COMMITTEE *for a* RESPONSIBLE FEDERAL BUDGET

Testimony of the Honorable Leon Panetta
Hearing before the House Budget Committee

America's Fiscal Future: Examining the Need for a Fiscal Commission
September 21, 2026

Chairman Arrington, Ranking Member Boyle, Members of Congress, and other distinguished leaders:

Thank you for the opportunity to provide a statement at this important and timely hearing. I would like to applaud the House Budget Committee for bringing attention to our dire fiscal challenges and the need for a bipartisan fiscal commission.

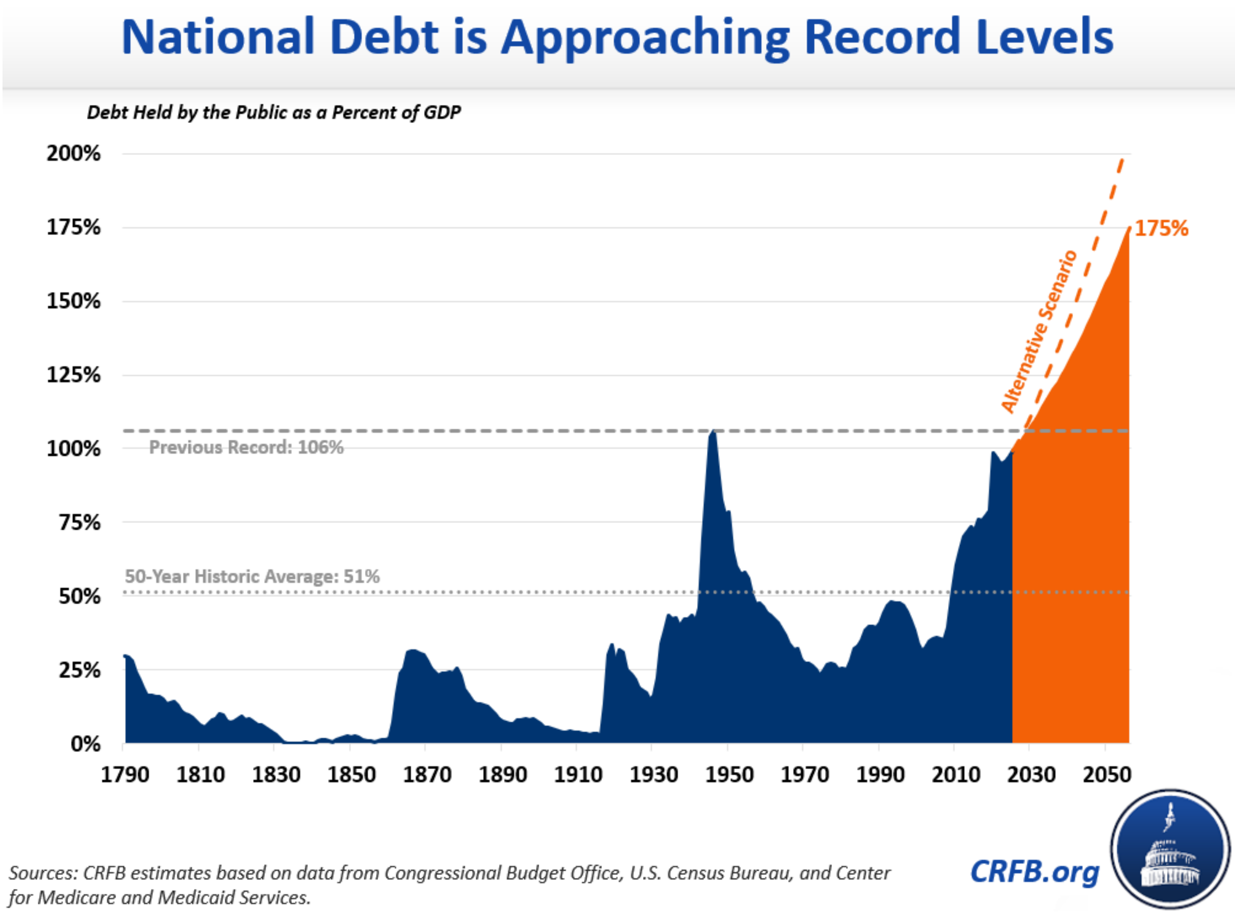
I appear before you as Co-Chair of the Committee for a Responsible Federal Budget (CRFB), where I serve along with Mitch Daniels, Tim Penny, and a board of some of the nation's top budget experts and leaders from both political parties. I have also served as Chairman of the House Budget Committee, as Director of the Office of Management and Budget under President Clinton, and as Director of the CIA and Secretary of Defense under President Obama. I was a participant in all the major budget summits during the 1980s and 1990s.

Based on those experiences, I would like to use my testimony to make the following points:

- The United States is on a completely **unsustainable fiscal course**.
- The national debt presents a **grave threat** to our nation's economy and our national security.
- We are long past due for a **fiscal intervention** and should start making changes by immediately adopting a shared fiscal goal that can be operationalized to ensure results.
- A **bipartisan fiscal commission** can help us achieve debt sustainability by creating a space that is conducive to building trust, deepening knowledge, better understanding different preferences and values, and finding where the compromises exist.
- None of this will happen without **leadership**.

The U.S. is on an Unsustainable Fiscal Path

The national debt is at a near-historic high and rising on an unsustainable path. Debt is now larger than the entire U.S. economy and will pass its record as a share of the economy – 106% set just after World War II – by 2030. By 2036, debt is projected to reach 120% of GDP, and by 2056, 175% of GDP. Under alternative scenarios where policymakers extend various expiring provisions without offsets, debt could grow much higher and much faster.



Rising debt stems from high and rising budget deficits. We are currently borrowing $2 trillion per year, up from $1 trillion as recently as 2019 and less than $500 billion back in 2015. As a share of the economy, deficits total around 6% – twice the broadly-supported [3% of GDP target] – and are projected to continue to rise.

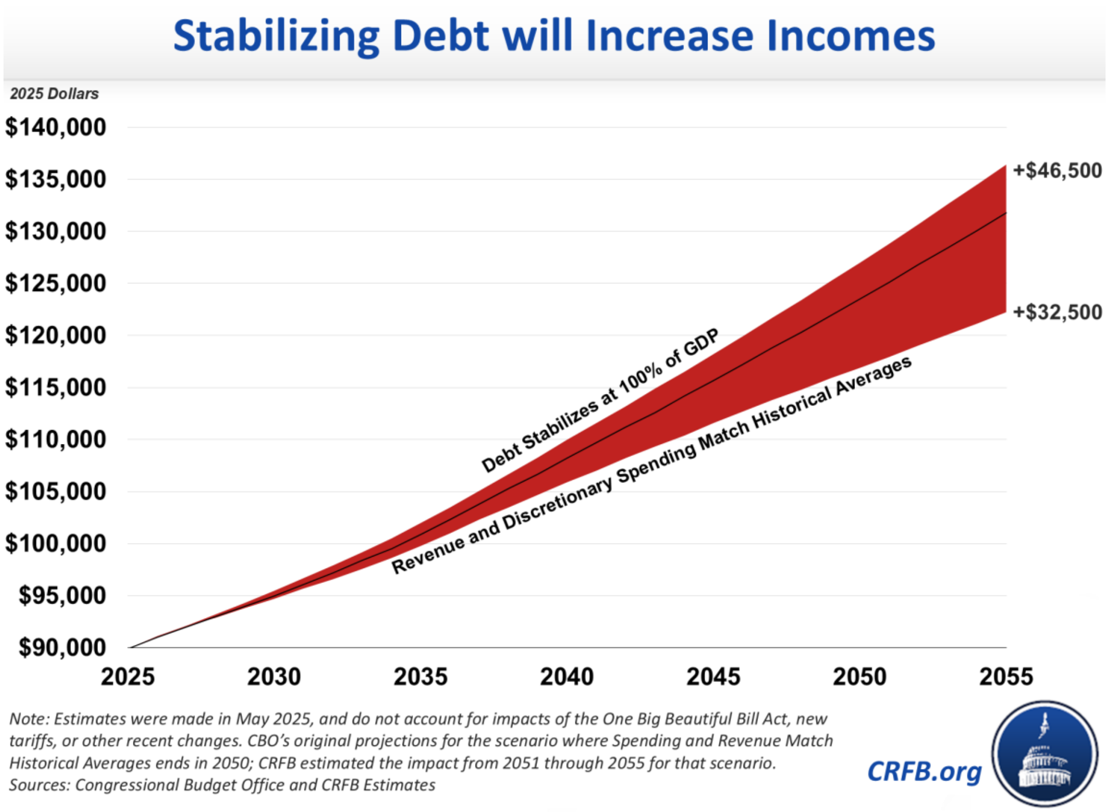
Our growing debt is the simple result of the gulf between spending and revenue. Through much of the 1980s and 1990s, Congress worked with Presidents of both parties to reduce deficits and bring the budget into surplus. Since 2001, however, Congress and the President have enacted law after law to cut taxes and increase spending, while refusing to fully offset these changes.

Meanwhile, policymakers have largely ignored – and sometimes worsened – the built-in growth of our nation's health and retirement programs. Today, fully three-quarters of the budget is on auto-pilot. Roughly 90% of nominal spending growth over the next decade will come from just four parts of the federal budget: Social Security, federal health care programs, mandatory veterans' programs, and interest on the national debt.

Rising Debt is a Fiscal and Economic Threat

High deficits and debt threaten to worsen inflation, boost interest rates, stifle wage growth, explode federal interest payments, and could potentially spark a fiscal crisis. The early 2020s were a helpful if painful reminder that surging deficits can spark high inflation, boosting the cost of everything from groceries to gasoline and housing to health care.

High debt also pushes up interest rates – the Congressional Budget Office estimates every 1% of GDP in debt increases interest rates by 2 basis points. That means a $500,000 mortgage will cost households an extra $6,000 annually today than it would have cost if we had kept debt at 2001 levels. High debt also crowds out investment, slowing income growth. Over the next 30 years, CBO projects income per person will grow by more than $46,500 if debt is held constant as a share of the economy but only $32,500 if debt is allowed to explode. Rapid debt growth could slow income growth by as much as one-third.



High debt also pushes up federal interest costs. Interest payments on the debt have tripled over the past 5 years, to about $1 trillion annually, or $7,800 per household. We spend more on interest than on children, on Medicaid, or on national defense. Under current projections, interest costs will exceed $2 trillion by 2035. Given the recent surge in interest rates, that time may come sooner.

As interest costs rise, the country faces a potential debt spiral – where interest rates in excess of economic growth (R>G) push up debt, debt pushes up interest rates, and we spin out of control. These conditions could potentially spark a fiscal crisis. Recent disruptions in the Treasury markets could become the norm as markets lose confidence in our government's ability to respond to fiscal challenges. A fiscal crisis could take many forms. The country could experience a severe financial crisis, an inflation crisis, a currency crisis, an austerity crisis, or even, in the extreme, a default crisis. A gradual crisis would be far less acute, but may ultimately end up no less devastating.

Rising Debt is a National Security Threat

The debt is a top national security threat and imperils our global leadership**.** Our economic strength has always been foundational for U.S. military strength, and having a strong military that can project globally reinforces our global economic leadership. These two pillars of our national power are mutually reinforcing, and if you sacrifice one, the other may crumble.

In 2017, I was joined by two other former Secretaries of Defense, Ash Carter and Chuck Hagel, in warning that the lack of a comprehensive budget addressing entitlement and revenues would eventually force deep reductions in our national security capabilities. We are now even closer to the point where our capabilities will be degraded if we allow the debt to spiral out of control.

Congress should ensure that our military not only has the immediate resources to achieve its mission, but that we preserve the fiscal space necessary for future contingencies. Our fiscal health is an essential part of a viable "grand strategy," yet we often think of this key instrument of power as an afterthought. This thinking must change.

We have never entered a period of international conflict in such poor fiscal condition, and our allies and adversaries alike are taking notice. We now spend more on interest on the debt than we do on the entire defense budget, and interest costs will only further crowd out spending on defense and other priorities.

Compounding the lack of fiscal space – or risk that more borrowing would generate undue economic pain in the form of high inflation or interest rates – is the reality that a meaningful portion of our debt is held by our adversaries. China in particular holds well over $600 billion of U.S. debt. Although this is far less than their historic peak, it nonetheless gives them one source of leverage.

Ultimately, a high and growing national debt reduces our ability to plan strategically, deter our adversaries, and surge in wartime. It also biases strategic formulation toward making suboptimal tradeoffs and creates the risk that our allies lose confidence in our leadership. And at the same time, our skyrocketing debt reduces our influence on the global stage, undermines the dollar as the world's reserve currency, and leaves us more vulnerable to foreign holders of U.S. debt, which can exacerbate existing dysfunction in Treasury markets.

Fixing the Debt Will Either Happen by Leadership or Crisis

The bill for our mountain of debt will come due regardless of whether we tackle it affirmatively, like we did in the early 1990s, or because we are forced into a crisis. Of course, it is far better to address the debt on our own terms than as a victim of circumstances. Yet political polarization and leadership failure elevate the likelihood that there may be a crisis that binds our hands. We should not allow that to happen.

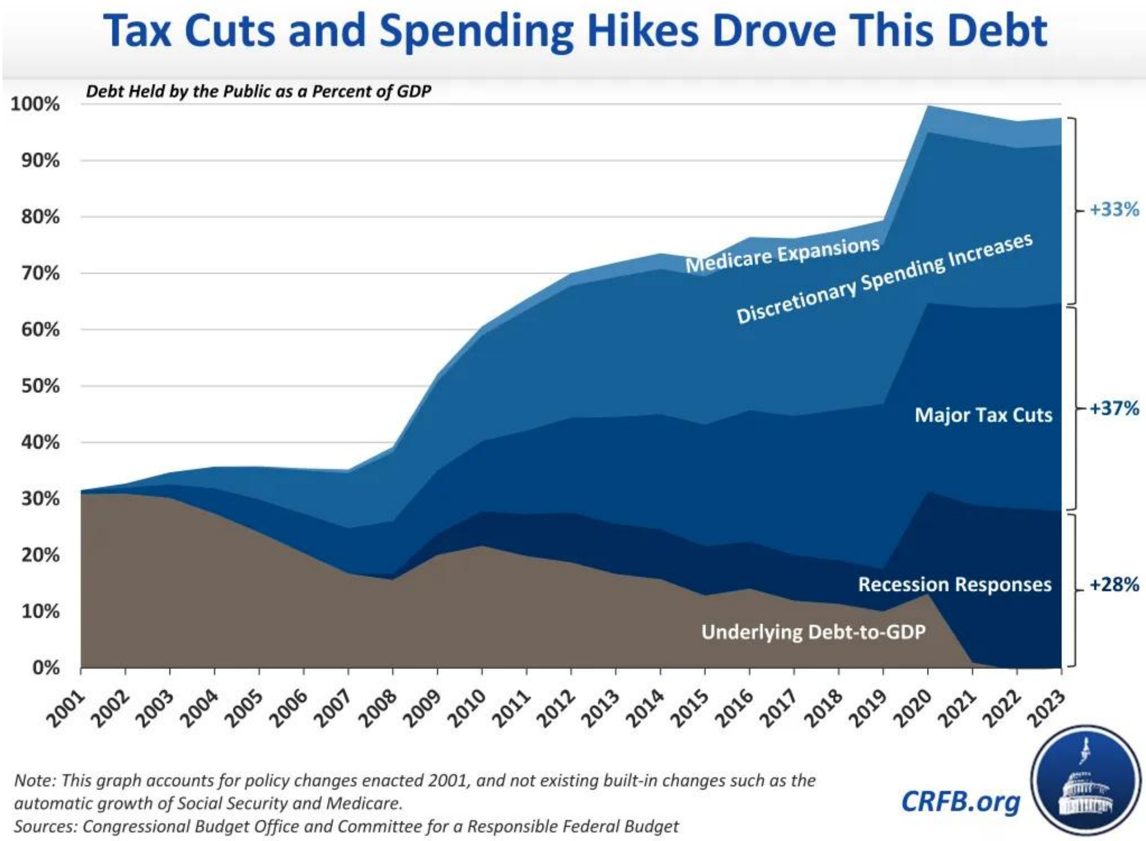
We will soon be confronted by insolvent trust funds for highway funding (in 2028), Social Security retirement benefits (in 2032), and Medicare Hospital Insurance (in 2033). There is no doubt that confronting these challenges will involve some sacrifice, yet inaction would result in large, abrupt cuts, and adding these costs to the debt could spark a larger fiscal crisis. And continuing to delay action puts at risk the benefits of those who rely on these important programs.

For example, upon reaching Social Security insolvency, the law will require benefits to be reduced by an estimated 22%, which will cause a typical, newly retiring dual-earning couple to lose $16,900 in annual benefits at the start of 2033. That is when today's 61-year-olds will reach their normal retirement age and when today's youngest retirees turn 68.

The longer we wait to address the debt, the more likely it is that we will need to take steep and sudden tax or spending changes in response to a fiscal crisis.

To be clear, neither party has abided by these principles when in power – three-quarters of debt-to-GDP growth since 2001 was caused by bipartisan, unpaid-for legislation, and the remainder is roughly split evenly between partisan legislation. Without deficit-financed tax cuts, unpaid-for spending increases, or recession-fighting measures enacted since 2001, the national debt would be fully paid off today; without any two of the three, it would be roughly at 2001 levels.[1]

[1]CRFB's From Riches to Rags: Causes of Fiscal Deterioration Since 2001 estimates that by 2023: net defense and nondefense discretionary spending increases enacted since 2001 added about $6 trillion (28% of GDP) to debt; Medicare expansions added another $1 trillion (5% of GDP); five major pieces of tax legislation – the 2001 and 2003 tax cuts, their extensions and modifications in 2010 and 2013, and the 2017 Tax Cuts and Jobs Act – added over $8 trillion (37% of GDP) to debt; and actions in response to the Great Recession and COVID-19 pandemic and related recession accounted for more than $6 trillion (28% of GDP) in debt. Similar numbers are expected through 2025, with an additional $500 billion (2% of GDP) added from the OBBBA and $100 to $200 billion from the IRA. Absent major spending increases through 2023, debt would have been 65% of GDP in 2023; absent major tax cuts it would have been 61%; and holding Social Security and health care constant as a share of GDP, it would have been 52% of GDP. Actual debt was 98% of GDP in 2023 and 100% today.



Washington Needs a Fiscal Intervention

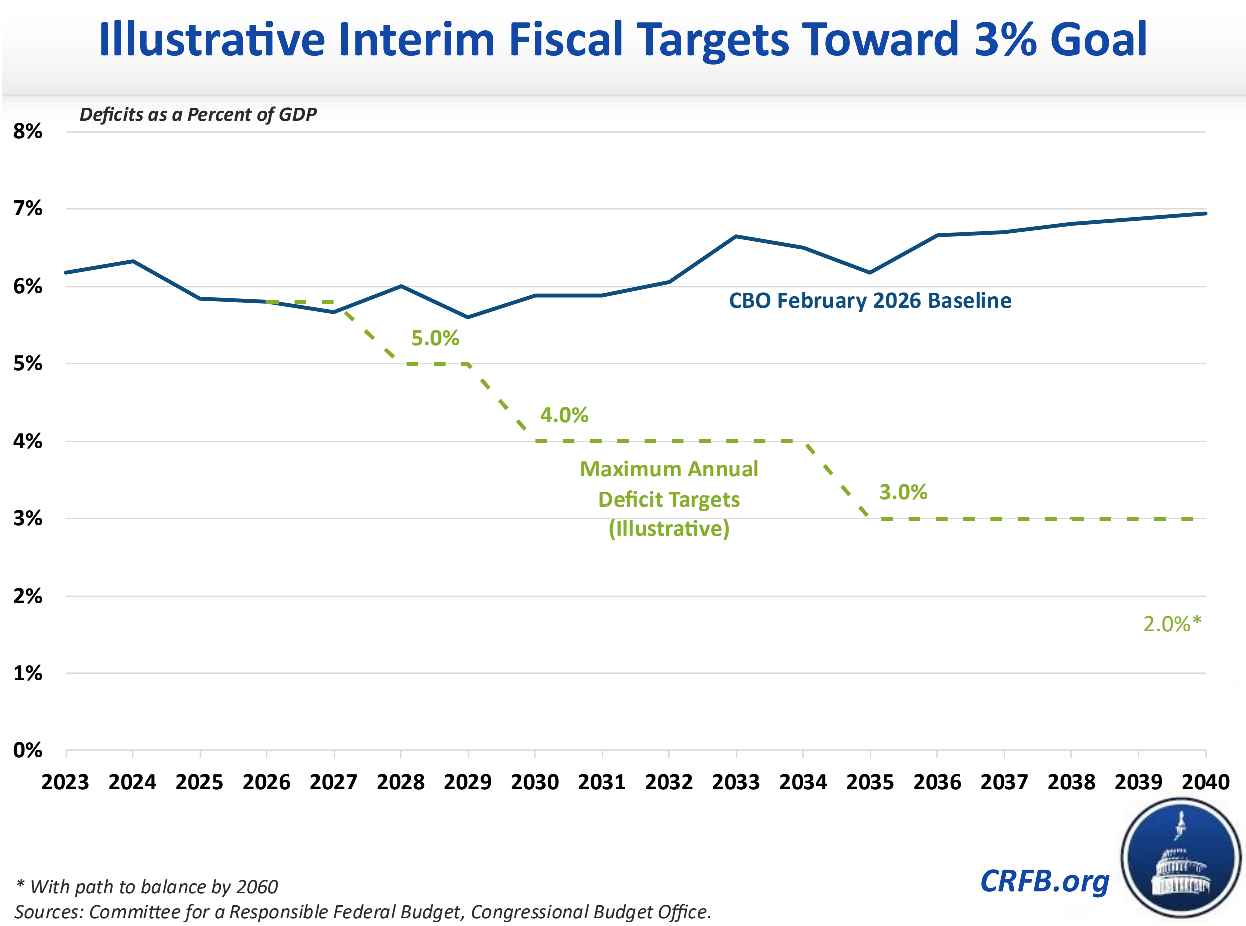
At this point, we urgently need some type of a fiscal intervention. Interest rates continue to rise. Debt service is consuming record shares of overall revenue. And the Social Security and Medicare trust funds are within six to seven years of insolvency. This cannot wait much longer. Lawmakers need to focus like a laser on adopting changes to the budget. And outside experts and voters need to understand that these changes need to be made and demand that lawmakers make the tough choices needed to budget responsibly.

As an important first step, policymakers should establish an aggressive yet politically achievable fiscal target. A credible bipartisan goal is to commit to getting deficits below 3% of GDP. This target has broad, bipartisan support, including among Members of Congress, Administration officials, business leaders, and experts. It is aggressive enough to stem the growth of debt-to-GDP with some wiggle room. And it is realistic enough that we could actually achieve it.

I want to commend Chairman Arrington and leaders on both sides of the aisle for embracing this target. Setting the 3% target is an important first step but should be followed by more action to ultimately achieve it.

For example, Lawmakers should require that all fiscal plans – such as the President's budget and Congressional budget resolutions – set forth proposals to put deficits on a path to 3% of GDP or lower within their budget windows. This will allow the public to compare various different approaches for achieving the goal.

We should also adopt annual deficit targets that gradually decrease from 6% to 3% over a decade to make sure this is more than just aspirational. This will avoid backloading and promises about what will happen down the road. Annual targets could be paired with a savings package of $1 trillion every year until the full plan has been adopted. Lawmakers could enforce reaching these targets with a fiscal commission, as well as by a default deficit reduction mechanism if targets are not met or a commission fails to reach agreement. The goal is to make sure a 3% target is the beginning of a process that ends in meaningful improvement.



It’s Time for a Bipartisan Fiscal Commission

Congress should pass legislation to establish a bipartisan fiscal commission as soon as possible. Establishing a commission would offer a venue for lawmakers to have a candid discussion on fiscal issues, evaluate tradeoffs, and hash out solutions. Such a deliberative process gives participants time and space to narrow disagreements, test policy options, educate key audiences, explore compromises, and translate negotiations into legislation.

Throughout history, commissions have helped policymakers to confront difficult decisions and to advance policy changes. For example, the Base Realignment and Closure (BRAC) commissions were successfully used to consolidate military bases. They have also been essential in extending the life of Social Security. In fact, from Social Security’s origin, the most significant Social Security laws were all developed with the help of commissions, committees, or advisory councils. Most recently, the 1983 Greenspan Commission helped President Reagan, Speaker O’Neill, and leaders in Congress negotiate a package that extended the life of Social Security for 50 years.

Successful commissions often have several features in common. These include:

- **Building Trust:** A commission provides a forum conducive to building relationships and trust across parties, understanding differing values and perspectives, and allowing for engagement in difficult negotiations and weighing tradeoffs.

- **Robust Public Engagement:** A commission should elevate the issue and engage the public, giving Americans the opportunity to be informed of and weigh in on major policy changes.

- **No Sacred Cows:** The scope of a commission’s mandate must ensure that there are no “sacred cows.” Everything must be on the table to maximize the odds of success.

- **Deepen Knowledge**: Commissions should draw on lawmakers, experts, and affected stakeholders, and operate with support from congressional and executive branch leaders.

- **Fast-track Processes and Enforcement:** A commission should ensure there is an expedited procedure to consider the commission's recommendations in both chambers. It should also include automatic enforcement of policy alternatives if a commission fails to reach consensus on recommendations.

There is bipartisan support within Congress for a commission, including bipartisan bills in both the House and Senate, support from the Bipartisan Fiscal Forum and Problem Solvers Caucus, and from various experts and thought leaders from across the ideological spectrum:

The Fiscal Commission Act is led in the House by Representatives Bill Huizenga (R-MI) and Scott Peters (D-CA), co-chairs of the Bipartisan Fiscal Forum, and in the Senate by Senators John

Curtis (R-UT) and Angus King (I-ME). The bill would create a 16-member commission to recommend legislation to stabilize the debt and improve trust fund solvency.

The Sustainable Budget Act, led by Representatives Ed Case (D-HI) and Steve Womack (R-AR), and the Budgeting for a Better America Act, led by Representatives Womack, Case, Huizenga, and Peters, include similar broad fiscal commissions.

The Bipartisan Social Security Commission Act, led by Representatives Tom Cole (R-OK) and Tom Suozzi (D-NY), would create a 13-member bipartisan commission to recommend legislation achieving 75-year solvency. Recommendations supported by the required bipartisan majority would receive expedited Congressional consideration.

The PROMISE Act was introduced by Senator Dick Durbin (D-IL) along with Senators Bill Cassidy, M.D. (R-LA), Tim Kaine (D-VA), Thom Tillis (R-NC), Angus King (I-ME), John Cornyn (R-TX), Chris Coons (D-DE), and Alan Armstrong (R-OK). Though different from a standard commission, the bill would direct the bipartisan Social Security Advisory Board (SSAB) to submit a bill to the Senate Finance Committee and House Ways and Means Committee providing at least 50 years of Social Security solvency, with expedited procedures and amendment processes.

In previous Congresses, CRFB board members and former Senators Romney (R-UT) and Manchin (I-WV) introduced the **TRUST Act**, which would have created rescue committees for any trust fund facing near-term insolvency and expedited consideration in Congress of recommendations receiving a majority vote, including at least two members of each party. Notably, in 2021, 71 senators supported a budget resolution amendment in the spirit of the TRUST Act.

All of these bills are worth supporting. Of course, none guarantee success. But neither does the current process. We should measure likelihood of success relative to the real-world alternative, not hold these commissions to standards well above those we expect from the status quo.

More Ways to Make Progress

Beyond setting the 3% target and implementing a bipartisan fiscal commission, there are many actions we should take to make progress:

- **Adopt Super PAYGO:** The first step toward fixing our fiscal situation is committing to no new borrowing; to stop making it worse. But our budget outlook is so bad that simply paying for new initiatives is not enough. Lawmakers should enact “Super PAYGO” to require that every dollar of new spending or tax cuts is offset by at least two dollars of revenue increases or spending reductions. This would ensure that any new fiscal legislation is deficit-reducing and that any new initiatives are considered carefully before enactment and include a down payment on deficit reduction.

- **Agree to a Cease-Fire on Social Security:** Social Security is only six years from insolvency and needs a rescue, fast. Efforts to fix it have been hindered by accusations that anyone with a plan is trying to dismantle the program or harm seniors. Instead, we should expect every member of Congress to support a fix for this important program. In order to foster discussion to move the issue forward, lawmakers should refrain from scare-mongering and instead talk about what they support to avoid insolvency. The Committee for a Responsible Federal Budget has put forward proposals to cap benefits at $100,000, broaden the employer tax base, limit cost-of-living adjustments at the top, and reform taxation of benefits. Many other options to raise revenue, slow benefit growth, or adjust the retirement age have also been proposed and should be considered. The plan that will harm seniors is the "do nothing plan" and we should stop trying to scare them.

- **Be Ready with a "Break Glass" Plan:** The next economic shock may be right around the corner, yet we are woefully unprepared. Lawmakers should prepare a Break Glass Plan that is ready to deploy if the time comes. Such a plan should include a targeted and tailored response to the specific nature of the shock, borrowing if it is necessary to support a recovery, but importantly, also a mechanism to offset the costs and begin to reduce deficits to sustainable levels after the crisis ends. The Committee for a Responsible Federal Budget has developed one possible framework that includes a "Default Deficit Reduction Mechanism" to freeze the indexing of most spending and tax parameters, hold appropriations levels flat, and phase in a "Deficit Reduction Surtax" in case of emergency. Unfortunately, we believe we must now have a plan in case there is a crisis.

Conclusion

We must not wait until bond markets or some crisis force action; rather, policymakers should act now. Avoiding a crisis is paramount to the long-term health of our nation, and it is irresponsible to sit idly by and hope that nothing goes wrong.

I want to thank you all for your leadership in convening this hearing and urge you to take the next steps towards advancing legislation to establish a bipartisan fiscal commission.