Remarks of Jacob J. Lew
Prioritizing Presidential Policies: How Does OMB Influence Executive Policymaking?
Peter S. Kalikow Center for the Study of the American Presidency, Hofstra University
Hempstead, New York
April 11, 2019

Challenges and Opportunities for OMB Leadership in U.S. Policy Making Today

Thank you, Meena, for inviting me to speak today, and to Hofstra University for hosting this symposium. It is a pleasure to be here to discuss the role of the Office of Management and Budget in executive policymaking.

Over the course of this symposium you will be discussing many aspects of OMB's broad role, from budget levels, to review of regulations and legislation, to management processes and statistical approaches. In my comments this morning, I will offer a personal view from the "Grey building" as the old Eisenhower Executive Office Building is known across Pennsylvania Avenue in the "Red Building" or the New Executive Office Building, where most OMB career staff spend their days, and too often, their nights as well. Looking at the audience today, I am pleased to see so many colleagues and friends who served in those two buildings.

OMB is unique in that it touches every function of government and every sector of the economy, which makes it central to the business of running the country. This role is well understood, even feared, in Washington. Yet outside of government that role is less familiar than it should be, so I applaud this effort to shed light on an important American institution.

After some comments on OMB's role, and how it operates within the White House, with other executive branch agencies and with Congress, I will conclude with a few comments about our present state of affairs.

OMB's influence flows from the authority to say yes or no within the executive branch on agency funding requests and proposed regulations, and from representing the President in negotiations with Congress. But this does not explain fully OMB's capacity to shape and execute policy, often at a level of intricate detail. OMB's more expansive role is earned, not delegated, and comes from deep respect for the agency as a source of information, skillful analysis and insight.

Although housed within the Executive Office of the President, OMB's authoritative role is not shaped by political officials, but by an extraordinary team of dedicated and talented career professionals who provide unvarnished analysis to support decisions by presidential appointees. Unlike so many White House offices that see their role as serving the current president, OMB defines itself as serving the presidency as well, which means protecting executive authorities for present and future administrations and making sure that policy decisions are executed well.

Modern OMB got off to a rocky start. After the Bureau of the Budget became the Office of Management and Budget in 1970, the Nixon administration overreached, testing the limits of executive authority by refusing to spend appropriated funds. Congress responded by passing the Congressional Budget and Impoundment Control Act of 1974, creating the contemporary budget process and the Congressional Budget Office, so going forward Congress would have an independent source of expert budget analysis, and an ability to counter the singular role of OMB as an authoritative source of budget data and studies.

I will come back to the dangers of executive branch overreach, but by way of introduction I simply want to contrast the difference between CBO and OMB, because it underscores the essential character of OMB.

While CBO is exclusively an analytic agency with no policy making responsibilities -- OMB is an analytic agency that also plays a key role making and executing policy. This makes OMB central at every stage of the policy process, but also puts a premium on protecting OMB's reputation as a trusted source of facts and analysis, a reputation that enables OMB to often be the arbiter of fact.

This dual capability is a powerful combination. In the 1980s, as domestic policy advisor to House Speaker Thomas P. O'Neill, Jr. I staffed many budget negotiations with OMB directors. I was struck that in addition to deep familiarity with a broad range of issues, Dave Stockman always had thick binders filled with tabs on every item we would discuss, and as we hit one impasse after another, he would open the book and suggest alternatives to keep the conversation moving, until we were able to reach an acceptable compromise. No one else in the room had a similar book with what seemed like infinite options. That book was not just a reference tool, it was a source of real power to shape the outcome.

I did not imagine then that I would be the bearer of those binders not once, but as OMB director for two Presidents, and that I would rely on many of the same career professionals to drive complex negotiations touching so many aspects of federal policy. Like Stockman, I gained broad familiarity with the many details of federal activities, but my ability to operate effectively was enhanced exponentially by the encyclopedic preparation contained in those notebooks, and the many briefings associated with them. Whether health care, defense levels, income transfer or any other programs – OMB has the ability with a small footprint in each area to draw on the agencies and its own expertise to cover the entire terrain of the federal government.

To be effective, OMB directors need the trust of the President. But to add real value for the President, they need to see across the landscape of all federal activities and make tradeoffs to achieve the best possible outcomes to advance Administration priorities. With expertise and strategic perspective across different policy areas, OMB has the tools to coordinate within the executive branch and work effectively with Congress. And not just at the level of OMB director, but down to program examiners who frequently have a major voice not just on funding decisions, but on questions of program design, implementation and evaluation.

This is a long way of saying that OMB career staff are key to maintaining OMB's integrity as an analytic agency, and to balancing the dual functions of OMB's mission: policy analysis and policy making.

The line between career staff and political appointees can be clearly articulated: career staff do the analysis and present options, often with recommendations, and political appointees make final policy decisions. But this line can be harder to discern as one delves into the intricate detail of technical decisions, which often do not rise to political appointees.

As many in this room know well, OMB career staff often hold strong views on the right path forward. But the measure of their impact is not simply whether their preferred position is followed, but whether their analytic work informs the final decision. Career staff understand that every administration will have its own policy inclinations; the challenge is to make sure that whatever the political leanings of "policy officials," as political appointees are fondly called by the career staff, decisions are informed by the facts and the best analysis possible.

For policy officials, the challenge is to develop relationships of trust and respect with a career staff, who only a day before may have worked for a political team with very different policy views. That comes more easily to some than others, but ultimately evolves out of necessity, and to be effective, the sooner the better.

OMB directors give straightforward guidance on funding levels during annual budget reviews that walk agency by agency, and often line by line, through the details of the President's annual budget. And my practice at the end was to do a final pass asking what should I know now that we did not cover, so I will not be surprised later.

But each day examiners, branch chiefs and deputy associate directors – all career staff – take actions on a myriad of issues ranging from apportioning appropriated funds, approving how many staff positions can be filled at agencies, and providing a green or red light to proposed rules. No OMB Director can pass judgment on each item. Program Associate Directors, the senior political appointees who sit between the career staff and the OMB director, oversee this process, and even they do not review each of the thousands of matters that come through OMB for approval.

In my experience, OMB staff work very hard to carry out policy guidance. Branch chiefs and deputy associate directors train every new analyst to understand how important it is for policy officials to provide policy direction, even if general guidance sometimes needs to be interpreted. Of course, budget examiners sometimes make choices that policy official disagree with, and occasionally actions are reversed, but these are unusual exceptions, and even more rarely willful.

Every OMB Director has his or her own style. I know that for better or worse I had the reputation of wanting a great deal of detail, though I tried very hard not to micro-manage. For me, working directly with the full team was the best preparation for meetings and negotiations, where I would have the distinct advantage of more and better information. And nothing reflects serious consideration of staff work more than questions that show you absorbed a memo or a presentation and are probing to understand it fully. This Socratic process might lead to a simple decision to approve a staff recommendation, but also may reveal ambiguity or a need for further analysis. Even when a director manages at a higher level of detail, as some do, and more through senior and middle level staff, policy makers still need to receive the best possible information and analysis, and to provide at least outlines of guidance.

During my first tour, OMB had roughly 500 people, and there are fewer today. Whether 450 or 500, OMB punches above its weight, and as its numbers shrink, the responsibilities are only growing. When Congress looks to delegate assignments requiring analytic rigor and sound execution, it frequently turns to OMB, but rarely with additional resources, further stretching the institution and its career staff.

It is important to also recognize what OMB is not. Unlike many countries where revenue and spending are both in the Finance Ministry, since the Bureau of the Budget was moved from

Treasury to the White House in 1939, we have divided these responsibilities. From the perspective of leading both institutions, and knowing the workloads, the decision to separate the functions in our system is wise, but it creates a need for coordination.

Fiscal projections and fiscal policy require spending and revenue to come together in a single budget. And the scope of negotiations with Congress often entails tradeoffs between tax and spending policy. Unlike Congress, where coordination can be challenging because of jurisdictional lines between independent Committee Chairs, all executive branch departments report to the same president, and typically negotiating teams are overseen by the White House chief of staff and include senior assistants to the President like the head of the National Economic Council. Some White House chiefs of staff, like Leon Panetta and myself who were former OMB directors, will engage in great detail. Others will play more of an oversight role. But in negotiations, OMB leadership typically keeps track of all the moving pieces and helps the President and chief of staff make the hardest tradeoffs across policy areas.

In major budget negotiations in the 1980s and 1990s, and since, OMB, Treasury and the White House were joined at the hip. This led to historic agreements like the Andrews Air Force Base negotiations in 1990 that produced the Budget Enforcement Act and the Balanced Budget Agreement in 1997. And sometimes success was to avoid disaster, like 2012 when we were hours or days away from default.

I am particularly proud that many negotiations improved our fiscal position while protecting or expanding critical programs ranging from health care coverage to the Earned Income Tax Credit and ensuring sufficient room in annual appropriations for urgent priorities like education, research and infrastructure. And even when negotiations fail to produce major positive outcomes, like 2012, which produced the Budget Control Act but not a grand bargain, OMB was still able to drive policy discussions to produce a menu of deficit reduction options capable of winning bipartisan support. Those options became building blocks in later years to avoid damaging cuts through sequestration – the actual product of the 2012 agreement to avoid default.

Administrations and congressional negotiators rarely get everything they want in a budget negotiation. The Reagan budget deals had more health care savings than congressional Democrats wanted, but also included White House concessions to expand Medicaid and the EITC. The Balanced Budget Act of 1997 cut the capital gains tax, a priority for Speaker Newt Gingrich, but also created the State Children's Health Insurance Program to extend health coverage to millions of children, a major priority for President Clinton. Each side achieved its highest priorities, and under President Clinton we balanced the budget and ran a surplus not once, but three years in a row. Sadly, the idea of such compromise now feels quite distant, and I worry that the very idea seems to have become synonymous with being compromised.

The United States today faces multiple challenges. We are running massive and growing budget deficits during a period of economic growth, and we also face pressing challenges from inadequate infrastructure, a ticking clock on climate change, and income and wealth inequality that is harming our democracy. Solutions will require significant government action and investment, and policies must be workable and sustainable. When there is once again political will to make hard tradeoffs, OMB will play a critical role.

There is no urgency to balance the budget immediately as we continue uninterrupted, if modest, growth ten years after the worst recession since the great depression. But it is a problem that we seem to have an appetite to spend at a rate between twenty to twenty three percent of GDP, but only to raise revenue at sixteen or seventeen percent of GDP. And it is not the moment to plough ahead and add enormous amounts of new debt.

This situation cannot go on forever, and it did not come about by accident. Since the 1980s, relentless attacks on government spending as wasteful have fueled the idea that government spending delivers little value. Ironically, one hears that some Americans do not believe the services they most value, like Social Security and Medicare, are even government spending. And for decades tax cuts have been used to create fiscal pressure to shrink spending, and "starve the beast".

In the current political climate, it is hard to find a strong base of support for a balanced fiscal approach on either side.

Republicans passed a tax cut that added trillions of dollars of deficits, and this was not the first or the second, but the third time we slashed our revenue base on the false promise that tax cuts would pay big fiscal dividends. The current Administration budget plans trillion dollar annual deficits as far as the eye can see, but is short on long term investments and would make dangerous cuts to Medicaid, Medicare, and domestic discretionary spending. It would be wrong to cut social programs to pay the bill for the most recent tax cut, and there is a need for new revenues to fill the gap.

It is encouraging that Democratic legislators and candidates are debating aspirational goals to deal with profoundly serious challenges. But some are calling for major new spending without a clear sense of whether it should be paid for, and if so, how. New economic theories will not erase the cost of servicing the debt, or the risk to our financial future if we simply abandon the notion that there is a limit to how much we can borrow and how much money we can print. Even in a low interest rate environment, our growing debt is likely to present challenges. In coming years, foreign demand for Treasuries may soften, particularly as countries like China see current account surpluses turn to deficits. And turning more heavily to US domestic markets to finance our debt is likely to drive up borrowing costs. As interest rises as a percentage of our budget, there will be growing pressure to curtail spending, and we know from history that presents a special risk to the social safety net and domestic investments for a better economic future.

For anyone who believes as I do that government must address pressing national challenges, including income inequality, aging infrastructure and climate change – maintaining a stable fiscal foundation should also be a priority. To me this is the definition of a pragmatic progressive agenda. If we need to debate new revenue proposals to pay for the government we need, we should do so, a view I also held when I was OMB director and we balanced the budget while extending health care coverage to millions of kids and expanding tax credits for people working their way out of poverty.

Political pendulums swing in both directions, and when market or political conditions change, there is likely to be renewed concern about deficits. With a demographic reality that the baby boom is retiring, literally every day, fiscal pressures would be real even without the recent tax cuts, but the pace of the challenge has accelerated. And the prospect for bipartisan cooperation to address that challenge is strained by the recent tax cut. We need to start by filling at least some of the hole it created before we are likely to be able to find compromises to address longer term trends.

As OMB looks to the future, there is much need for clear headed analysis that falls squarely in OMB's wheelhouse.

First, we must prioritize investing scarce resources where investments will improve the lives of poor and middle-class Americans while tackling critical gaps like – infrastructure, apprenticeships, child care and investments in sustainable energy. These policies would help millions achieve or maintain middle class living standards, while building the physical and human capital we need for the future.

Second, we need to ensure the financial soundness of tremendously successful programs like Social Security, Medicare and Medicaid. Too many people today worry these programs will not be there when they need them. While I might see more revenues in a solution, and others may see more benefit reductions, surely it would be better not to wait for a moment of crisis, when it will be too late to avoid much more difficult solutions, to act.

Third, new programs should be paid for, and we need a realistic and honest assessment of how much revenue is required for the government we want and need. There are many ideas about how to raise revenue while addressing income inequality, and my suggestion is to start by looking again at how we tax unearned income and particularly appreciated assets. If we are really concerned about income and wealth inequality, how can we allow substantial gains to escape taxation forever as their value steps up when passed from one generation to another, without any tax?

We may also need to link new revenues with desired expenditures. For example, investments to repair, build, and reduce the environmental footprint of infrastructure could be funded by a carbon tax, or other measures that encourage more sustainable behavior. A menu of complementary options would help policy makers when they are ready to address these difficult issues.

Finally, policies must be administrable to be effective: technical details can be the difference between a real solution and a measure that wastes time, resources and political capital – like a tax plan that inadvertently opens new loopholes or fails to produce the intended outcomes. Practical considerations are not a reason to think small, but they remind us to double down and get the details right.

Ultimately, the responsibility of leaders is to budget sustainably for a safer, healthier, and more equitable future, and we should settle for nothing less. I still believe what I said during my first term as OMB Director, that budgets are not just books of numbers. They are a tapestry, the fabric, of what we believe. The numbers tell a story which is a self-portrait of who we are as a country.

Some of my reflections may not match the reality of Washington today, but it is critical that we maintain OMB's proud tradition and its careful internal balance as both the leading source of accurate information and analysis and the fulcrum of presidential policy making. And as we learned from the response to impoundments in the 1970s, we need to be mindful that the price of overreaching in the use of broad executive authority, such as ill-founded emergency designations, can lead to a backlash that could erode executive flexibility we will need to respond to real emergencies in the future.

OMB is a resilient and adaptable institution with a proud and strong culture. When the political winds blow even slightly towards compromise, I am confident that OMB will be ready to help pave the way for a return to more responsible and sustainable budgeting, and a more secure and prosperous path for the future of our country.

Thank you, and I look forward to your questions.