Hearing before the Joint Economic Committee
Federal Debt: Direction, Drivers, and Dangers
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Testimony of Senator Judd Gregg

Chairman Coats, Ranking Member Maloney, and Members of the Committee, thank you for inviting me here today to discuss the important topic of our national debt. The fiscal challenges we face are significant, and I appreciate the opportunity to discuss the types of solutions that can move us towards a healthier economy. I spent much of my career focused on addressing our nation's debt as Chairman and Ranking Member of the Senate Budget Committee and I now serve as Co-Chairman of the nonpartisan Campaign to Fix the Debt.

At $14 trillion, or over 75 percent of Gross Domestic Product (GDP), the national debt held by the public is currently near record levels. As a share of the economy, debt is higher than any time other than around World War II, and is nearly twice the 50-year historical average. Even more concerning, the aging of the population and continued growth in health costs are primary causes for the debt to indefinitely grow faster than the economy. As a result, the publicly held debt will continue to increase rapidly, reaching 86 percent of GDP in 2026 and exceeding the size of the economy by 2033. This is obviously not sustainable.

Although deficits have declined by 70 percent in recent years—a point the current administration likes to point out—that decline followed a nearly 800 percent increase in deficits. Moreover, the temporary decline in deficits has ended, with the deficit expected to increase by more than one-third over last year to nearly $600 billion in fiscal year 2016. The Congressional Budget Office (CBO) projects that deficits will essentially continue to increase as far as the eye can see, exceeding $1 trillion by 2024 and continuing to rise from there.

At the heart of our budget problem is the misalignment between the promises we have made and the revenues available to pay for them, promising more in benefits and other spending than we will collect in revenues. According to CBO, the growth in spending on Social Security and Medicare as the baby boom generation ages along with spending for interest on our debt will cause spending to grow from 20.7 percent of GDP in 2015 to 23.1 percent in 2026. Meanwhile, revenues will increase modestly from 18.2 percent of GDP today in 2015 to 18.5 percent of GDP in 2026. These trends will continue, with the gap between spending and revenues continuing to grow.

The sooner we act to begin addressing the debt, the better. Yet there seems to be a near endless list of excuses for not doing anything to get our debt under control.

At some point, unsustainable debt falls on the heads of a government that has created it and of the people who have elected the government's officials. In its recent budget update, CBO warned that "such high and rising debt would have serious negative consequences for the budget and the nation," including increased spending on interest, lower wages, reduced flexibility to deal with new crises or pursue new opportunities, and an increased risk of a fiscal crisis.

People point out facts like this all the time. But they are ignored. Unfortunately, our children and our nation will pay a dear price for this indifference.

The primary legislative action Washington has able to muster in recent years is spending money we do not have to address issues that no one wants to pay for. Gridlock prevails in preventing changes to mandatory programs that will continue to grow on auto-pilot until lawmakers take action. It is of course much easier to borrow from our kid's futures than to pay for new spending and tax breaks, let alone reduce the deficits already in place.

It is clear that Congress and the President must take action to bring spending commitments in line with revenues to address the growing national debt. The longer policymakers wait to take action the more difficult the choices will be, with less time to gradually phase-in changes and an increasingly larger magnitude of changes that will be required to put the country in a good fiscal place. The can should not be kicked down the road to avoid making difficult choices, particularly on entitlements. While Congress and the President have enacted limits on discretionary spending and higher taxes on upper income taxpayers, they have done virtually nothing to control the growth of entitlement spending that is the core driver of our debt.

The primary reason that the congressional budget process is not functioning is that it requires difficult decisions to bring spending and revenues in line. This is something the Congress and the President are not good at.

As a former elected official, I know how much we like to talk about good news: tax breaks, new spending initiatives, and preserving benefits. But we are far less interested in talking about the bad news and hard choices on the horizon as the federal debt continues on its unsustainable upward path. We don't see big constituencies for that kind of news and no special interests give you credit when you discuss it with voters.

Policymakers and voters alike need to recognize that changes will be necessary in the years ahead as an aging population, rising health care costs, and a flawed tax system put more and more pressure on the federal budget. We need leaders to make the case to the public that everyone will benefit if we come together to make tough choices in all parts of the budget that will to put our nation on a fiscally sustainable course.

The budget process as it is currently structured and implemented guarantees significant partisan and turf confrontations.

The budget is the only major legislation that is produced purely along partisan lines by design. The majority party must write and pass a budget with essentially only its members supporting it. This guarantees significant systemic opposition to any budget by the minority. Consideration of the budget resolution on the floor of the Senate devolves into late-night "vote-a-rama" sessions where dozens of political messaging amendments geared to produce fodder for campaign commercials are considered, while there is little debate on the ways to address the real problems at hand: the long-term drivers of our debt. The highly politicized nature of the budget debate is not conducive to the bipartisan agreement necessary for major tax and entitlement reforms.

Other committees, especially Finance and Appropriation in the Senate, view the Budget Committee and the budget resolution as a threat to their jurisdiction and areas of responsibility. Authorizing committees join forces with constituency groups to resist efforts to reduce spending on programs within their jurisdiction. The budget inevitably runs into and is often undermined by the need and desire of other committees to protect their "turf".

Thus, the country often does not have a federal budget and even when it has had some semblance of a budget over the last decade or so, the budget has had little practical impact in enforcing discipline on federal spending or tax policy. Since 1998 there have been ten fiscal years in which Congress has not approved a budget resolution. Even when budgets are adopted, they are often political documents that lawmakers never expect to implement or enforce. This is clearly an absence of budget enforcement and fiscal discipline that our country needs.

The country's substantial long-term challenges underscore the problems with the budget process, as an increasing portion of the budget is on autopilot and continues to grow at an unsustainable rate that threatens long-term fiscal sustainability. In 1973, the last full fiscal year before the Budget Act was signed, Social Security and Medicare spending was 4.2 percent of GDP and tax expenditures, or spending through the tax code, were about 5 percent. In 2015 those numbers had jumped to 8.6 and 7.6 percent, respectively, each larger than the entire discretionary budget which equaled 6.6 percent of GDP.

To address these challenges, we need a budget process that rewards setting goals and enforcing long-term debt stability. While budget process reform isn't a panacea, a budget process that makes it easier for Congress to be fiscally responsible can help spur further bipartisan action on the substantive policy changes needed to fix the debt.

To fix this problem and actually have Congress produce budgets that are meaningful and effective, we need fundamental changes. The right budget process should provide a structure for policymakers to confront the trade-offs in the budget, make decisions, and reach consensus about priorities. It should also give policymakers useful information about the effects of legislation, encourage transparency and accountability in budget decisions, and include effective enforcement tools for the budget goals as Congress considers other legislation. Process reforms are not a substitute for the political will to make difficult decisions, but an improved framework could lead to more responsible decision making.

The current form of the budget does make visible the core problems that it should address because it is too centered on appropriations and does not formally engage the debt problem. The budget has no comprehensive way to address major federal spending areas – like healthcare – that cut across multiple committees and involves both discretionary and entitlement spending. It is simply dysfunctional in its structure.

In order to address these issues we need a new approach for developing the federal budget. The Budget Committee itself should be re-constituted with the senior members of committees most affected by the product. This would create a greater likelihood of agreement from these powerful committees and reduce the forces that are naturally at odds with the effort in producing and enforcing the budget. One-third of the Budget Committee should be from Appropriations, one-third from Finance/Ways and Means, and one-third from the general membership. The respective party leaders should choose the chairperson and ranking member from the general membership.

The Budget Committee should be a bipartisan committee. It should have its membership divided equally between the parties with the chairperson being from the majority. This would require both parties to take responsibility for producing a budget or face blame for failing to do so. A truly bipartisan Budget Committee would also reduce partisanship in the execution and enforcement of the budget, significantly increasing the likelihood of reaching consensus on complex issues like entitlement and tax reform.

The budget should be required to set short- and medium-term fiscal goals for the deficit and debt as a percentage of GDP. It should also set targets for spending and revenues as a percentage of GDP that are consistent with the fiscal goals for the debt and deficit. The budget should include reconciliation instructions and other enforcement mechanisms to meet the fiscal goals and spending and revenue targets in the resolution.

No appropriation bills should move to the floor without a budget resolution. That prohibition should apply to omnibus appropriations. This would ensure that appropriations are considered in the context of an overall fiscal plan and it would give members of the Appropriations Committees an incentive to work toward agreement on a budget resolution.

There should be consequences for failing to adopt a budget resolution. Spending on discretionary accounts and major entitlements should be reduced by five percent from the prior year and payroll taxes should be increased by five percent if no budget is passed. This would put pressure on the bipartisan committee and the entire Congress to produce and pass the budget resolution.

There should be a separate budget item for the largest areas of federal entitlement spending and the Budget Committee should have authority to ensure that reforms are made in these programs to reach the spending goals necessary to achieve the target debt to GDP ratio. This new structure should cross committee lines of jurisdiction and engage all the affected committees in a single process of review.

A budget process that coordinates spending on capital investments among all the committees of jurisdiction should be added. A capital budget must be accompanied by strong accounting rules that take into account capital asset depreciation as well as the value of new capital expenditures. A capital budget should not be used as an excuse to authorize additional borrowing for capital expenditures on top of current borrowing for consumption.

The number of votes required to waive points of order for violating budget limits should vary depending on the size of the violation, with 67 two-thirds majorityvotes required to waive large violations. Senate Budget Committee Chairman Mike Enzi put this idea forward in the outline of potential budget process reforms that he released in July. If the budget resolution is to be a meaningful document imposing fiscal discipline, it should also be harder to pass legislation that violates the budget than to pass legislation that complies with it. If Congress wishes to increase spending or reduce revenues relative to current law, it should account for the costs of doing so in the budget. Making it harder to waive significant Budget Act points of order will encourage Congress to honestly account for the costs of policy changes in the budget that it intends to later consider. At minimum, this would make it harder to pass budget-busting legislation that adds to the debt.

Finally, Congress needs a process that allows it to work in a bipartisan and comprehensive manner on complex and politically charged problems like healthcare spending, entitlements, and major tax reform. An approach based on the Base Realignment and Closure (BRAC) Commission (BRACC) is a strong and effective option. All spending (discretionary and mandatory) and all tax policy should be reviewed, with the primary goal of putting the federal budget on a path to solvency by limiting the growth of the national debt. The approach, as with BRACC, must be bipartisan in nature and require an up-or-down vote on the entire package without amendments. Chairman Coats has introduced legislation based on the BRACC approach and so has Senator Joe Manchin. Budget Committee Chairman Enzi also included this concept as an option in his outline of potential budget reforms discussed by the Budget Committee.

A budget process organized around these concepts would dramatically increase the likelihood that the largest government in the world, a government that is spending almost four trillion dollars a year, would actually have a functioning budget. It would provide a disciplined approach to spending and tax policy and increase the American people's confidence in their government.

Such an event would be revolutionary and it would also be a nice way to govern.