, you had said that in 1993 Bill Clinton proposed tax increases. Well, people are saying we're proposing tax increases now.

We are, in terms of health care, approaching this in a somewhat different way than was the case in the early 1990s. But I don't think it's accurate to say, just pursuant to what we were just discussing with regard to the deficit-neutral health reserve fund, it's not accurate to say it's a massive expansion of government. And in fact, as I noted, it -- the health reform effort will be deficit-neutral.

And then the final point I would make is the point that the President made last night and has made on "60 Minutes" and before that, which is if you've asked corporate leaders over the past decade or two what the key to our long-term productivity is, they would -- they have answered consistently: a more efficient health care system; a more efficient energy base and reduced dependence on foreign oil; and improved education, along with a -- you know, raising national savings, which involves reducing the deficit.

So on our four key principles they're very much in line with what even corporate leaders have been saying for a long time is the key to our future prosperity. And I think that's precisely right. I've said this before. But I reject the notion that the key to future prosperity is the top marginal tax rate.

Q Thank you.

Q Thanks for taking my question. I'd like to just ask real quick, if I could, about farm subsidies. I know in the budget proposal that came out, the President proposed a \$250,000-a-year cap on farm subsidies. And they estimated that about over 10 years, the steps would save \$10 billion.

But House and Senate lawmakers and farm groups have opposed it, Kent Conrad has opposed it. And they've asked congressional budget writers to ignore it. Is the subsidy cut proposal dead in Congress? And what would be the next step after that if it didn't gain any additional traction?

DIRECTOR ORSZAG: Well, I think that Senator Conrad and Chairman Peterson and others have been working on proposals to find savings in agriculture. And I'm confident that we will, working with them, come up with proposals that do reduce agricultural subsidies, especially for large corporate -- large farms, while protecting small and family farms.

Q But what about the subsidy cut though? I mean, it's been widely criticized and hasn't gained much support in Congress. I mean, what about that component? Is that something that you're still confident can move forward? Or again, to look for other --

DIRECTOR ORSZAG: I'm just going to go back again and say there's lots of different ways of getting at this issue, and we will be working with not only Senator Conrad, but also Chairman Peterson and others to fashion legislation that saves money on agricultural subsidies, especially to large farms. And there are lots of different ways of doing that.

Q Will subsidy cuts at the end of the day be one of them?

DIRECTOR ORSZAG: Yes, I think so. I mean, again, I think -- I think one of the approaches -- again, there are lots of different components of agricultural support, and both Chairman Peterson and Senator Conrad have been talking about ways of making the system more efficient, especially by reducing subsidies to large farmers.

Q Hi, Peter. Thanks for joining us this morning. Two questions, both are related to the task force. One is, could you be clear -- a little clearer, do you intend to raise revenue only through enforcement of the tax gap, or do you also intend to raise revenue from tax simplification and the review of the corporate structure?

And secondly, a related question, you know, when you all unveiled this budget you talked a lot about fiscal responsibility, and the end result is spiraling debt, basically. And I'm wondering if you see this task force as a means to begin to address that.

DIRECTOR ORSZAG: Well, let me answer that second question first. Again, I don't know what spiraling debt you're referring to, but we're inheriting a budget situation that is a mess, and that we're working our way out of. And under both budget resolutions, the deficit is reduced in half -- by more than half by 2013, and actually then is either stable or declining between 2013 and 2014. So I guess I just -- I take issue with the conjecture that we're -- you know, there's spiraling debt here.

Q Well, I was referring to your original proposal.

DIRECTOR ORSZAG: Sorry?

Q I was referring to the CBO --

DIRECTOR ORSZAG: Okay. Let's actually turn to that because again, for the first five years there's not that big of a difference. There are some differences in the estimation for the back five years. That is driven disproportionately by economic growth, along with a whole host of other factors.

And I have, as you know, a lot of respect for the Congressional Budget Office. I would just say that with regard to 10-year growth estimates, there are legitimate differences and, again, if you look at the end-year -- you know, the steady stayed out in years six, seven, eight, nine, 10 - - we are actually much closer to the Federal Reserve and to the blue chip than CBO is -- which is not to say CBO is necessarily wrong, but just to say I wouldn't necessarily conclude that they're right. And that is the key driver of years five through 10.

With regard to the task force, the only constraints on its activities are that there will be no tax increases during 2009 or 2010, and the proposals should not raise taxes on American families making less than \$250,000.

So beyond those two constraints, the task force is open to consider options of any sort that it sees fit.

Q But will there be a goal of raising additional revenue, or you're just leaving it completely up to Volcker and company?

DIRECTOR ORSZAG: We don't have any revenue target for the task force, but again, I think there's been a bunch of academic thinking on streamlining the existing credit, and it would be useful to have a more fully fleshed-out set of proposals on that. Again, with regard to the tax gap, I don't think anyone is proposing increasing it. So that would only -- especially on the tax gap, that would only point to increased revenue if we did a better job of collecting the taxes that were owed.

Q Thank you.

DIRECTOR ORSZAG: Next question, please.

Q Hey, Peter. Does the administration have an opinion yet on whether to use reconciliation this year?

DIRECTOR ORSZAG: I'm going to continue saying what I have long said, which is, reconciliation is not where we'd like to start, but we are not willing to take it off the table. And there clearly are some differences between the Senate and the House on this topic. And that will be, you know, worked out. Assuming that both resolutions are adopted by the respective bodies, that would be something that would be worked out in conference.

I think we're getting close on time, so we're going to spiral through questions quickly here. Next question, please.

Q Good morning, Peter. Thanks for doing this. I agree with you that the budget resolution is a dollar amount, but it's also sort of a first go-round on the politics of these underlying budget and tax decisions. And isn't it fair to say that on cap and trade, the charity tax change you proposed, and the tax credit, all three of those are in a higher degree of jeopardy than they were when you proposed the budget, and what is the administration going to do to change that?

And then secondarily, there's an Al Kamen blog last night that the OMB is trying to change or excise the term "global war on terror." I'd like you to address that, if you could.

DIRECTOR ORSZAG: Yes, I sometimes am amused by things that I read in the press. I saw that blog. I am not aware of any communication that I've had on that topic. And I'm here with Kenny Baer who is telling me --

MR. BAER: It was a communication by a mid-level career civil servant. There was no official memo or guidance given out by OMB. I think I spoke to your colleague about this earlier this morning, so let's get back to the budget.

DIRECTOR ORSZAG: And on the budget, I guess what I would say is, again, everyone is -- you know, you all are looking for small differences between what the President sent up and what the House and Senate are considering -- 98 percent the same, and in the four key areas that the President identified, exactly and fully in line.

So, yes, there are some differences, but I think the big story is how similar these two things are rather than the small adjustments that were inevitable. It was never going to be the case -- I mean, I think setting an expectation that they were just going to, you know, take the PDF and retype it and then vote on that was never going to -- never going to be -- never going to happen. That's not the way we've set up our system of governing. And so it's not surprising that there are some adjustments that are made, but we're very pleased that the main thrust and bulk of these resolutions are in line with the President's priorities.

Q But having covered the campaign, Peter, the tax credit and cap and trade are central features of the President's --

DIRECTOR ORSZAG: Well, let's (inaudible) -- we have the tax credit for two years. We've got two years to figure this out. I mean, I think it's been little remarked that we actually got that tax proposal into law within the first month.

With regard to climate change, there's already legislation that is being considered on the House side. The Senate is also active. The fact that it's not treated in the budget resolution the same way that we proposed in no way means that the House and Senate can't take the legislation up. And in fact, I think some may argue that the political economy of getting climate change done this year may actually be better outside of the -- outside of the budget resolution than inside of it.

Q Thanks, Peter.

Q Hi, Peter. As you know, next week the President is going to be going to the G20. One of the big subjects that is being pressed by the Europeans is tax gap issues, especially offshore tax havens. And, I mean, you've given this December 4th deadline, but I wonder if there is some kind of message that the President might be taking to the G20 next week out of this effort to say that you are taking the European concerns on tax evasion very seriously.

DIRECTOR ORSZAG: Well, I would say we have \$210 billion in our budget precisely on this topic, and that will be -- I think will not wait for December. And what the Volcker board is going to do is to try to be even more aggressive than that.

So I think in terms of our activities, we've sort of got a two-stage process. Let's get some of the specific legislative proposals done, and then we need more work on how we can be even more aggressive in trying to tackle it, and I think that's fully consistent with what other countries are trying to do also.

Q I mean, do you specifically think, would you -- in these guidances, would you specifically say that offshore tax havens is something that you want the Volcker board to look at?

DIRECTOR ORSZAG: Yes.

Q Okay.

DIRECTOR ORSZAG: Okay, thank you very much, everybody. Take care.

END

10:18 A.M. EDT