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Chairman Hensarling, Chairwoman Murray, members of the Committee, thank you for inviting us here today to discuss the recommendations of the National Commission on Fiscal Responsibility and Reform, and thank you for your continued hard work to improve our nation's fiscal situation. We know, a little too well, how difficult your job is.

As Co-Chairmen of the National Commission on Fiscal Responsibility and Reform, we spent more than half of 2010 studying the cold, hard facts concerning our nation's fiscal situation, which you are undoubtedly over familiar with at this point. When asked why we did it, we originally said that it was for our 15 grandkids. However, the deeper we got into the numbers, the more dire we understood our Country's financial situation to be. And we quickly realized we were not doing this for our kids, much less our grandkids, we were doing it for all of us.

We realized that the fiscal problems facing our Country were enormous, the solutions would all be painful, and there simply was no easy way out. We are all going to have to share in the sacrifice that is needed to put our fiscal house in order. Everything must be on the table, and Washington must lead. And right now, this Committee has a unique opportunity to do just that.

While we know better than most how challenging the task in front of you is, we can tell you that the American public is looking for leaders who will make tough choices, and that if the Committee puts forward a credible plan the public will support you. If you are bold, you can put forward a smart, well-formulated deficit reduction plan that not only reduces our deficit, but also maintains our economic health and restores public confidence in America's ability to govern wisely and prudently.

Unfortunately, time is not on our side and we truly can no longer afford to wait. Washington needs to enact a fiscal plan NOW -- not next year, not after the next election, but now. Continuing to kick the can down the road by enacting short-term, temporary fixes is bad policy, and doesn't change the fact that we will have to make these difficult choices no matter what – be it now or in the future, when our debt holders force us to take action. The longer we put these choices off, the more difficult and potentially harmful they become.

There are no other ways to say it. We simply cannot delay these difficult choices anymore. Our great Nation's fiscal house is now made out of straw and any significant blow – an oil shock, a collapse in Europe – can blow our house down. This is certainly no way for such a great country to exist.

We all know how big and real the problem is – we heard it from countless economists and budget experts, and we know that you have too. We aren't here to repeat those numbers for the millionth time. We're here to share what we learned as co-chairmen of the Fiscal Commission, in the hopes that it helps all of you to reach a similar deal.

Our plan was developed following six main principles:

FISCAL COMMISSION'S GUIDING PRINCIPLES

1. First, we didn't want to do anything that would disrupt what is still a fragile economic recovery. So we made smaller cuts in 2011 and 2012 and big cuts in 2013, cuts of such magnitude that we would get back to pre-crisis (2008) levels of spending in real terms by 2013. At the same time, we heeded the advice of economists who told us that putting into place a credible plan to reduce future deficits would have a positive effect on the economy by increasing market confidence and providing a more certain fiscal outlook.

2. Next, we wanted to protect the truly disadvantaged. In our budget you won't see any cuts in SSI or Food Stamps or Workers Compensation. And we proposed changes to strengthen the safety net features of Social Security that cost money and made achieving our fiscal goals harder.

3. We also wanted to ensure that we did nothing to jeopardize the safety and security of the country -- we could not put forward a plan that fixes the budget but leaves our nation vulnerable. We agreed with Admiral Mullen, former Chairman of the Joint Chiefs of Staff, when he said that our Nation's greatest National Security problem is this debt. Thus, while it's clear that defense spending must be on the table, we made sure that the safety of the United States was our top priority.

4. We have to protect our nation's most important investments, like education, infrastructure, and high value-added research. We need to make these investments in a fiscally responsible manner by taking our limited resources and using them more wisely. Limited resources force you to make choices, and we must make the choices now and work carefully to prioritize our spending.

5. We must reform the broken tax code in order to promote growth as well as reduce the deficit. We have the most anti-competitive, inefficient, ineffective tax code man could dream up. The tax code must be reformed to broaden the base, lower rates for individuals and employers and reduce the deficit. We also need to reform the corporate tax system, to create jobs and to make the United States the best place in the world to start and grow a business.

6. We have to cut spending wherever we find it -- in the defense budget, the non-defense discretionary budget, the tax code, and in the entitlement programs. It's simply a fact that our politicians in both parties over a long, long period of time have made promises that they can't keep.

Plan Summary/Major Elements

Using those six principles, we crafted a plan that received support from a bipartisan supermajority: five Democrats, five Republicans and one Independent. We cut $4 trillion over ten years, stabilizing debt as a percentage of GDP and putting it on a downward trajectory.

Discretionary Spending Cuts: Any serious attempt to reduce the deficit will require deliberate, planned reductions in both domestic and defense spending. The government will not be able to protect those in need or invest to achieve our nation's long-term potential growth if Washington squanders taxpayer dollars on duplicative or marginal programs with no measurable results. Our plan imposes tough discretionary spending caps to force budget discipline and recommend significant cuts in both security and non-security spending by cutting low-priority programs and streamlining government operations.

The Commission proposal set limits for discretionary spending that would freeze discretionary spending for 2012, a 5 percent cut in 2013, followed by growth at about half inflation through 2020. This would bring discretionary spending back to pre-crisis (2008) levels in real terms by 2013. We applied the same approach to security and non-security. These caps required spending to be cut by nearly $1.7 trillion below the President's fiscal year 2010 budget request. Much of these savings have been achieved as a result of the spending cuts enacted in the fiscal year 2011 appropriations bills as well as the Budget Control Act. However, our caps would require more than $400 billion in savings beyond the Budget Control Act, primarily by holding the growth of discretionary spending to half the rate of inflation after 2015 in order to keep pressure on agencies to increase efficiencies and squeeze out waste and low priority spending.

We also required the President to propose limits on war spending consistent with the projected needs under current policies, with the spending levels in the CBO troop drawdown scenario as the starting point. We did not claim savings from putting limits on war spending, but rather sought to ensure that the savings from the drawdown in troops that was already planned would go to deficit reduction and not be used for new spending or to get around the limits on regular defense spending. We also put in place a strict definition of war spending to prevent the war spending account from being used as a slush fund for unrelated defense spending.

The Commission also recommended several reforms of discretionary spending to improve the transparency and accountability of spending. We proposed budgeting for disaster spending, placing greater restrictions on the use of emergency funds and establishing strict criteria for war supplementals. Finally we proposed making spending from transportation trust funds mandatory spending, limited to actual dedicated revenues collected by the trust fund in the prior year, and proposed a 15 cent increase in the gas tax to make the trust funds whole or a reduction in spending to match the actual revenues coming in to the trust fund.

Comprehensive Tax Reform: Rather than tinker around the edges of the existing tax code, the Commission proposed fundamental and comprehensive tax reform that would sharply reduce rates, broaden the base, simplify the tax code, and reduce the deficit by reducing the many "tax expenditures" – another name for spending through the tax code. Our proposal also reforms corporate taxes to make America the best place to start a business and create jobs.

The Commission proposed a "zero based budgeting" approach to tax reform: starting with a clean tax code that didn't have any tax expenditures and had much lower rates and then deciding which tax expenditures should be added back and which rates should be increase to pay for them. We estimated that if all tax expenditures were eliminated we could eliminate the Alternative Minimum Tax, bring individual income tax rates down to 8 percent, 14 percent, and 23 percent and reduce the corporate rate to 26 percent while achieving $80 billion in deficit reduction in 2015 and $180 billion in 2020

We realized that elimination of some tax expenditures could cause unintended problems and that Congress would want to preserve some of the tax expenditures. However, we concluded that starting with a completely clean tax code and forcing advocates of various tax expenditures to justify why they should be added back and how the costs should be offset would result in a much simpler, efficient tax code than would be possible if we started with the status quo.

We developed an illustrative plan to show how some tax expenditures important to commission members could be restored in a modified form while still keeping rates low. This plan demonstrated that it is possible both to reduce rates dramatically and to achieve significant deficit reduction if tax expenditures are eliminated or scaled back and better targeted. The illustrative plan would set rates at 12 percent, 22 percent, and 28 percent, create a 12 percent credit for mortgage interest and charitable giving, consolidates and limits the size of retirement accounts and gradually phase out the health exclusion, among other changes. The illustrative plan would preserve the EITC and child credit in their current form or an equivalent alternative. The result of this illustrative plan is a tax reform package that is more progressive than current law and achieves the deficit reduction targets in the Commission plan while dramatically reducing marginal tax rates.

The Commission recommended corporate tax reforms which would eliminate all tax expenditures for business, establishing a single corporate rate at the same level as the top individual tax rate (between 23 and 29 percent) and provides for a competitive territorial system, thus making America a globally competitive place to start and grow a business and attracting billions of dollars back to the country.

HEALTH CARE COST CONTAINMENT: Our plan included specific policies to achieve nearly $500 billion in health care savings in the near term, with a portion of that used to offset the cost of repealing the CLASS Act; over the long term we put federal health care costs in a budget.

Our plan included specific policies to achieve at least $400 billion in net health care savings in the near term, with additional savings to offset the cost of repealing the CLASS Act, and over the long term put federal health care costs in a budget. The near term savings would come from health care providers and drug companies through adjustments in payment formulas and increased drug rebates for Medicaid and Medicare, from beneficiaries through more rational cost-sharing rules that discourage the overutilization of care, and more from lawyers through tort reform. We also achieved savings by eliminating state gaming of Medicaid, reforming federal employee health benefit program and reforms of TRICARE.

Our belief was that these savings, in addition to the savings from the Affordable Care Act, would reduce the costs of federal health care programs to GDP plus one percent. But we proposed backing that up with a review process to ensure that cost growth is reduced to GDP plus one percent and recommended that Congress consider more aggressive reforms, such as premium support, a robust public option and increasing the Medicare eligibility age.

MANDATORY SAVINGS: Our goal in this area was to reduce low priority or wasteful spending, including subsidies that are poorly targeted or create perverse incentives. We felt that income support programs for the most disadvantaged, such as unemployment compensation, food stamps, and Supplemental Security Income (SSI), should not be touched. These programs provide vital means of support for the disadvantaged, and the commission did not recommend any fundamental policy changes to these programs. The plan achieves savings from reducing agriculture subsidies, modernizing military and civil service retirement systems, putting the Pension Benefit Guarantee Corporation on a sustainable path and other reforms.

SOCIAL SECURITY REFORMS TO ENSURE LONG-TERM SOLVENCY: We did not propose reforms of Social Security to reduce the deficit; the Social Security plan would have very little impact on the budget in the near term and we did not count any of those effects in meeting our deficit reduction targets. Rather, we proposed reforms of Social Security to ensure that the program remains strong and financially viable for future generations and to meet our mandate of making recommendations to “meaningfully improv(ing) the long run fiscal outlook” – which is part of this committee’s mandate as well. We wanted to make sure the system is sustainably solvent over the long term – to make sure it can continue to provide the foundation for a secure retirement not just for old guys like us, but for our kids and our grandkids. That’s why we have focused on 75-year sustainable solvency for Social Security.

Saving Social Security will require shared sacrifice. Those at the top will have to contribute the most, both through higher payroll taxes and lower-than-scheduled growth in benefits. Middle income workers will also have to contribute, but can do so primarily by working a little longer, to the extent they are able. Those who are most vulnerable should actually receive additional protections, in order to make sure Social Security is fulfilling its fundamental mission to keep seniors out of poverty. Our plan would restore solvency through a combination of a gradual increase in the eligibility age for Social Security, with a hardship exemption to cover individuals with physically demanding jobs, progressive changes in the benefit formula that would reduce benefits for middle and upper income workers, a gradual increase in the amount of wages subject to payroll taxes and more accurate COLAs. It also provided greater poverty protections by implementing a higher new minimum benefit and providing a bump up for older beneficiaries who are more likely to end up in poverty as a result of exhausting private savings.

The plan developed by the Commission would achieve sustainable solvency – meaning we would continue to have balance in the 75th year – in a way that phases in changes quite gradually while providing greater poverty protections than current law and making the program more progressive.

PROCESS CHANGES: The Commission proposal included recommendations that would achieve enough savings to more than restore primary balance and stabilize the debt under current projections. However, members of the Commission thought that it is important for Congress and the President to remain vigilant to ensure the budget remains on a course to primary balance and a stable debt to GDP ratio. We therefore recommended an enforcement mechanism to ensure the budget achieves primary balance by 2015 and the debt is stabilized thereafter by requiring the President and Congress to take action if the debt begins to grow as a percentage of GDP.

A TWO-STAGE PROCESS TO GO BIG

This Committee has been given a mandate to find at least $1.2 to $1.5 trillion in deficit reduction. While this will not solve our fiscal problems or avoid a fiscal crisis (at best, $1.2 trillion would merely delay it), it is supremely important that the committee succeed – for the sake of our economy and public confidence in their leaders.

A failure by this committee might result in another downgrade. The only thing worse than the committee failing to agree on savings would be if Congress followed that by voting to turn off the sequester. Thus, removing that option by successfully voting out a plan should be strived for. At best, a failure would shake public confidence. None of these options are acceptable. So the Committee should work to reach agreement on as many specific options for savings as possible that can be ready to go by the November 23rd deadline.

While $1.2 trillion in deficit-reduction would be a small step forward, it's important that the American people understand and the Congress realizes that $1.2 trillion in deficit reduction will not solve our long-term fiscal problems and that significantly more deficit reduction will need to be done to stabilize the debt and put it on a downward path as a percent of GDP. By now everyone must understand that $4 trillion dollars of deficit reduction is not the maximum we need to reduce the deficit over the next ten years, it is not the ideal amount, it is the minimum amount we need to reduce the deficit to put our fiscal house in order and to stabilize our debt and get it on a downward path as a percent of GDP.

We understand that it may not be possible for the Committee to have the major entitlement or tax reforms that will be necessary to stabilize the debt drafted into legislative language and scored by CBO by the November 23rd reporting deadline. But this should not prevent the Committee from making recommendations in these areas as part of a comprehensive plan to stabilize the debt. The "Gang of Six" proposal provides a model to address the time concern: a two stage process that builds on the specific savings they can be enacted now, with a process for completing the job.

This Committee can agree on an overall framework that includes tax and entitlement reforms sufficient to stabilize the debt. The Committee's plan for deficit reduction could be implemented in a two stage process, with as many specific savings as possible enacted as part of the Committee recommendations. These savings would be accompanied an outline for the process for implementing the rest of the agreement.

This is similar to previous deficit reduction packages such as the 1997 Balanced Budget Agreement, in which negotiators reached agreement on broad parameters and some specific policies that were reflected in a budget resolution with additional policy details later resolved and legislative language drafted through the budget reconciliation process.

A two-stage approach would maximize the prospects for reaching agreement on at least $1.2 trillion in savings immediately and putting in place a process reduce the deficit by at least $4 trillion over the next ten years and thereby stabilize the debt as a percentage of GDP. Finally, it gives the committees of jurisdiction, who have expertise on relevant policy areas, the time to work through the policy issues involved in a thoughtful manner and creates buy-in for the final legislative process by giving more members an opportunity for input through the committee process.

Lessons From the Commission

We learned a lot from our time as co-chairs of the Fiscal Commission that may be helpful to you as you get down to the hard work of trying to reach agreement on a responsible plan.

First, we learned that any fiscally responsible plan must be bold and comprehensive. It should restrain spending across the federal budget, reform the tax code, bring down health care costs, and make Social Security solvent and strong for the next 75 years and beyond.

We understand that Congress rarely does anything big or bold all at once and that many Washington insiders are telling you that trying to go beyond your mandate to achieve the amount of savings necessary to stabilize the debt will make an already difficult challenge impossible. But in this case, a bold and comprehensive approach could actually help you reach your goals. Our experience on the fiscal commission proves it – the more comprehensive we made our plan, the easier our job became.

Many of these same Washington insiders who are advising that trying for a “go big” solution will lead to failure were shocked that we so aggressively exceeded our mandate when we presented our co-chairmen’s proposal to the rest of the fiscal commission in November and were sure that the proposal would need to be scaled back to get a majority vote. It turned out that the opposite was true.

The tougher we made our proposal, the more people came aboard. Commission members were willing to take on their own sacred cows and fight special interests — but if and only if they saw others doing the same and if what they were voting for really did solve the country’s problems. This spirit of shared sacrifice gained us broad bipartisan support, spanning from Democratic Sen. Dick Durbin to Republican Sen. Tom Coburn. We would not have garnered that type of support had we not taken on defense, domestic programs, the solvency of Social Security, health care, and spending in the tax code all at once. a comprehensive approach is necessary not only to match the magnitude of the problem, but to allow for the tradeoffs and balance necessary to reach a bipartisan agreement.

Second, putting together a responsible fiscal plan is not simply a matter of arithmetic. The strength of a fiscal plan depends not only on how much savings are achieved but how those savings are achieved. We face a structural problem that requires structural solutions that puts the budget on a solid long term path. You have to be smart in how you achieve savings. It is important to set priorities, such as reducing lower-priority spending while preserving funding for key investments necessary to compete in a knowledge-based global economy. And you should not make cuts that would harm the disadvantaged.

Third, Washington must lead the way. A realistic plan will require shared sacrifice by all but the most vulnerable in society. In order to ask for such sacrifices, we need to create a more efficient and cost-effective government, and root out waste wherever we find it.

Fourth, revenues need to be part of the solution, but as part of fundamental tax reform that moves beyond the zero sum argument about the Bush tax cuts that both parties have been fighting for and against over the last decade. The answer instead should focus on reforming revenues through a more efficient tax code that promotes economic growth. Today, we spend over $1.1 trillion a year on "tax expenditures" – credits, deductions, loopholes and exclusions which are really just spending by any other name. If we reform or eliminate these tax breaks, we can dramatically reduce personal and corporate tax rates, improve economic growth, and at the same time reduce the deficit. By reforming them, we can reduce individual and corporate tax rates in a way that keeps the tax code progressive while promoting economic growth and reducing the deficit at the same time.

Fifth, a plan to reduce the deficit must therefore promote economic growth and not undermine the economic recovery. In order to avoid shocking the fragile economy, the Commission recommended waiting until 2012 to begin enacting programmatic spending cuts, and waiting until fiscal year 2013 before making large nominal cuts. In addition, revenue changes would not begin until calendar year 2013, after spending cuts are already well underway.

Finally, and perhaps most importantly, we found that it is possible to put forward a serious, responsible fiscal plan to bring the debt under control while protecting the priorities and principles of both parties. We can raise revenues in a way that does not increase tax rates and promotes economic growth by removing economic distortions from tax expenditures and reducing marginal tax rates while improving progressivity in the tax code — because these tax expenditures disproportionately benefit upper-income taxpayers. Our work also showed us that it's possible to reform entitlement programs in a way that preserves and even strengthens the safety net for the most vulnerable while achieving significant savings.

Conclusion

In conclusion, the most important thing we learned is that neither party can fix this problem on its own, and both parties have a responsibility to do their part. We are all going to have to share in the sacrifice that is needed to put our fiscal house in order. Americans are counting on us to put politics aside, pull together not pull apart, and agree on a plan to live within our means and make America strong for the long haul.

The political system, by its very nature, moves slowly and sloppily. But we don't have a lot of time to act if we are to avert fiscal calamity.

Winston Churchill once said that "Americans almost always get it right, but only after they have tried everything else." All we know is that we better get it right soon or we're going to spend ourselves into the poor house before you know it.

The two of us are optimistic by nature and are hopeful that you will act decisively and as one. We believe that there is a real chance this super committee will put politics aside and pull together not pull apart. If you do, we're confident the future of this country will be very bright and we can withstand any blow that comes our way. And if we don't, we think America could become a second rate power in our lifetime, and the opportunities our children will have will for the first time in American history, be less than those experienced by their parents. The national interest, not special interests, must prevail.

Thank you again for inviting us to appear today. We look forward to your questions.