THE COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Hearing before the Senate Budget Committee on
Bipartisan Process Proposals for Long-Term Fiscal Stability
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Committee for a Responsible Federal Budget

Mr. Chairman and Members of the Committee, good morning and thank you for inviting me here today to share my views on bipartisan process proposals for long-term fiscal stability. It is a privilege to appear before this Committee.

I am the President of the bipartisan Committee for a Responsible Federal Budget. Our Co-Chairs are Congressmen Bill Frenzel, Tim Penny and Charlie Stenholm, and the Board is composed of past Directors of the Office of Management and Budget, the Congressional Budget Office, and the Government Accountability Office, as well as Chairs of the Federal Reserve Board and the Budget Committees, and other budget experts. Our focus is the federal budget and related process issues. I am also the Director of the Fiscal Policy Program at the New America Foundation, a non-partisan think tank here in Washington D.C. And I am currently directing the Peterson-Pew Commission on Budget Reform, which will soon be making a number of recommendations to fix our budget process and improve our fiscal situation. I very much look forward to working with the Members of the Committee on making some of these reform proposals a reality.

That the country faces tremendous long-term budget challenges is not news to anyone on this Committee. Chairman Conrad and Ranking Member Gregg, as well as many of the Members of this Committee, have been some of the most outspoken in the Senate about the need to take action to deal with our daunting fiscal imbalances. I would extend that same compliment to many of the other Members who have come here to testify today.

It is not the massive trillion-dollar-plus deficit of the past year that is so troubling, but that there is no plan to put the budget on a sustainable path in future years. Under reasonable assumptions, the debt will be growing as a share of the economy indefinitely; at some point this will push up interest rates and interest costs as a share of the budget, requiring more borrowing and creating a vicious debt spiral. If not addressed, this will ultimately lead to a fiscal crisis. Part of the trickiness of the situation though, is that no one knows when. We don't even know exactly what a fiscal crisis would look like – it could take the form of a precipitous plunge in economic activity; or just a slow but damaging erosion of our standard of living. Whether this occurs gradually or all at once, it is unacceptable.

We've known about our long-term problems for some time; they are now at our doorstep. Whereas before the economic crisis we could put off hard choices until the future, time is a luxury we no longer have.

The short- and long-term effects of the economic crisis have advanced the day of reckoning. And while we were right to make our top priority to deal with the very serious economic and financial crises facing the country, these very necessary short-term actions have further worsened our debt picture.

One of the reasons to pursue fiscally responsible budget policies in general is so the federal government has the flexibility to deal with unanticipated crises. If we had been running budget surpluses during the period of economic growth prior to the downturn, we would have had more fiscal flexibility to deal with the economic problems we have faced. However, we are now sandwiched in between a period where we ran structural budget deficits when we should have run surpluses, and the long-term problems fueled by growing healthcare costs and the aging of the population, all of which is greatly exacerbated by the trillions of dollars that were borrowed and spent during the economic downturn. And quite frankly, we are about to make things worse by extending a number of expiring policies without paying for them, adding trillions more to the debt. With warnings from creditor nations, rating agencies, and international organizations such as the IMF coming at an alarming pace, the writing is clearly on the wall: the US needs to make some dramatic changes to our budgetary policies.

At the same time the economy is still in a delicate state. Were we to immediately start with aggressive deficit reduction measures, it could push the economy back into recession. Policymakers must chart a course where they reassure our creditors that the US is not too risky a place to lend, without destabilizing the fledgling recovery. The most prudent course of action would be to immediately announce a credible plan for addressing the nation's budgetary challenges, while phasing in the policy changes themselves very gradually – so that they come mainly after the economy has fully recovered.

This brings me to one of the major topics of today's hearing, forming a Fiscal Commission. The Committee for a Responsible Federal Budget supports the creation of a bipartisan commission to help tackle the nation's long-term fiscal challenges. Our former co-chairman, Leon Panetta, has previously testified in support of such a commission, and many members of our board, myself included, have worked with a number of Members of Congress to develop the details of how such a commission might work. The benefits of a Fiscal Commission are many. It would: 1) send a credible signal to creditors and financial markets that the US is serious about tackling its fiscal challenges; 2) establish a shared fiscal goal; 3) create a bipartisan forum where these issues can be discussed; 4) establish a process to ensure that the recommendations are considered; and 5) lend political cover.

First, establishing the budget commission is one potential way to meet the twin goals of sending reassuring signals to markets that we are serious about fiscal rebalancing without implementing contractionary policies too quickly and harming the recovery.

I cannot overemphasize the importance of this. If large amounts of borrowing will be necessary to keep the economy from falling back into recession, we need to be able to access to global funds at low rates; and we need lenders and investors to trust that we are good for the money. If creditors fear Washington will continue its business as usual – but with a large cadre or retiring baby bombers and rapidly growing health care costs – they might begin looking for other investments and/or demand higher interest rates.

Of course, for them to believe we are serious about reducing our deficits, we actually have to be. The commission must represent a real commitment to dealing with the growing debt problem; not an excuse to continue to delay action.

A second advantage of a commission is that the creation of a mission allows for the opportunity to create a "shared fiscal goal". In many ways it is less important the precise parameters of such a goal than that one exists. In the past, there have been fiscal goals to eliminate the budget deficit, to cut the deficit in half, and to reduce the deficit by a certain amount. Given our current situation, a desirable goal would be to focus on the debt, and on stabilizing it at a sustainable level so that the public debt is no longer growing faster than the economy.

The Peterson Pew Commission on Budget Reform strongly believes that establishing a fiscal goal is a critical part of moving forward on improving the fiscal landscape. We know that the policies to achieve any of these fiscal improvements are difficult, involving spending reductions or tax increases, and in all likelihood both. In the absence of a single fiscal goal, though, it is too easy for lawmakers to oppose any set of hard choices others suggest without offering alternatives.

For instance, it is just not a fair comparison if one politician says we should fix Social Security by raising the retirement age, broadening the tax base, and slowing the growth of benefits for well-off retirees, while another says we should leave the program alone but for bolstering benefits for widows and orphans. The first lawmaker has suggested a path towards solvency. The second has proposed to make the situation worse, but may well have developed a winning campaign platform. Given that there is no question Social Security needs to be reformed—as its own Trustees tell us year after year—the discussion should not be over whether to fix it, but how. Therefore, the fairest way to set a standard is to start with a broad agreement that the Social Security system must be made solvent, and then for a group of policymakers to discuss and debate the merits of various alternatives for getting there. The same is true for the boarder budget situation as all projections tell us. But without that shared fiscal goal as a starting point, it is just too easy to take the irresponsible way out and not come up with real solutions.

Third, while it seems simple, it will be quite beneficial to create an organized forum where the discussion of how best to achieve these fiscal goals can be hashed out between members of different parties. As a political independent and a member of a bipartisan organization, I strongly believe in the benefits of creating safe environments for bipartisan discourse; environments away from the cameras and the pollsters, where Democrats and Republicans can engage in real policy discussion. And where policy makers need not fear political punishment from either party – or the public – for vetting unconventional or unpopular ideas to get the debt under control.

The Committee for Responsible Federal Budget regularly hosts bipartisan policy discussions for Members of Congress on a variety of budget topics. Lawmakers regularly say that one of the main benefits of these is having time set aside to dig deep into specific policy issues with colleagues from both sides of the aisle; and to be able to do so honestly and openly.

There should be an expedited process for considering the commission's recommendations, otherwise, there will be too many opportunities for delay and diversion by those who do not want to face up to the tough choices that will be part of a realistic plan. There are pros and cons to whether only a single recommendation should receive an up or down vote or whether alternatives that achieve the same fiscal goal should be permitted. The fewer alternatives, the less room to derail the process. However, these policy decisions will be so large and encompass so much of the budget, it may be desirable to let different alternatives be discussed, as long as they achieve the stated fiscal goal.

Finally, the commission lends the political cover that will be necessary in actually passing a plan that will be effective in stabilizing the budget situation. Any plan that realistically tackles our budgetary challenges is, from a political perspective going to be—to use a technical term—brutal. It is going to involve spending cuts and tax increases, they are going to have to be big, and almost all parts of the budget will take a hit. There is no way that a politician or political party that is understandably concerned about their own future can go out on a limb and advocate any set of policies that will be large enough to fix the problem on their own. The benefit of the commission, or any similar collaborative process, is that each member can support the total package while acknowledging that it is not their first choice and there are parts they do not support on their own. This type of cover will be critical in passing a final agreement.

Let me conclude by saying I wish we did not need to consider a commission. When it comes to fixing the budget situation, we should ***just do it***. My preference would be to get started on these policy decisions immediately, with a bipartisan announcement from the White House and the leaders of both parties and supportive individual Members of Congress of an agreement to stabilize the debt over a reasonable amount of time. They would announce the commitment immediately and then spend the next half year or so agreeing on the specific policies which would gradually phase in over time. That would be my first choice.

But due to the incredible political polarization, and the types of policies that will be involved, we have seen that there is considerable resistance to taking the necessary actions. Thus, a Fiscal Commission may well be the best mechanism to jumpstart the process and make the decision making process a bit easier.

There are many details to work out from the breadth of the mandate, to who should be on the commission, to the timeframe, to the specifics of the expedited process. I am happy to talk about any of these details, but the bottom line from our perspective is, whatever works. A commission is not an easy solution and it is not a panacea. It will only work if it is backed by sufficient political will. Therefore, I think in crafting the specifics of a commission, it is most important to include details supported broadly within Congress. Members of Congress need to buy into the process from the very beginning for it to be successful. Ideally, they will see the benefit of having a group of policymakers develop a credible plan to set the U.S. on a sustainable path but they should not have excuses to disengage from the process because it will be a challenging vote, no matter how much political cover the commission is able to lend.

Ultimately, a commission is the beginning of the process, not the end. It will fail if there is not already the commitment by enough Members to working on the long-term fiscal health of the country. But as a mechanism to send a reassuring signal to our creditors, help focus on a single fiscal goal, provide a collaborative environment to work out the details, help move along the final recommendation, and lend political cover, a commission could be immensely helpful.

I look forward to your questions.