

**FEDERAL DEBT: DIRECTION, DRIVERS,
AND DANGERS**

HEARING
BEFORE THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
ONE HUNDRED FOURTEENTH CONGRESS
SECOND SESSION

SEPTEMBER 8, 2016

Printed for the use of the Joint Economic Committee



U.S. GOVERNMENT PUBLISHING OFFICE

22-132

WASHINGTON : 2017

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

JOINT ECONOMIC COMMITTEE

[Created pursuant to Sec. 5(a) of Public Law 304, 79th Congress]

SENATE

DANIEL COATS, Indiana, *Chairman*
MIKE LEE, Utah
TOM COTTON, Arkansas
BEN SASSE, Nebraska
TED CRUZ, Texas
BILL CASSIDY, M.D., Louisiana
AMY KLOBUCHAR, Minnesota
ROBERT P. CASEY, JR., Pennsylvania
MARTIN HEINRICH, New Mexico
GARY C. PETERS, Michigan

HOUSE OF REPRESENTATIVES

PATRICK J. TIBERI, Ohio, *Vice Chairman*
JUSTIN AMASH, Michigan
ERIK PAULSEN, Minnesota
RICHARD L. HANNA, New York
DAVID SCHWEIKERT, Arizona
GLENN GROTHMAN, Wisconsin
CAROLYN B. MALONEY, New York, *Ranking*
JOHN DELANEY, Maryland
ALMA S. ADAMS, PH.D., North Carolina
DONALD S. BEYER, JR., Virginia

BRIAN NEALE, *Executive Director*
HARRY GURAL, *Democratic Staff Director*

CONTENTS

OPENING STATEMENTS OF MEMBERS

Hon. Daniel Coats, Chairman, a U.S. Senator from Indiana	1
Hon. Carolyn B. Maloney, Ranking Member, a U.S. Representative from New York	3

WITNESSES

Hon. Mitchell E. Daniels, Jr., President, Purdue University, West Lafayette, IN	6
Hon. Judd Gregg, Co-Chair, Campaign to Fix the Debt and Former Chairman of the Senate Budget Committee, Washington, DC	8
Hon. Alice M. Rivlin, Senior Fellow, Brookings Institution, Washington, DC ...	10

SUBMISSIONS FOR THE RECORD

Prepared statement of Hon. Daniel Coats, Chairman, a U.S. Senator from Indiana	30
Prepared statement of Hon. Carolyn B. Maloney, Ranking Member, a U.S. Representative from New York	31
Chart titled “Aging Population Will Drive Increase in Spending on Social Security and Medicare”	33
Chart titled “Nondefense Discriminatory Spending Falling to Historic Lows”	34
Chart titled “Deficits Spiked Under Bush II; Dropped Dramatically Under Obama”	35
Chart titled “Public Investment Is Historically Low”	36
Bipartisan letter dated March 15, 2011, to President Obama submitted by Chairman Coats	37
Prepared statement of Hon. Mitchell E. Daniels, Jr.	43
Prepared statement of Hon. Judd Gregg	44
Prepared statement of Hon. Alice M. Rivlin	47
Questions for the Record for President Daniels Submitted by Senator Tom Cotton	49
Questions for the Record for Senator Gregg Submitted by Senator Tom Cotton	50
Questions for the Record for Dr. Rivlin Submitted by Senator Tom Cotton	51
Questions for the Record for Dr. Rivlin Submitted by Vice Chairman Patrick Tiberi	52
Questions for the Record for Dr. Rivlin Submitted by Senator Robert P. Casey, Jr.	52

FEDERAL DEBT: DIRECTION, DRIVERS, AND DANGERS

THURSDAY, SEPTEMBER 8, 2016

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to call, at 9:30 a.m. in Room 216 of the Hart Senate Office Building, the Honorable Dan Coats, Chairman, presiding.

Representatives present: Paulsen, Maloney, Hanna, Delaney, Schweikert, Adams, Grothman, and Beyer.

Senators present: Klobuchar, Lee, Casey, Cotton, Heinrich, and Peters.

Staff present: Breann Almos, Ted Boll, Doug Branch, Whitney Daffner, Connie Foster, Harry Gural, Colleen Healy, Karin Hope, Matt Kaido, Brooks Keefer, Christina King, Yana Mayayera, and Brian Phillips.

OPENING STATEMENT OF HON. DANIEL COATS, CHAIRMAN, A U.S. SENATOR FROM INDIANA

Chairman Coats. The Committee will come to order. We welcome not only our witnesses but the guests who have shown up here today. I thank my colleagues for being here in the last few weeks of this Congress before adjourning for the election. There's an awful lot of things going on. I think members will be coming and going. But we are really pleased to be able to have this opportunity to have the three stellar witnesses before us.

Over the summer, looking toward ending 34 years of public service, I was going through some—cleaning out some drawers, and I came across a press release that I had issued in—I hate to even mention the year—1982 when Senator Gregg and I were both members of the House of Representatives. And I started reading through it a little nostalgically. It was titled “The Federal Deficit, Can It Be Controlled?” And this was a message in August 16th of 1982. And in this message, I recognized the fact that it was necessary for us to address uncontrolled mandatory spending if we were ever going to get our budget and deficit and ever get to a point where our fiscal situation was under control since we had no ability statutorily on a budgetary basis on a year-to-year basis in addressing mandatory spending. I suggested that some reforms needed to be made or this needed to be addressed, or we would plunge into deficits year after year, which would put a burden on our debt limits and significant borrowing. I raised the point that at the time, mandatory spending on Medicare was an astonishing

\$46 billion a year. We are now looking at somewhere near or over \$600 billion a year just for this one mandatory program alone. I won't even go into all the details on Social Security and Medicaid and other mandatory programs. So here we are in 2016, and despite numerous attempts over decades to address this issue, we are still talking about this as an issue, and obviously, it has come to the point where serious action needs to be taken before serious consequences set in.

Now, it's no longer a question of if we need to do this. I think the question of when we should do it can be answered by—10 years ago or 15 years ago or one year ago. But it's not being done, and it hasn't been done. CBO, on an annual basis, more than an annual basis, warns us of the coming fiscal catastrophe, and yet, it is discussed for a day or two on the floor of the House and floor of the Senate, and then we move on to the business of the day. I am not here to point fingers at either party. I'm here to basically say Congress has not achieved the will to take the necessary steps. Administrations, Republican and Democrat, have not been able to accomplish a coordinated effort on this. And the warnings are dire. We are all aware of the CBO warnings, but this is not just a conservative or not just a nonpartisan basis conclusion as to what is happening here. The Urban Institute, certainly not a conservative institute, has warned that in less than 10 years we will be at a point where 98.3 percent of all federal revenues are spent on interest entitlements, and on mandatory spending. That leaves one and a half or so percent for everything else the federal government does. So regardless of what your interest is, whether it's building roads, medical research, basic research, the arts, national defense, national security, FBI, CIA, given the threats that we have, no matter what your particular interest is, there will not be money to address it without going further and further into debt to pay for those functions. Clearly, that's unsustainable. It has national security implications. Former Joint Chief of Staff and Navy Admiral Michael Mullen rightfully noted that "the most significant threat to our national security is our debt."

So here we are. We have a stellar cast of witnesses this morning, which I will be introducing here shortly. But it's important to note that during election season or year after year after year, this thing keeps getting pushed away, pushed down. It will be the next president, the next Congress, we can't deal with it now, and we've been saying this for decades. The point of reckoning, the day of reckoning is coming. It seems to me that we're—there have basically only been two paths to successfully address this. One is extraordinary leadership, bipartisan leadership. Think back to 1983 when Ronald Reagan picked up the phone and called Tip O'Neill and said "Tip, we have a problem with Social Security, and if we don't address it, we are in real trouble, and we need to take it above politics." And there standing outside of the White House was the President of the United States, the Senate Majority Leader, the Speaker of the House, and the leaders of the two political parties saying we're taking this out of politics, we're imposing this plan. We bought about 30 years of solvency for the Social Security program. We have not seen that since.

Secondly, unfortunately, the alternative has been fiscal crisis. Think EU. Think Greece. This is unsustainable, and the markets will dictate where we go.

There may be a third way, and I've introduced this morning a legislation that will impose a civilian BRAC, similar to the military BRAC, when it was impossible to close any of over a thousand bases that were no longer needed. They built many of them in World War II, and afterward, we finally turned it over to a non-partisan commission that went through under some guidance and presented a proposal to the Congress for an up or down vote only. It has been an extraordinary success in terms of forcing, forcing action that has not been—had not been taken either by Congress or by administrations. And I won't go into the details of that, except we do have a model that may allow us an opportunity to address this significant problem.

With that, let me turn to our ranking member, Congresswoman Maloney, for her opening statement, and then I will introduce the witnesses, and we look forward to your testimony.

[The prepared statement of Chairman Coats appears in the Submissions for the Record on page 30.]

**OPENING STATEMENT OF HON. CAROLYN B. MALONEY,
RANKING MEMBER, A U.S. REPRESENTATIVE FROM NEW YORK**

Representative Maloney. I want to thank you for calling this important hearing and for sharing your perspective and your remembrances. I must say, in Dr. Rivlin's testimony, actually in all the panel's testimony, they shared your grave concern courage and urgency that this is something we have to come together and work together and solve.

I want to note, we started with a moment of silence for 9/11. It's the 15th anniversary. And after 9/11, I have never seen this Congress so united and determined. And we very quickly restructured our government. It was the largest restructuring since 1947 to make us more secure with increased intelligence and all kinds of ways to make us stronger. So when we come together, we can really make things happen in a positive way, and I hope that your legislation and that this hearing will move us a step forward to addressing it.

We know from your testimony what to do. We just need the political will to work together and make it happen.

I want to start my testimony talking about a number, and that's \$19.5 trillion, the total nominal debt, and it's no question it's a great deal of money. But as both Senator Gregg and Dr. Rivlin write in their testimony, a far more important measure is public debt in relation to the size of the economy, the debt-to-GDP ratio. And right now, that is almost 75 percent of GDP. We can improve the debt-to-GDP ratio in two ways: by decreasing the debt and by increasing economic output. We must improve both halves of that equation, and let's talk about debt for a moment. The main driver of increasing debt is the aging U.S. population. Everyone who studied the debt issue from CAP on the left to Cato on the right says projected deficit growth is overwhelmingly the result of long-term trends, the aging U.S. population, and rising healthcare costs. The baby boomers are retiring, and it's having a huge impact.

One fact tells much of the story. There are nearly two-and-a-half times as many people age 65 and over today as 50 years ago. This means more and more Americans will be receiving Social Security and Medicare benefits. CBO projects that spending on Social Security and Medicare will increase as a share of GDP over the next decade, while all other program spending is on a track to decline, and that is illustrated on the chart over there.

In fact, discretionary spending is nearing historic lows. Spending on nondefense discretionary programs as a share of GDP is projected to hit its lowest level on record in 2018.

Some point a finger at President Obama for the increase in the national debt. This ignores the fact that it's overwhelmingly due to long-term trends and the legacy of the Great Recession that began on the prior president's watch.

Conveniently, they also forget history. In the late 1990s, President Clinton presided over four straight years of budget surpluses, completely erasing the deficit. This allowed us to pay down a significant portion of our debt.

President Bush inherited a surplus of \$128 billion, or 1.2 percent of GDP. But the surplus was spent on two tax cuts, which increased the debt by \$1.5 trillion over 10 years, and then we were in two wars, Iraq and Afghanistan, and the projected cost is \$4 to \$6 trillion in the long term.

And then we presided over the worst economic melt down since The Great Depression, which crippled the economy and sent the deficit soaring. In the end, Barack Obama inherited a deficit of nearly 10 percent of GDP and a very quickly rising debt.

As Robert Bixby, head of the nonpartisan Concord Coalition put it, the debt "would have exploded around 2009 to 2010, no matter who was president."

The reality is that the Obama Administration has helped dig us out from the Great Recession, and the deficit as a share of GDP fell by nearly three quarters, from nearly 10 percent to 2.5 percent, and that's illustrated on the third chart that's up there.

Now, I would like to turn to the second half of the equation, increasing economic output. And to do this, we need to invest in our nation's infrastructure, workforce, education, and competitiveness. However, nondefense government investment as a share of the economy is at the lowest level in more than 50 years. In fact, we're not investing enough to maintain our existing infrastructure. And that's illustrated in chart 4.

With interest rates at historic lows, it is the ideal time to borrow and invest in rebuilding our nation's infrastructure and fund the basic research that will drive the next generation of innovation. As Dr. Rivlin describes in her testimony, these investments will make our economy stronger and more productive. As economist Larry Summers has argued, not making these investments will place a significant burden on our children and grandchildren.

History is instructive. Investing in broad-based economic growth was at the core of America's success in the decades after World War II, in the 1950s and 1960s. We invested in our people through the G.I. Bill, and our infrastructure, building the nation's interstate system, and it paid off. While publicly held debt more than

tripled between 1945 and 1981, it fell by almost three quarters as a share of the economy.

More recent history is also important to consider. Excessive austerity in the near term has been pursued in recent years, and it will slow economic growth and make it more difficult to bring down the debt-to-GDP ratio over time.

Again, we need to address both sides of the equation. To tackle our debt, we need a balanced approach that mixes targeted spending cuts, reforms to social insurance programs, and revenue increases. And to grow the economy, we must invest in our infrastructure, education, and innovation.

It is absolutely doable. We need to work on it, and we need to have the political will to get it done.

Thank you, and I look very much forward to our distinguished panelists' testimony today.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 31.]

Chairman Coats. Congresswoman Maloney, thank you very much for your opening statement. Let me now introduce our three witnesses, each of which carries the title honorable in front of their name. I see President Daniels questioning whether or not that applies to him. In his humble and soft spoken way, he will come back with a good quip about honorable.

But having said that, the Honorable Mitchell Daniels, Jr., long-time friend and someone who has distinguished himself through an extraordinary career. A senior advisor to President Ronald Reagan, director of the Office of Management and Budget under George W. Bush, holding top management positions in the private sector in business. As governor of Indiana, President Daniels transformed our state's budget and turned deficits into surpluses within a year by cutting spending and without a tax increase. Governor Daniels left Indiana's governorship with a budget in surplus and its first ever AAA credit rating.

Now he is the 12th president of Purdue University, a game changer in terms of education and extraordinary things also being done at that university under his leadership. Governor Daniels, we welcome you back here to testify before us, and we look forward to hearing about how the federal government can adopt some of the tools that you have acquired in these various roles.

Next, the Honorable Senator Judd Gregg from the state of New Hampshire, long-time friend also, served together in the House and in the Senate. He did not ask for my advice for anything he did as governor in New Hampshire, which is probably a wise decision on his part. As Chairman of the Senate Budget Committee, he authored the Conrad-Gregg legislation in the Senate, which provided the groundwork for Simpson-Bowles. After his time in Congress, he's continued to push for deficit reduction efforts. He's spear headed bipartisan efforts to address this issue.

And I want to take a moment here just to point out the fact that it is possible to achieve a bipartisan support for the kind of reforms necessary to put us in fiscal solvency. Back in March 15 of 2011, 64 United States Senators, 32 Republicans and 32 Democrats, Senator Klobuchar and I signed this letter as members of this panel. Senator Lee has his signature on this letter. As you know, the

magic number in the Senate is 60. We had 64, 32 Republicans, 32 Democrats. Senator Gregg substituting for former Senator Simpson came in with Erskine Bowles. We talked through the dire situation that we were in. And we made a commitment on a bipartisan basis with enough votes to achieve success in the United States Senate by 64, 32 Republicans, 32 Democrats. I have all the signatures here, sent to the President of the United States saying we are willing to work for you in a bipartisan, nonpolitical basis to solve this particular problem.

[The bipartisan letter dated March 15, 2011, to President Obama appears in the Submissions for the Record on page 37.]

Unfortunately, we did not get a positive response back from the White House, and perhaps the best effort that I think was made to address this maybe in decades just fell by the wayside. And here we are in 2016, once again trying to look for ways to address an ever-growing problem. Senator Gregg played a major role in that effort, and we thank him for it.

And finally, The Honorable Dr. Alice Rivlin, who has also been before our committee and a member of other committees, former director of the Congressional Budget Office, director of the Office of Management and Budget under President Clinton, vice chair of the Federal Reserve Board. She has cochaired the Bipartisan Policy Center's task force on debt reduction with former Senator Pete Domenici, now serves as a senior fellow at the Brookings institution and as a visiting professor at Georgetown University. We look forward to hearing from all three of you in terms of giving us some guidance.

All of you who have been involved and know this issue deeply, we are at a point where we—the next president, I think, is going to be saddled with the obligation now as we are careening toward a situation that simply cannot be sustained. We need your advice, and we thank you for coming here.

We will start with Governor Daniels and then have Senator Gregg and then Dr. Rivlin.

**STATEMENT OF HON. MITCHELL E. DANIELS, JR., PRESIDENT,
PURDUE UNIVERSITY, WEST LAFAYETTE, IN**

President Daniels. Alphabetical order pays off again. I'm in the odd position—thank you, Mr. Chairman and the Committee.

I am in the odd position of hoping that my comments are of little value to you because they're so obvious, but let's see. You know or you should that our deficits have been running at historically unprecedented levels, so much so that another half trillion dollars this year, bigger than any year in history before 2009, was met with a yawn or even by some somehow as a positive event.

You know, or you should, that our national debt has reached a peacetime record, heading for territory where other nations have spiraled into default or into the loss of sovereignty as creditors use their leverage to dictate terms.

You know, or you should, that public debt this large weighs heavily on economic growth, crowding out private investment and discouraging it through uncertainty, and that much faster growth than today's is the sine qua non of the greater revenues that will

be necessary to meet federal obligations, let alone reduce our debt burdens.

You know, or you should, that the unchecked explosion of entitlement spending, coupled with debt service, is squeezing every other federal activity, from the FBI to basic scientific research to our national parks to the defense on which the physical survival of the country depends.

You know, or you should, that the whole problem is getting worse and fast. Even if reform began this morning, past over promising and demographic realities do mean that the entitlement monster is going to devour accelerating amounts of dollars, all of which are scheduled to be borrowed rather than funded honestly. You know, or you should, that we are kidding ourselves, in even the appalling estimates that I just referred to. The official projections are built on a pile of wishful assumptions, which repeated experience tells us are bogus. Productivity assumptions are too high, interest rate assumptions are too low, revenue too low, spending too high. As each of these is proven unduly rosy, more zeroes will be added to the bill we hand the young people of this country.

So I leave to my more erudite colleagues the statistics. Let me, instead, offer an appeal on behalf of those young people, the ones I'm so lucky to live among at Purdue University, all their counterparts, and the new Americans not yet with us. The appeal is for a shift in national policy to the growth of the private, productive economy as our all-out, primary priority, calling all close ones and breaking all ties in its favor. And for decisive action soon at long last that begins the gradual moderation of unkeepable promises and unpayable debt loads, which will otherwise be dumped on coming generations.

This, I suggest, is not only wiser fiscal and economic policy, but for the sake of public integrity and the survival literally of our free institutions.

A national government that year after year borrows enormous sums and spends them not on genuine investment in the future but on current consumption, passing the bill down to others, pretending that the problem is smaller than it really is lacks not only good judgment, but integrity. It's not hyperbole to label such behavior immoral.

For a long time, people have come to this Congress decrying the intergenerational injustice of this policy, but things keep getting worse, not better.

A near decade of anemic economic performance, the weakest economic recovery on record, has eroded badly the economic optimism on which, more than any other factor, Americans' faith in a better tomorrow has rested. A near majority now believes that America's best days are behind us, and as this new pessimism has deepened, it's turned into an ugliness, a meanness, a new cynicism in our national life with a search for scapegoats on both left and right.

For almost two-and-a-half centuries, Americans have argued about a lot of things but shared a resilient determination to be self-governing, to guard against tyranny at home and, on occasion, resist by force its spread elsewhere in the world. But lately, and rather suddenly, there are alarming signals of a different outlook. A record one in four young people say that democracy is a, "bad way

to run the country.” And an even larger fraction of the citizenry would prefer an authoritarian leader who did not have to deal with the nuisance of elections. One in six are sympathetic to a military takeover, almost a threefold increase from two decades ago.

If national leadership continues to allow our drift toward a Niagara of debt until solemn promises are broken, as they would then inevitably be, today’s sense of betrayal will seem tame. When today’s young Americans learn the extent of the debt burden we have left them, they may question the premises of our self-government, and with good reason. When tomorrow’s older Americans finally understand how they’ve been actively misled about the nature and the reliability of our fundamental social welfare programs, it may be the last straw breaking the public confidence on which democracy itself depends.

In fairness, a few members in each political party, many in this meeting room, have tried to address the coming crisis. To them, all thanks and credit. To those still in denial or even advocating steps that would make our debts even higher, please reconsider. Your careers may end happily before the reckoning. Your reelections may not be threatened by your inaction. But your consciences will be. You know this, or you should.

[The prepared statement of Hon. Mitchell E. Daniels, Jr. appears in the Submissions for the Record on page 43.]

Chairman Coats. President Daniels, thank you very much for a sobering but very truthful statement.

Senator Gregg.

STATEMENT OF HON. JUDD GREGG, CO-CHAIR, CAMPAIGN TO FIX THE DEBT, AND FORMER CHAIRMAN OF THE SENATE BUDGET COMMITTEE, WASHINGTON, DC

Senator Gregg. Thank you, Chairman and Ranking Member. Thank you for having us here. It’s a great pleasure to serve on this panel to try to bring attention to this matter. And I second everything that Governor Daniels has said. And even before she says it, I will second everything Dr. Rivlin says.

As Chairman of the Budget Committee and ranking member, I worked for 10 years on this issue, constantly. This is all we’ve tried to focus on. It was not a—Kent Conrad, who was Chairman and ranking member when I wasn’t, we worked together, and we produced Simpson-Bowles. And why did we do that? Well, we came to the conclusion that these numbers are overwhelming. The policies behind getting these numbers under control are extremely difficult politically, because they involve very tough decisions. Reducing the rate of growth entitlements involves tough decisions. Reforming tax laws involves tough decisions. And we came to the conclusion that the standard political process was not able to function and do it.

So we worked out what was Simpson-Bowles but was originally more of a BRAC approach. What I want to talk about today is the fact that I think you can’t get where we need to go, which is to get our entitlement accounts under control and get our revenues reformed, unless you have a process which allows you to get there. And we don’t have the process today. The budget process is dysfunctional. That’s a generous term for it.

So my view is we need a two-track approach. And granted, it is procedure, and that doesn't solve the problem. Leadership solves the problem. But you need the procedure to drive the decisions.

The budget is structured to be a partisan document. Nobody on the minority ever votes on the majority budgets and nobody on the majority ever votes for the minority alternative. And the two sides duke it out in the Senate with message amendments that go late into the night and are almost embarrassing to the institution. Well, they are embarrassing to the institution.

Secondly, the Budget Committee itself is viewed with some antipathy, to be kind, by the major committees that it affects, Finance in the Senate and Appropriations and also some of the authorization committees, because they see it as interference with their turf.

So what should we do here? I happen to believe that we need to restructure the Budget Committee completely. I think it should be made up of the committees of jurisdiction which have the most stake in the game. It should be a third Appropriations members, a third Finance members in the Senate, and a third should come from the general membership, with the Chairman and ranking member chosen by the leadership of the respective parties.

Secondly, I believe that the budget itself should be structured not around the line items and the appropriations-centric approach which is taken today. It should be structured around obtaining goals of debt-to-deficit as a percentage of GDP, revenues as a percentage of GDP, and spending as a percent of GDP.

Thirdly, you need to break out the big items which cross jurisdictional lines, like healthcare, and do them as a separate functioning item within the budget process so that it's very clear that when you're dealing with healthcare, you're dealing with healthcare, you're not dealing with committees which have a whole variety of jurisdictions.

Fourth and most important, the Committee should be equal Republican and Democratic membership.

Now, that is a—that seems like a term or an approach which would be totally antithetical to our present system. But if there is equal membership on the Committee, there will be a responsibility of both sides to produce a budget, and neither side can point to the other side for its failure.

I also think the enforcement mechanisms have to be changed erratically. No appropriations bill should be allowed to the floor of the House or the Senate Appropriations, until there's a budget. And if there's a failure to get a budget, there should be a penalty, and it should be a 5 percent reduction in discretionary spending and a 5 percent increase in entitlement spending and a 5 percent increase in revenues collected under FICA in the hospital tax. And those types of penalties would be strict enough and onerous enough so that a budget would, in my opinion, be reached.

The approach should also make it clear that bipartisanship is at the essence of this exercise, because all the big issues that confront us, especially Medicare, Social Security, and tax reform, cannot be resolved on a partisan basis. The American people will not accept partisan results on issues which affect them, because they consider it to be unfair. They need fairness on those big issues, and fairness in our system is defined by both sides participating.

The second track has been mentioned and has been introduced by Senator Coats, which is a BRAC approach. This would be, I see, as a bridging exercise to when you actually got an appropriation and budget process and entitlement process which worked, but it would be an effective way to address it. It would be drawn up on the same lines as Simpson-Bowles. Simpson-Bowles was a complete success, except for the fact it never got passed. Had it been actually a legislative vehicle versus a commission, we probably would be out of the woods right now on our deficit and debt issues.

So I do think a BRAC approach makes a great deal of sense, and I congratulate Senator Coats for bringing it forward, and I would be happy to discuss it more specifically.

[The prepared statement of Hon. Judd Gregg appears in the Submissions for the Record on page 44.]

Chairman Coats. Senator Gregg, thank you very much.

Dr. Rivlin.

**STATEMENT OF HON. ALICE M. RIVLIN, SENIOR FELLOW,
BROOKINGS INSTITUTION, WASHINGTON, DC**

Dr. Rivlin. Thank you. I'm delighted to be back in front of this committee where civil bipartisan discourse is possible, which is very reassuring. You all know the debt is high in relation to the economy, and it's on track to rise continuously as far as we can see. Now, this is not an imminent crisis. It's a problem to be managed, and that makes it very difficult for our political process. It would be easier if something terrible were going to happen tomorrow because we don't take steps. We can handle this large debt now, but it's a threat to sustainable growth. We are counting on the faith of our creditors around the world, which may not last forever. A large debt will—debt-to-GDP ratio will restrict our ability to respond to future recessions or other emergencies. And we can't count on low interest rates forever. We will have a servicing problem on this debt we have already as interest rates inevitably rise.

Now, what matters is the burden of the debt, the ratio of the debt to what our economy produces, the GDP. And we can reduce that burden either by growing the economy faster or by reducing the debt in the future, and we must do both simultaneously. It's very important for an economy with an aging workforce to invest heavily in the productivity, the future productivity of that workforce. Fortunately, we have plenty of opportunities to do that. We have neglected our infrastructure. We have neglected keeping the skills of the future workforce up to what's happening in technology. We have neglected science.

So we need a major program of public investment, not a stimulus to create jobs quickly, but a long-term investment program to increase the productivity.

But, we also need to reduce the future debt, and we must act on both now. The drivers, as everybody knows, of future debt are the entitlements programs, especially the healthcare ones, combined with a rising number of older people, and the failure of our inefficient tax system to produce enough revenues in a fair way to keep up with those added spending.

And if you're going to reform Social Security, Medicare, Medicaid, and the tax system, you need a lot of lead time for any acceptable, sensible reform.

So as the Chairman said, the time to start is 10 years ago. We didn't. So the time to start is now.

Now, there are those who say we can't invest in improving productivity because we have this high debt, and others who say we must invest but we should not worry about the debt because interest rates are so low. I believe both are wrong. Growth alone won't get the debt burden coming down, although we do need, for many reasons, to grow the economy faster. And debt reduction takes a long lead time.

So I agree strongly with what my colleagues on the panel have said. We need to do a serious restructuring of entitlements and taxes, and we need to start soon. It must be bipartisan. Neither party can do this alone. Any party that steps out to do these difficult things gets savaged by the other party, and it's happened time after time after time.

So some form of bipartisan action with the leadership in the White House and the Congress as a part of the action has got to happen.

Chairman Coats's bill sounds promising, and I am very taken with the restructuring of the process outlined by Senator Gregg. But the main bottom line is we need to do all of these things quickly. They must be done by a bipartisan process that actually produces action and not more gridlock.

Thank you.

[The prepared statement of Hon. Alice M. Rivlin appears in the Submissions for the Record on page 47.]

Chairman Coats. Thank you. I think the panel would join me in selecting the three of you to be the first part of the BRAC commission that needs to be formed, because you each brought, I think, some very insightful policies and messages relative to our current situation here. But more importantly, all three of you have the experience necessary, I think, to fully understand where we are, how we got here, and what measures need to be taken to go forward, and each of you presented, I think, some very, very important points and interesting things.

Let me just start briefly, and I want to turn to my colleagues here. President Daniels, you are nationally, if not internationally famous now for taking over a state that was in deficit, a government that was inefficient, a government that was in debt and had to borrow. You learned principles, I'm sure, as director of OMB, as an advisor to the president, through your private sector work and so forth.

What principles were necessary—did you apply in order to take us from a deficit to a surplus and tough credit rating to a stellar credit rating and put us on the path to very significant growth taking place in our state? And are those principles applicable at the federal level? It was a state government. Obviously, there's some differences. You aren't saddled—you do have some mandatory payments that have to be made.

But give us some insights into what we can do on the basis of what you've learned to make this government more effective and

efficient without compromising the necessary things that government needs to do.

President Daniels. Some lessons apply and some don't, Senator. I think the task is so much easier at a state level than the one that you face, and I would not—I would over claim the things we did, and I wouldn't equate them with the mention of the problems you're facing.

There are some basic principles. You can subscribe to them or not. I said you would be amazed how much government you would never miss, and it's true. We all know, there's a very animated and committed and sincerely committed interest group behind every dollar in the federal budget. To them, it's the end of the world. To the rest of the country, they wouldn't notice. I would be astonished. So sometimes bold and quick action is—turns out not to have the deleterious consequences that some people fear.

We were not saddled in our case with quite the problems that the federal government certainly has or that even other states have. We had an upside down budget. It's true, we did not have the pension overhang that now threatens some states. We are here today talking about trillions of federal debt, but there are several trillion dollars of unfunded liability sitting out on state books that sooner or later may be a problem for this—for some future Congress. We didn't have that.

We also had a Medicaid system that had not yet devoured the rest of our discretionary budget, and we were able to move quickly to keep that under control. It's still down in the low to mid-teens as a percent of the Indiana state budget. Whereas, it's risen into the thirties, last I looked, in some states. Therefore, they don't have money for public education. They don't have money for infrastructure. A parallel problem to what you're facing here.

I guess I—one lesson, I think, of application is you can do more than you think you can. And boldness and decisiveness can be rewarded. You can live to tell about it. I'm a fan of country music, and I like the probably apocryphal song if I shot you when I should have, I would be out of jail now. And I would encourage some Congress some day to act boldly and be rewarded.

Chairman Coats. Thank you. I think some of us will steal that country western title, because it applies in a lot of instances.

Senator Gregg, I know you've continued to be active in working with—on a bipartisan basis, in working with both the Senate and the House who have the responsibilities for budget reform.

Can you give us what you can say relative to the possibility of achieving what you have laid out? It makes sense listening to it on a theoretical basis. But looking at it from a political standpoint, how easy is this going to be to be accomplished? I think there's probably agreement here that, as I mentioned in my opening statement, without bipartisan support, we're not going to get there.

Senator Gregg. Thank you, Senator. As the Senator knows and everybody on this panel knows, moving from thought and ideas into execution in the legislative process is extremely difficult. And so the ideas that I've put out, I think, do make sense, obviously, or I wouldn't have mentioned them. But to translate them into actual legislation, it's a heavy lift.

I will say this: I and former Senator Conrad had a chance to meet with the working committee of the budget, and I believe there are people who weren't on the Budget Committee who joined, and about 10 or 12 senators participated. It was entirely bipartisan, headed up by Senator Enzi and Senator Whitehouse and I was really impressed with the enthusiasm, energy, and dedication of that group to try to get budget reform in place, and they were listening to everything. I hope that group comes forward with a proposal. We suggested our ideas. The BRAC approach, which you've outlined, was discussed at some length, because I think it's a rational approach, and we came so close to do it under Simpson-Bowles. The original Simpson-Bowles was a BRAC concept. That's where we got it from.

And so I do think the opportunity is there. It comes down to leadership, and I believe in the Senate at least—I haven't had a chance to deal with the House folks on this, but in the Senate at least there is a working group headed up by Senator Enzi and Senator Whitehouse trying to move in that direction, and clearly this committee deserves tremendous credit for it.

Chairman Coats. Thank you. Lastly, Dr. Rivlin, I just want to pursue the point—I want to make sure I fully understood it. My understanding of what you were saying is that the effort here has to be inclusive in order to obtain both growth and success in a more efficient, effective use of taxpayer dollars for discretionary spending and incorporating the essential aspect of some type of entitlement reform.

Am I correct there that all of these ought to be in parallel? Particularly, I'm thinking about tax reform, which hasn't been reformed, the tax code, since 1986, and is a massive effort, obviously, but so would entitlement reform be and the other aspects of this. So do you see this sort of following a dual or a triple path and wrapped into one major process?

Dr. Rivlin. Yes. I think we have to do all of these things at once. Now, you don't have to do everything. Maybe you have stages of tax reform. But I don't think you can solve the long-run budget problem on the spending side alone. We do have a lot more older people, and healthcare is expensive, and the notion that we are going to have to spend more over time to support older people means we're probably not going to cut the entitlements, even in the long-run future, back very far. So we're going to need some more revenues, but we need to raise them in a much more pro-growth and more efficient way. And these various commissions that we've talked about really thought that could be done, and I agree. But it has to be done altogether, the entitlements, the taxes, and the up front investment.

Chairman Coats. Thank you. My time is more than expired. Congresswoman Maloney.

Representative Maloney. Thank you so much, and thank you to all of you for your important statements about what an important problem and challenge this is. And I watched the debate last night. No one raised this issue, nor do I believe it was raised in any of the debates, nor do I believe it has ever been a question from the press to the candidates, nor has it been a platform or a talking point of candidates on what they would do to address this

critical issue. And all of us that have been elected know that if the public isn't aware of it and if the public is not talking about it as a concern, it's very hard to move it.

As you were discussing your proposal, which I loved, but I started getting a headache thinking about how would you pass this, having tried to do this. But I would invite any of you to comment on how we can bring this debate out into the public and elevate it.

But specifically to Dr. Rivlin, in your testimony, you stress very much the need for long-term debt reduction and for economic growth and the importance of economic growth to really secure debt reduction in a healthy economy.

And during the Clinton years, when you were a part of that economic team, we had four straight budget surpluses. And also, it was one of the—and there was a lot of investment and spending during that. But also, after World War II, in the 1950s and 1960s, we had massive infrastructure and public expenditure in education. We had the envy of the world. We had the best infrastructure in the world. Now our infrastructure, we're not spending enough to maintain it. Our bridges are crumbling. The whole world has high-speed rail. We're woefully behind. I would like to ask you, Dr. Rivlin, a lot of people say we can't invest, this is an argument we have before Congress, infrastructure. I support it long term. I believe it brings innovation and efficiency and quality of life and good jobs. But a lot of people argue that we can't because our debt is too high. And what do you think about investing in infrastructure education research to help to strengthen our economy? And I invite anyone to comment on that. And also, during my lifetime, the best economy we ever had was the Clinton-Gingrich economy, which was very much a bipartisan effort that brought us 22 million jobs, reduced the deficit, erased it. It left us with a surplus and just a booming economy.

Couldn't we make that happen again? Can we bring the same chemistry together if we could work together and have this bond?

But it's a huge challenge when even the candidates aren't talking about what many in this room think is one of the most pressing issues of the decade and one of the most important decisions we could make for Homeland Security, economic security, economic growth, and prosperity for our people.

So I invite everyone to respond, but I always—I am very pleased to see a woman with such a distinguished career. All of your careers are distinguished, but she has been a role model to me and a trailblazer, and I want to thank you, all of you for your distinguished careers.

So Dr. Rivlin.

Dr. Rivlin. Thank you very much. I agree that it's extremely important, as I said in my testimony, to invest in infrastructure and skills in science. I think all of those things go together. We have great opportunity because we've neglected these things. So the opportunity to do better is there. The contrast with the late 1990s is interesting. I, too, am proud of the bipartisan effort that I participated in, and it was a Clinton-Gingrich effort together.

One of the things that made it easier was that the productivity growth was growing fast during that period, not quite as fast as right after World War II, which also helped with bringing the debt

down, but pretty fast. And that helped us to get to a balanced budget. But we did not really take the long run view. We knew the baby boomers were going to retire, but it was a bit in the future, and we did not take on the reform of the entitlement programs or the reform of taxes that we need.

So I think one can look back, perhaps, and feel that was a golden age, but it was a golden age with fewer problems.

Representative Maloney. Any other comments.

Senator Gregg. I think on the capital budget side, yes, infrastructure improvement is critical in a lot of different areas. But my view is that if you're going to do it, you should do it in a separate budget structure, and you should find sources to pay for it, because you can argue that it's one of the few areas where you can actually borrow and make sense because it's a capital investment. But we're already borrowing far too much in ordinary, daily expenses. So I would want to see it paid for.

Representative Maloney. I agree with you. Most of the infrastructure we are financing in New York is paid for through fines and fees and other things.

Senator Gregg. Things which are very difficult to do, like the gas tax, which hasn't been raised in a long time, and our road system reflects the fact that the highway fund is now invading the general fund, and therefore, you're borrowing to finance it.

Representative Maloney. We have a continuing resolution coming up. We can try to stick it in there.

Senator Gregg. I don't think that's going to happen. On the bigger issue of the 1990s versus today, I do think there is structural differences, and the structural differences were that we were in an Internet bubble boom. Are we in another bubble boom? We may actually be in an equities bubble boom now because the Fed is monetizing debt so quickly, and it's forcing people into the equity markets.

But a lot of that economic growth was driven by a bubble, and I don't really think we want to revisit that.

Representative Maloney. And Senator Gregg, do you think there should be a balanced budget amendment? And if not, what do you think our fiscal goal should be, aside from—

Senator Gregg. I have always been supportive of the balanced budget amendment. But you're talking about putting something by the next eon of life cycle, political life cycle. To pass a balanced budget, as a constitutional amendment would take if you were even to get consensus around it, would take 10, 15, 20 years. So our problem is gonna be honest long before we get a balanced budget amendment passed. I mean, I'm for it. It's a great talking point. It's a great political talking point. But substantively, it's not going to impact our problem, in my opinion.

Representative Maloney. We have 43 seconds left. President Daniels, how can we elevate this argument to a national level where we build a consensus of national support.

President Daniels. I am going to say a double amen, and thank you for both your comments which were very cheering to me Congresswoman.

On the first question, as it happens I'm a member on the Commission of Presidential Debates. I've written all my federal commis-

sioners and suggested one of the debates should be solely addressed to this subject, to the fiscal and the economic future of the country, but I'm not sure that's going to happen. I quite agree, it's very discouraging that we are having the one forum where this—where the public could learn things the public deserves to know. It's not the American people's fault that they don't understand the fix we're in and the possible, very practical ways we could work our way out of this. So I'm still hopeful that one way or another those coming debates will be one place where that happens.

If I'm permitted, I do want to also agree, at least in large part, offer a thought on infrastructure, which is—which was a major part of our endeavors in Indiana. It was the theme of our second year as soon as we got the operational budget in shape. And the two thoughts I would suggest—by the way, CNBC recently rated our state's infrastructure number one in America. So it can be done.

In addition to other thoughts already offered, here are two. One is, there's an ocean of private capital that would like to participate, especially at a time of incredible low yield and environment which we are at least temporarily in, and we ought to do much more than we have to invite that capital in the so-called public/private partnership mode. We can build a lot more, a lot faster, and by the way, a lot more efficiently and innovatively with their involvement.

And related to that, it's almost comical how long it takes to build things, given the encrusted rules and regulations and obstacles which we have allowed. So if there's to be another—if there's to be a national infrastructure program, I would recommend a sweeping exemption of its activities from a variety of acts, which right now, it takes years and years to do what we used to do in a month.

Representative Maloney. My time has expired. Thank you.

Chairman Coats. Thank you. Congressman Hanna.

Representative Hanna. Thank you. Thank you all for being here. It seems to me—and Senator Gregg, we spoke earlier, you said that all of this was predictable. I would go a little further than that. Having been here for three terms, my sense is, as long as we can borrow more money to not deal with these issues, that's the easy solution. And it's a shame. All of this, in a way, is ironic, because as Dr. Rivlin said, at the very time we need to make investments in pre-K, people and assets and science and STEM and infrastructure, those things that grow our economy, the collision course that we are on is actually preventing us from doing that.

You talked about funding honestly and funding the Highway Trust Fund honestly and how we might go about that. It seems to me that one of the things we've become incapable of doing is being honest with the American public about the trajectory that we are on and that it's always easier to give benefits than it is to take them away. And ultimately, we are trying to adjust them in a way that provides those benefits and costs less, but we're not really even doing that.

I want to talk to you quickly about the debt ceiling, because I have always supported raising the debt ceiling, and I know a number of my colleagues take great pride in not supporting it. So I would like to have someone, perhaps Dr. Rivlin—what would happen if we didn't raise our debt ceiling?

Dr. Rivlin. We would not be able to deliver on the commitments that the Congress has already made, and that is a very serious thing. I do not believe the debt ceiling is a proper weapon to force action, although I very much want action on the debt. But the debt ceiling is not a good tool for doing that, because it says the Congress has already passed all these appropriations and borrowed to finance them, and now we're not going to even pay the interest on the debt or deliver on our obligations. We can't do that.

Representative Hanna. Senator Gregg.

Senator Gregg. In the end, you have to pay the debt ceiling because otherwise the government can't function, and the effect of that would be catastrophic. The debt ceiling fights occur because it's one of the few forcing mechanisms that comes to Congress. Debt ceilings and vacations are the times when Congress wants to act.

Representative Hanna. Someone also mentioned that there was no possibility of growing our way out of this, that our demographics are such that our bills are growing, not declining.

Just for conjecture sake, what kind of growth rate would we need to stay on the path that we are on and not increase our debt?

Senator Gregg. I don't have that off the top of my head, to be honest with you.

Representative Hanna. Ms. Rivlin, do you have an idea.

Dr. Rivlin. It would be, I don't know, 6, 7, 8 percent growth rate, which we're just not going to have.

Representative Hanna. So clearly, we need to deal with this. It's a myth. And we can't do it through tax reform, which is something we desperately need and also we're not addressing.

Dr. Rivlin. We need tax reform, but we also need entitlement reform.

Representative Hanna. President Daniels, what do you think.

President Daniels. Which question? I agree completely. I understand the frustration of people who haven't found another lever to force real attention to this issue. But anyone who has been in business understands the phrase no option, no problem, and there's not an option. You have to pay the bills that you've accumulated, and the consequences would not be acceptable.

On the growth front, as I said, this ought to be something that everyone agrees on. In fact, the more you believe in a large, very active federal government, the more you need the growth of the private sector and the more wholehearted your support ought to be for policies that get us there. We can agree on the basic principle, first stop digging. Right now, we're digging, rather we are heaping barriers and burdens and costs on those who would invest and create jobs.

Representative Hanna. So what you are really suggesting is we need to unleash the private economy.

President Daniels. It's a start. There are real problems, and Alice is best to speak to them, but productivity is growing very slowly, if at all right now. You get growth out of productivity and population growth, and we don't have either. And there's no magic answer that I can find that will dramatically increase productivity, but clearly, these things that have been talked about all need to be pieces of it.

Again, I think we have to make every single decision until further notice in favor of growth for all the reasons we're gathered here about today. It doesn't mean that other priorities, environmental protections and so forth, are not important. Of course, they are. But we've got a transcendent problem facing us, and we can't get out of the starting blocks with the policy mix we have today.

Representative Hanna. Thank you. My time is expired.

Senator Gregg. I know it's over the time, but you touched on something that is critical, and it hasn't been explored very much, which is the fact that the Fed is monetizing the debt. The implications of this though should be staggering. If you continue to pump billions and trillions of dollars into the system, at some point you've got to get inflation. Apples fall from trees. And as a very practical matter, when this happens, the acceleration of federal debt is going to be cataclysmic. And we may be the best horse in the glue factory today, but we won't be when that happens.

Representative Hanna. Thank you very much.

Chairman Coats. With that sobering analysis, I turn now to Senator Klobuchar.

Senator Klobuchar. Thank you. I want to thank all of you, and especially welcome back, Senator Gregg. Thank you for your incredible work with this. I was a member of one of the groups that got the process in place for Simpson-Bowles. Obviously, we've been disappointed that we haven't been able to put all of this together. The sequester is just so focused on the spending cuts, which I think it's like a 4-to-1 ratio of spending to revenue, and a lot of the other reports that we've gotten out, Simpson-Bowles was 3-to-1, 2-to-1, depending on the version. Rivlin-Domenici was 1-to-1 with cuts to spending and revenue. So that to me has been one of the challenges in how we take this opportunity, because we've been governing from crisis through the downturn, and it's really hard to get this stuff done when you're in a crisis. Now we are governing from opportunity. The economy is stable. And this should be the time at which we go back and tackle this, especially with the enormous need for tax reform.

So I would start with that with you, President Daniels. Since my in-laws met at a social dance class at Ball State and my husband was born in your State and went to IU law school, I have to ask you a question first.

On the infrastructure front, Dr. Rivlin has pointed out, trying to combine this targeted investment in research or infrastructure. One of the ideas we've tossed around with the tax reform is to bring back some of that money overseas. The way the government looks at this, is that it won't save any money because we would be bringing the tax rate down whether we do it hopefully in the long term instead of just a one-shot deal. But we bring that money back, and then we invest part of that, if it's voluntarily brought back, in an infrastructure bank. Congressman Delaney and others have been working on this issue here. But can you talk about that and how you see that as one of the levers we can use to try to get infrastructure investment, but also tax reform overseas.

President Daniels. I think it's a reasonable idea to consider. And I would say that a cardinal principle of one-time money is you only spend it on one-time things, and this would qualify, that is to

say, capital investment. So the danger would be that Congress would approve repatriation of that money and then spend it on today, and we would be worse off than before.

But if we had your direction, yes. I think there's some practical questions about infrastructure bank, but I think the idea of investing in infrastructure is important.

One thing I would say, in addition to the two points I made earlier, that we really, if you want this thing to have any near-term effect—these investments are meant to benefit the nation over a longer term. But I hear a lot of people talk about it as a way to boost the economy in the near term. Well, there are two reasons that that's unlikely to happen, given the status quo. One is, only so many jobs are really involved. How many people in the room can drive a road grader. So there's that.

Secondly, from having done an awful lot of this, this problem is not a small one. As I say, there are almost comical examples. Please read Philip Howard's work and others who have chronicled how incredibly tedious it is to get anything actually done.

Senator Klobuchar. I understand. Though when the I-35W bridge collapsed in Minnesota, we built that highway in less than a year.

President Daniels. We can do it if we want. I'll finish with one quick answer. We found revenue—construction in Indiana, a huge amount of money. We built a few small things just with our own money. Some of them were, as I called—they're called bike trails, one-half the time and about one-half the cost of the federal rule—

Senator Klobuchar. Got it. I just want to go broadly to the debt here, Dr. Rivlin, Senator Gregg, this issue I brought up with the spending to revenue ratio. You talked about entitlements as a piece of it. When it comes to taxes, we talk about a lot of things. The capital gains change, the Buffet rule, some of these other things. But how do you think that we do this so that we bring in some revenue in addition to making the spending cuts.

Dr. Rivlin. Well, I believe that both Simpson-Bowles and Domenici-Rivlin had the right idea on tax reform, broaden the base of both the individual and the corporate tax and lower the rates. You can make the individual code much more progressive if you phase down some of the tax expenditures that go very heavily to upper-income people. Particularly, I would change the mortgage deduction to a credit. You have to do that slowly over time, and I would phase down the exclusion of health benefits from income.

Senator Klobuchar. Senator Gregg.

Senator Gregg. I do believe that the deficit and the debt and the spending and revenue should be expressed in the budget process in terms of percent of GDP, and those should be your targets. You have to reach what they are. Simpson-Bowles, I think we went to 21 percent spending, 19.5 percent revenues, and we presumed a structural deficit that would stabilize at about 60 percent of GDP.

Senator Klobuchar. This last thing is—put it on the record here, immigration reform. I once called Grover Norquist for this committee as my witness, just because he's so focused on that as a way of helping to bring down the debt. According to the CBO immigration reform could save \$158 billion in 10 years, and in 20

years, immigration reform could save \$685 billion, in that range. Just one more thing we could be doing. Thank you.

Chairman Coats. Thank you, Senator.

Senator Lee.

Senator Lee. Thank you all for being here and for your testimony. I would like to start with you, President Daniels, if I could.

Our current stock of debt will undoubtedly be a significant burden on future generations, but the extent of that burden, how significant it is, I think, really will depend on one critical factor, and that is whether even though we're accumulating debt, regardless of the fact that we're continuing to accumulate some debt, the real economy continues to be supported by a growing, productive capital stock. In other words, our own economic growth is crucial to how we weather this.

But there's a lot of reason to be concerned about this, because as you're aware, I'm worried about the fact that not only are we driving up the government's debt with costly decisions in Washington, but the current regulatory environment seems to be dampening growth so that the debt burden on our kids is going to be heavy, is going to be that much heavier. And private investment has been falling recently, and that increases the risks as well.

So you know, it's one thing to hand over—what's compared to a business, it's one thing to hand over a business to your kids with the corporate credit card maxed out, with a steady income stream and a growing income stream going into the business. That's one thing. But it's another thing to hand them that same credit card without a thriving, growing business.

So I'm really hopeful that my children and other millennials understand this dynamic and understand the severity of the potential burden they could face.

So I wanted to ask you, as a university president, as someone who works with and serves millennials, do you think the current generation, our current generation of college students, understands the urgency of the situation and the burden they will face? Is our current model for higher education adequately preparing students to face those challenges?

President Daniels. Purdue University is.

Senator Lee. Exactly, that goes without saying. Other than Purdue.

President Daniels. No, I don't think they understand at all what awaits them. Even if we act decisively, I don't think they understand that. And as I said earlier, it bothers me that, as they've inevitably come to see it, that they will feel that we didn't serve them well and that they will suspect not just those of us who might have done something about it but the whole system, which somehow, as the skeptics of history have said, government by consent of the governed has inherent problems. As someone said, it's a lot easier to make promises than pay for them.

So I do worry about that, and yet, I have to tell you, you would expect me to say this, I guess, but young people, at least those who make it to campuses like ours, are incredibly talented, incredibly purposeful. They're very innovative. They're going to devise ways to make our economy more productive than I'm not capable of envisioning. I have every confidence in that, but that doesn't lead me

to a blind faith that the economy that they produce will be up to—will be able to sustain the burdens we've placed on them.

Senator Lee. One of the things that I do worry about, about millennials and about all generations of Americans, for that matter, relates to what could happen in this sort of doomsday scenario that keeps me up late at night, the scenario in which we suddenly find that our interest rates return to their historical average. Even assuming there's no rebound, reflecting the fact that we've been significantly below that historical average for the past few years, even if there's no rebound, when the interest rates return to their historical average, what does that do to us? What practical consequence does that have for our government.

President Daniels. Dr. Rivlin can give you the update, but last I checked on the sensitivities of this, every 1 percent above what we're expecting is about a trillion dollars over 10 years. So if you return to normal, which would be a few percent over what's now projected, you can see how much you've added to the problem. As I said, there are a lot of assumptions in our forward forecasting that I think are too cheerful, and that's one of them.

Senator Lee. I wish I had more time to explore this with Dr. Rivlin and Senator Gregg. But I thank you for being here, and I just add to that that our interest payment on our debt has been relatively stable in the last 20 years. It's been in the range of 200, 250 billion dollars a year or so, notwithstanding the fact that our actual debt has increased six or sevenfold during that time period. So the only reason our interest payment has remained more or less the same is we're in this odd valley where our interest rates are at all-time historic unnatural lows, and that scares me to death.

Thank you.

Chairman Coats. Thank you, Senator.

Dr. Adams.

Representative Adams. Thank you, Chairman Coats and Ranking Member Maloney, for hosting the hearing today on the national debt, and to our panelists, thank you very much for your testimony and for being here.

This is a topic that's vitally important in preserving and protecting our national economy, but even more important as we operate within the larger global economy.

I want to start my questions today by addressing the idea of spending cuts as a way to tackle our national debt. But in particular, I want to ask about whether there are spending cuts that would harm rather than help our debt burden and the economy.

Dr. Rivlin, can you discuss the impact that additional spending cuts to federal investments in the near term would have on future economic growth and the long-term debt burden?

Dr. Rivlin. Yes. I think we can't afford to cut productive investment. We have already cut discretionary—domestic discretionary spending below historic levels. Congresswoman Maloney put up a very nice chart earlier in the hearing that shows the real plunge in relation to the size of the economy of domestic discretionary spending, and that's where the investment mostly is. So we've cut already there, way below the Simpson-Bowles recommendation and the Domenici-Rivlin recommendation. So that's, in my opinion, not the place to cut.

The place we need spending restraint is in the entitlement programs and in the future.

Representative Adams. Thank you very much. So does it make sense to make major cuts to programs that help provide economic stability to our nation's low-income families and individuals, as well as specialized demographics such as students and small businesses, because of concerns about the long-term debt.

Dr. Rivlin. No, I don't think that's the place to cut it, although some of that money can be better spent. We should be trying to do it as effectively as we possibly can. It's not sensible to have a rule that says no government spending can ever be cut, even if it goes for worthy purposes. We need to examine all of the spending.

Representative Adams. So when I think of economic growth, I think of investments in infrastructure, support for our nation's small businesses, as well as tackling the student loan debt crisis that we have in our country. I had the distinct pleasure of serving on a college campus, small woman's college in Greensboro, North Carolina, Bennett College. So I'm very, very sympathetic and understand what students go through.

But having arrived here at the Congress fairly recently, it appears to me that my colleagues on the other side of the aisle have a problem with actually supporting legislation that will provide critical funding and resources for these groups.

So how important do you think it is to fund programs that, first of all, create jobs and opportunities, especially for new graduates, in order to stabilize our national debt as a share of the economy?

Dr. Rivlin. Well, I'm for helping students get opportunities in many different ways. But I think that has to be an ongoing effort taken in the context of doing these hard things on taxes and entitlements to bring the future debt down. Because those students are the ones who are going to bear that future debt.

Representative Adams. Thank you very much. I have some time to spare, and I yield back, Mr. Chair.

Chairman Coats. Thank you, Doctor.
Representative Schweikert.

Representative Schweikert. Thank you, Mr. Chairman.

Doctor, you won't remember this, but maybe 18, 20 years ago, you were doing some seminars here in D.C., and I sat through those. I still have my notes from some of those and you were actually very kind to me. But there's some observations, and one day I'm going to go find those notes and provide them to you.

One of the things on some of the charts that were being provided was hey, here's what GDP is going to be over the next quarter century, here's what economic expansion, here's our world, our trade. And something went horribly wrong in the last 10, 15 years, when we start to look at our productivity curve and even our GDP and so I have a sensation that many of the models that are built on right now—I've only been here five years, and five years ago, this was—right after we did sequestration, the world is going to come to the end, this year, we're going to have about \$245 billion shortfall, and this year, we're going to have \$590 billion shortfall.

So the numbers in many ways are much worse than we tell each other, than we tell our constituents. Think of this. You know this. This year, every dime of nondefense discretionary is borrowed, and

this is supposed to be one of the good years. How realistic is our modeling when, for almost a decade, we haven't come close to much of our GDP modeling?

Dr. Rivlin. If you go back—I'm glad you have this nice memory of my seminar. But if you go back that far, certainly—I'm not sure exactly what GDP protections were. Nobody can project GDP for a very long time. You have to do the best you can.

What was not predicted was the crash of 2008, which, in my opinion, was totally avoidable, but it certainly wasn't anything that could be factored into models.

But let me say one other thing. Not all the projections have turned out to be too rosy. One of the things that's rather heartening is that back when we were doing Simpson-Bowles, we were much more worried about the growth of healthcare spending in the future and the explosion of Medicare than we are now. There has been sometimes good things happen.

Representative Schweikert. When we're charting that curve, as you've started to see, we're hitting now an inflection again, at least maybe temporary, but in the last 12, 18 months we see that inflection on some of that data.

Dr. Rivlin. Yes. We're starting from a lower baseline, as the economists like to say.

Representative Schweikert. In this next little bit, it may be more to my brothers and sisters on the panel. Some of our calculations, Social Security, disability, the trust fund is gone in about 40 months. Medicare, Medicare, the trust fund is gone, in my calculations, in about seven years, seven months. In my calculations, Social Security trust fund is empty 12, 13 years. And you think about today we have, what, about \$2.8 trillion in that trust fund, and we're going to burn through that in 13 years, just the recapitalization of such huge trust funds.

How do I get—and look, you've dealt with my kind for a very long time, you know that hold public office. But one of my greatest shocks here is the number of people that actually own calculators around this place. They don't do math here. We talk and talk. We define borrowing substantial portions of our budget as austerity. If you could do one thing, would it be walking in the door and saying here's an alternative—here's a reform of Medicare, is this an occasion where we've got to do everything all at once?

Dr. Rivlin. Personally, I think we need to do everything, but if I had to do one thing up front and get it out of the way, it would be Social Security. It's not hard. It's not conceptually difficult. Tip O'Neill and Ronald Reagan did it. We can do it. It's a bipartisan conversation about known quantities.

Representative Schweikert. To brothers and sisters around here, please take a look at the Reid Ribble bill. It has a few hiccups, but it is as close as I think we can get to a piece of legislation we can do today. It is written. That would deal with Social Security and if you're interested, within about three or four days, we're going to have a major rewrite that provides optionality in Medicare. Actually, in many ways, it's based on some of the work you've all done so you can stay in traditional or also have a more optionality model, and apparently, that really bends the curve. But you would be shocked how hard it is getting fellow members who

talk about this to be willing to put their names on those pieces of legislation.

With that, I yield back, Mr. Chairman. Thank you.

Chairman Coats. According to our rules, those that arrive after our gavel we recognize in terms of our arrival and I've just been handed this note here. I'm told that Representative Beyer, that you could be next, but you can't, but you're next next. So Representative Grothman, you're on.

Representative Grothman. Thank you very much. First, I want to make a brief statement in response to Representative Hanna. I believe it was him. I do not think the studies would show that government-funded preschool is necessarily helpful. But above all, I don't know how you can read the Constitution and say it's the federal government's business. And I think one of the problems we have around here is we should have a little bit more respect for the Constitution and the 10th Amendment and educate the public that there are certain things that may or may not be good, but if they are good, it's not the federal government's business. Until we do that, we're going to have a hard time getting a hand on things.

First off, I'm going to lead off with Senator Gregg. I couldn't disagree with something you said more. I'm a freshman here, but one of the things that amazes me is that, despite the fact we have the majority in the Senate, we can almost do nothing in the Senate. By that, I mean the Republicans. The need to have 60 votes means, as a practical matter, everything we do in the Senate is bipartisan. Every appropriations bill is bipartisan. Other things, like the docks or the transportation bill, all of this stuff is bipartisan. It seems to me as freshman here, the way you get these bipartisan agreements is get everybody to spend more. That's what they do. When I was a state legislator in Wisconsin, we had the majority. We balanced our budget. We didn't have to get a bunch of, you know, free-spending people all together and keep spending more and more and more.

So I'm going to ask you to comment on your idea of what you mean more by bipartisan, or perhaps if we change things so that 51 votes can get something out of the Senate, maybe that wouldn't be better. It seems to me on the face of it it's easier to get 51 voting than 60. And I think the fact that we've had to get 60 votes is the reason why we've had such bloated spending this millennium.

Comment?

Senator Gregg. I would suggest that on issues that involve all Americans, where pretty much everybody is affected, Medicare, Medicaid, Social Security, and tax reform, that if you push forward in a partisan way, at least 50 percent, maybe a little less, than the country is not going to be believe what you did is fair.

The classic example of this is ObamaCare. It was pushed through on a partisan vote. It was brought on the floor of the Senate on a Saturday before Christmas. It was voted out on Christmas Eve. No substantive amendments were allowed. And from that day forward, there was absolutely no support from the Republican membership and from a large percentage of this country for that proposal. Had it been a bipartisan package, it probably would have been fundamentally better, and it would have had national support, and it probably would have saved much more money.

I recognize that, as a conservative Republican, if I were in charge of the Senate with 51 votes, I would get a lot more through, but I may not be the majority in the Senate. So I might lose a lot of votes, and things would happen which weren't constructive.

I happen to think that if you're going to do budgets and you're going to pass budgets on a partisan basis, the budget becomes irrelevant, because one side just basically is on opposition all the time on the budget. If you put the fingerprints of everybody on that budget, then everybody is vested in trying to do something and make it work.

Representative Grothman. I think the three most significant bills that affect overall spending in the last year and a half, the omnibus bill, the dock fix, and the transportation bill all couldn't have been more bipartisan. And I think a good case can be made that all three moved us in the wrong direction. Maybe you had different experiences when you were here years ago.

Now I'm going to switch to Dr. Rivlin. Over the weekend—part of the answer to the budget deficit has to be to grow revenue, have a growing economy. Over the weekend, I ran into a CPA telling me about how his clients are working less so they get their ObamaCare subsidies, another poorly designed program to discourage people from working hard. Of course, the harder you work, the more you lose the subsidy. This is the way we do things around here. I don't care whether it's food stamps, low-income housing. Pell Grants, everything is designed to encourage people not to work hard so they get more government money.

You've been following this institution for a long time. To what degree do you feel our economy is not growing anywhere near as fast as it should be, because people are intentionally not working as hard as they can to get more government benefits, ObamaCare being the newest one.

Dr. Rivlin. I don't agree with that. I don't think there's very many such people. I really don't. There may be a few. But I want to associate myself with Senator Gregg's remarks on, if ObamaCare, which was designed as a bipartisan bill and appeals to many Republicans in that it's using the private sector competition, if ObamaCare had been passed by a bipartisan majority, it would have been, I think, a rather similar bill but much more successful.

Representative Grothman. You mean you don't believe that people are intentionally holding down their income to get their ObamaCare subsidies? You don't believe that.

Dr. Rivlin. I do not believe that.

Representative Grothman. Okay. There's part of our problem.

Chairman Coats. Thank you, Congressman.

Congressman Beyer, last but not least.

Representative Beyer. Thank you, Mr. Chairman, very much. Senator Gregg, thank you so much for the idea on the plans reforming the way the budget works and the—it was very thoughtful, very constructive.

I would like to follow up on one thing Mr. Schweikert was talking about, the challenges of dealing with entitlement reform. Everything that I think I know about how we move towards a balanced budget begins and ends with entitlement reform because of

the overall structure. Mr. Schweikert mentioned the Reid Ribble bill. I'm not sure if this is the same as John Larson's Social Security 2100. I think both are very responsible approaches that make Social Security good through the year 2100 and bring the millennials back on board. But I'm very concerned about what we do about Medicare and Medicaid. Governor Daniels talked about Medicaid being 30, 35 percent of some states' budgets. We have this dilemma that our pharmaceuticals keep getting better and better but also more expensive, our surgical approaches better and better but more expensive.

When you look at the Ryan budget, not to be unfair to our speaker, but he essentially threw up his hands and said let's do block grants on one and vouchers on the other and see what happens, which probably is inevitably a formula for scarcity?

What's the most responsible way to approach entitlement reform on Medicare and Medicaid?

Senator Gregg. Healthcare is the essence of the issue which we're talking about. If we were able to manage our healthcare accounts in a responsible, fiscally affordable way, our deficit and debt issue would essentially be handled also.

I would also like to see major tax reform along the lines of Reagan-Rostenkowski.

And the problem with healthcare is that it is a massively complex matrix. It's a moving target all the time. It's not like Social Security which has four or five moving parts, we know how to fix them. Alice and I have been on innumerable commissions where we come to the same conclusion on how to do it. Simpson-Bowles had a great proposal.

But healthcare is always going to move. You can't—there's no magic wand to deal with that. I think the essence, though, looking at it from 60,000 feet, are the proposals that are coming out today from groups like the Dartmouth Institute, which essentially say that instead of rewarding cost-plus healthcare, which is what we do today, we reward outcomes and value-based healthcare and we move towards a capitation system, so that essentially the work of delivering healthcare and whether you get paid in healthcare is tied to the outcomes you produce at the price you produce. And there have been studies after studies that have shown that the variation in price for the same procedures across this country is staggering. For example, it costs five times what it costs to do a full hip replacement in Florida for what it costs in Minnesota, but the outcomes aren't any better. In fact, they're probably worse.

So there has to be the incentive of our Medicare and, to some extent, our Medicaid system which should be dealt with differently. It has to be to promote outcomes value-based healthcare and recognize that, no matter what you put in today, maybe three or four years from now, you're going to have to go back and take another look at it to see if it's working and producing the results you want.

It's such a moving target and so complex.

Representative Beyer. Thank you, Senator. Dr. Alice Rivlin, I'm impressed that the amount of money we spend on tax expenditures is greater than what we spend on Medicare or Medicaid or Social Security or nondefense discretionary. At 1.2 trillion in tax

expenditures, even half of that would close the budget deficit that we have on an annual basis right now.

Is that the lowest hanging fruit for us.

Dr. Rivlin. I think that tax expenditures are a very important part of tax reform. Not only are they large, but they are designed to go differentially to upper income people, so that sensible reforms of the major tax reform—major tax expenditures, mortgage interest, the exclusion of healthcare, and a couple of others, would help make our tax system more progressive at lower rates, and lower rates are important to growth. So I think we can do that.

Representative Beyer. Thank you.

Dr. Rivlin. If I can take one more second.

Representative Beyer. Yes.

Dr. Rivlin. I subscribe to Senator Gregg's emphasis on value-based reimbursement. I think we're making progress on Medicare. It's not hopeless.

Representative Beyer. Good. Thank you. Mr. Chairman. I yield back.

Chairman Coats. Well, I want to thank our members here, and I want to thank our witnesses, in particular. This has been one of the most substantive, meaningful hearings that this committee has held, at least under my chairmanship. I think we have successfully—and I know that my ranking member shares this thought, that it's hard to think of what three other people could have given us a better view, better analysis than what we have had from the three of you. So we are very grateful for that.

What is somewhat discouraging is that here in an election year where this issue may be the most pressing issue that the next President of the United States is going to have to deal with, and the only thing I can think that may transcend this or equal this is a terrorist attack attached to some kind of weapon of mass destruction. But looking at it from the domestic policy side, I can't think of a more challenging issue that will face this next president, and yet in this presidential election year, this is not even being debated. This is not an issue that's being presented to the American people in any way except we're not making any changes anywhere, folks, so don't worry. If you're concerned about Social Security, we're going to give you more. If you're concerned about healthcare, don't worry, we're going to give you more, your retirement pay and so forth and so on. So that's very disturbing. I really hope and pray, I think, that the suggestions that have been made here today can be taken up by the Congress next year, because it's the only rational way to deal with this problem. It wasn't that long ago I was meeting with Christine Lagarde, former finance minister of France and now IMF director, and it was at the time of the situation in Europe where they had hit a financial crisis. And I asked the question, do you think the reforms that are being offered and imposed now in the European Union would have taken place without the crisis, and she said in all my years of experience, she said I'm sorry, but I have to say no, I don't believe it would. She said I've come to understand that the revolver needs to be at the temple of the politician with a finger on the trigger before they're willing to say no to anyone.

There are rational, reasonable ways, if we can make our case to the American public, to address the situation. I encourage Dr. Rivlin by saying doomsday doesn't have to be tomorrow, and doomsday hopefully doesn't have to be a financial crisis. Christine Lagarde said and you will make terrible mistakes by rushing to judgment in terms of slashing this and slashing that and not doing it in a rational way.

So that's the challenge before us. Hopefully this committee's hearing will help spark some—at least some debate on this, and hopefully, we can inject some of this. The ranking member and I have been talking about how—perhaps how we can encourage the debate commissions—and that suggestion was made by our witness here—to make this a key issue for the presidential election.

So with thanks to my colleagues, thanks to our witnesses, the Committee adjourns.

(Whereupon, at 11:13 a.m., the hearing was concluded.)

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. DANIEL COATS, CHAIRMAN, JOINT ECONOMIC
COMMITTEE

Over the summer, I was cleaning out some old documents, and I came across a press release from 1982, when I was a Member of the House for the 4th District of Indiana.

Thirty-four years ago, I wrote about how we need to balance the federal budget, and how that cannot be done without slowing the growth of mandatory spending. I was alarmed at the rate of growth in mandatory programs and how Washington's autopilot-spending had allowed Medicare to grow to the point where it reached \$46 billion.

Yes, \$46 billion.

Sadly, that seems like pennies on the dollar today when we are projected to spend more than \$588 billion this year on Medicare alone.

Because previous Congresses and Presidents have failed to kick Washington's spending addiction, our debt is quickly approaching \$20 trillion, and as a share of our economy, is on a path to reach record-level highs.

In fact, the latest numbers from the Congressional Budget Office indicate that our gross federal debt is once again larger than the size of our economy.

It is no longer a question of IF we will ever have to finally address our gargantuan debt, but when.

In only 10 years, the cost of mandatory programs and interest on the debt will consume over 96 percent of all federal revenues. This is expected even though, on average, the federal government is expected to take a larger share of revenues each year for the next decade than it has over the past 50 years.

This means that if we are going to be able to pay for other priorities, like national security and medical research, almost every bit of it will be on borrowed dollars.

Without a strong economy or government finances, the nation and the American public's security is in danger.

Former Chairman of the Joint Chiefs of Staff U.S. Navy Admiral Michael Mullen rightfully noted that "The most significant threat to our national security is our debt ... That's why it's so important that the economy move in the right direction, because the strength and support and the resources that our military uses are directly related to the health of our economy over time."

When Admiral Mullen made those remarks, our debt was around \$13 trillion and looming threats from ISIS didn't exist, so it stands to reason that our debt is an even larger security threat today.

However, the ability to fund these basic programs will be further compromised because at around the same time—just a decade away—CBO expects that Medicare Part A, which pays for hospital services for millions of seniors, will be bankrupt.

Shortly thereafter, the Social Security trust funds will be exhausted.

By that time, the accumulation of an additional \$8 trillion in debt will bring us over \$28 trillion, which is nothing short of reckless.

While this spending addiction is a bipartisan problem, President Obama has added more to the federal debt in less than 8 years than his 43 predecessors combined did over 218 years.

Whether it is this administration or the next, this Congress or the next, eventually our nation's fiscal day of reckoning will come.

Just last month, CBO again stressed that such high levels of debt will increase the likelihood of a fiscal crisis in the United States, as lawmakers have less flexibility to respond to unexpected challenges.

CBO also warned that the debt will directly harm the economy by reducing private capital and lowering productivity, while families will feel the very real consequences through lower wages.

As dire as the situation is, we still have time to act.

But, the real question is whether Congress is willing to act entirely on its own.

In my years of serving in Congress, it seems that there is never a politically convenient time to address mandatory spending, so we continually kick the can down the road.

I strongly believe that Congress needs a catalyst to force members and the President to take action before it's too late.

Only twice in my career have I seen Congress actually step up to the plate and force itself to take politically painful major actions.

The first is the 1983 agreement between Ronald Reagan and Congress to shore up Social Security. At the time, the Social Security program was facing bankruptcy, and President Reagan joined with a Democrat-controlled Congress to put politics aside and take steps to shore up the program—actions which extended the life of the program for over 30 years now.

Unfortunately, we are once again approaching a crisis point in Social Security, as well as Medicare, and to date Congress and the Administration have proved unwilling to once again put politics aside and address the problem.

The other example is the defense BRAC process, where an independent commission makes recommendations to improve the Department of Defense's efficiency.

Given Congress' repeated failure to act on its own beyond these two limited examples, I recently introduced legislation that I believe will provide the "push" needed for Congress to make the tough decisions required to stabilize our finances.

My bill, the Mandatory BRACC Act, would establish a civilian BRAC specifically for mandatory programs—the true drivers of our spending.

This concept takes the best ideas from Defense BRAC, Simpson-Bowles, Rivlin-Domenici, and others, and would create a panel of private sector experts to streamline mandatory programs and make them more efficient.

The recommendations would then be put before Congress for an up-or-down vote—without any procedural gimmicks or stall tactics.

However, I believe Congress is still also capable of developing its own ideas to stabilize spending, as an alternative to the Commission's recommendation.

This, along with a Balanced Budget Amendment, could prevent the upcoming debt implosion if we act soon.

If we fail to act, our nation's ability to pay for essential government functions will be severely constrained, our economy will suffer, and our national security will be at risk.

Today's hearing provides us with an opportunity to identify ways to achieve our bipartisan goal of a prosperous America.

We have the privilege of hearing from distinguished experts on this topic, and I look forward to their testimony examining why and how we should solve our federal debt crisis.

PREPARED STATEMENT OF CAROLYN B. MALONEY, RANKING DEMOCRAT, JOINT ECONOMIC COMMITTEE

Chairman Coats, thank you for calling today's hearing.

I want to start with a number that's often talked about. And that's \$19.5 trillion—the total nominal debt. No question, that's a lot of money.

But, as both Senator Gregg and Dr. Rivlin write in their testimony, a far more important measure is public debt in relation to the size of the economy—the debt-to-GDP ratio. Right now that is about 75 percent of GDP.

We can improve the debt-to-GDP ratio in two ways—by decreasing the debt and by increasing economic output.

We must improve both halves of that equation. Let's look at the first—debt.

The main driver of increasing debt is the aging U.S. population. Everyone who has studied the debt issue, from CAP on the left to Cato on the right, says projected deficit growth is overwhelmingly the result of long-term trends—the aging U.S. population and rising health care costs.

One fact tells much of the story: there are nearly two and a half times as many people aged 65 and over today as 50 years ago. This means more and more Americans will be receiving Social Security and Medicare benefits.

CBO projects that spending on Social Security and Medicare will increase as a share of GDP over the next decade, while all other program spending is on track to decline.

In fact, discretionary spending is nearing historic lows. Spending on nondefense discretionary programs as a share of GDP is projected to hit its lowest level on record in 2018.

Some point a finger at President Obama for the increase in the national debt. This ignores the fact that it is overwhelmingly due to long-term trends and the legacy of the Great Recession that began on the prior president's watch.

Conveniently, they also forget history.

In the late 1990s, President Bill Clinton presided over four straight years of budget surpluses, completely erasing the deficit. This allowed us to pay down a significant portion of our debt.

President George W. Bush inherited a surplus of \$128 billion, or 1.2 percent of GDP.

But he quickly squandered the surplus on two tax cuts, which increased the debt by \$1.5 trillion over 10 years.

Then he led the United States into wars in Iraq and Afghanistan, projected to cost \$4 to 6 TRILLION dollars in the long term.

Then he presided over the worst economic meltdown since the Great Depression, which crippled the economy and sent deficits soaring.

In the end, George Bush left Barack Obama with a deficit of nearly 10 percent of GDP and a rapidly rising debt.

As Robert Bixby, head of the nonpartisan Concord Coalition put it—the debt “would have exploded” around 2009 to 2010 “no matter who was president.”

The reality is that the Obama Administration has helped dig us out from the Great Recession, and the deficit as a share of GDP fell by nearly three-quarters, from nearly 10 percent to 2.5 percent.

Now I’d like to turn to the second half of the equation—increasing economic output.

To do this, we should invest in our nation’s infrastructure, workforce, and competitiveness.

However, nondefense government investment as a share of the economy is at its lowest level in more than 50 years.

In fact, we are not investing enough to maintain our existing infrastructure.

With interest rates at historic lows, it is the ideal time to borrow and invest in rebuilding our nation’s infrastructure and fund the basic research that will drive the next generation of innovation.

As Dr. Rivlin describes in her testimony, these investments will make our economy stronger and more productive. And as economist Larry Summers has argued, NOT making these investments will place a significant burden on our children and grandchildren.

History is instructive. Investing in broad-based economic growth was at the core of America’s success in the decades after World War II. We invested in our people through the GI Bill, and in our infrastructure, building the nation’s interstate highway system.

It paid off. While publicly held debt more than tripled between 1945 and 1981, it fell by about three-quarters as a share of the economy.

More recent history is also important to consider. Excessive austerity in the near term, as has been pursued in recent years, will slow economic growth and make it more difficult to bring down the debt-to-GDP ratio over time.

Again, we need to address both sides of the equation.

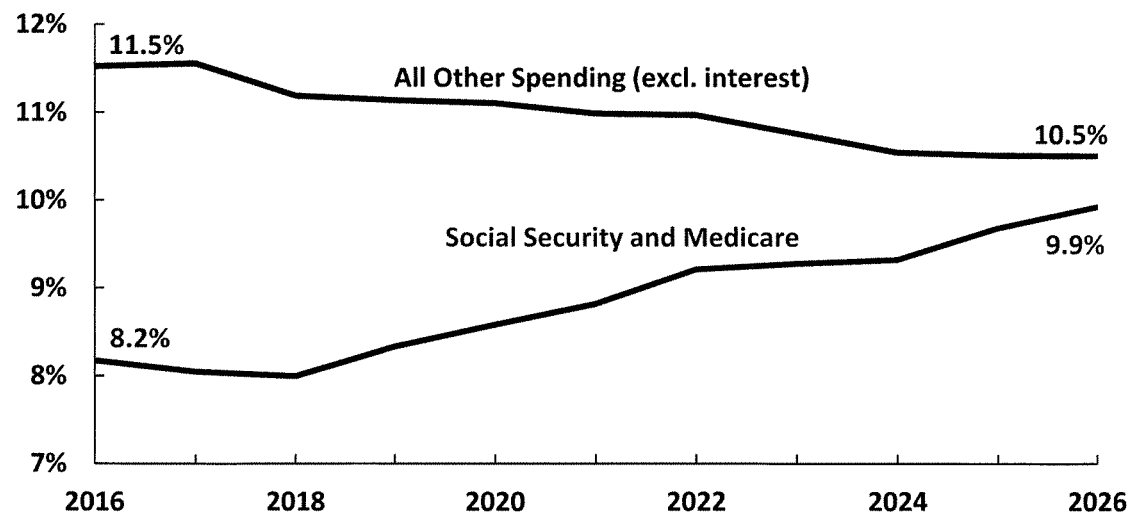
To tackle our debt we need a balanced approach that mixes targeted spending cuts, reforms to social insurance programs and revenue increases.

And to grow the economy, we must invest in infrastructure, education, and innovation.

It’s doable. It’s up to us to do it.

Aging Population Will Drive Increase in Spending on Social Security and Medicare

Spending as a share of GDP, FY 2016 to FY 2026 (projections)



Source: JEC Democratic staff calculations using data from the Congressional Budget Office

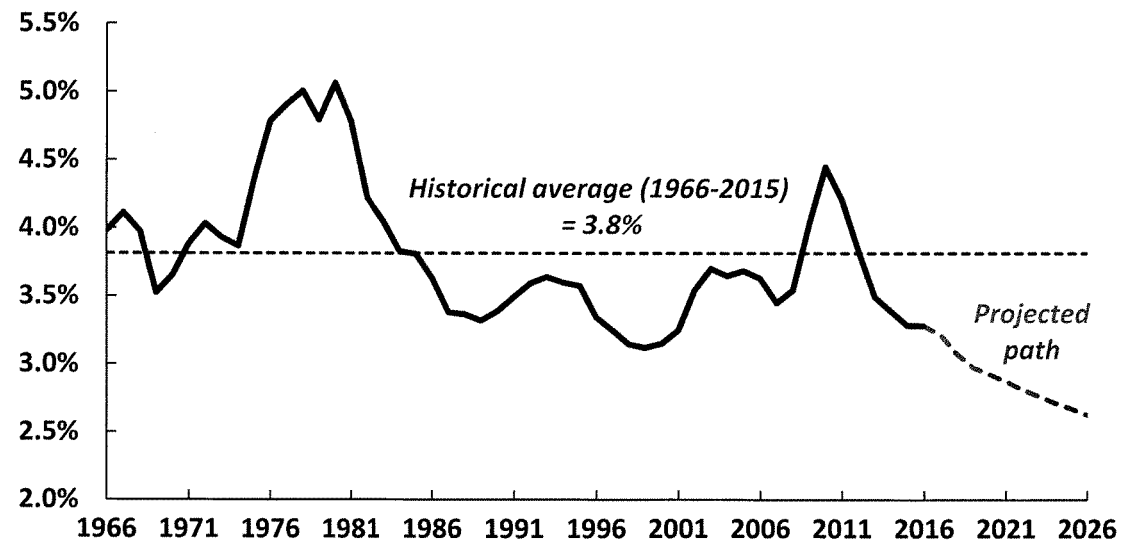
Note: Spending for Medicare and other mandatory programs is net of offsetting receipts



Nondefense Discretionary Spending Falling to Historic Lows

2

Spending as a percent of GDP, FY 1966 to FY 2026 (projections for FY 2016 on)



34

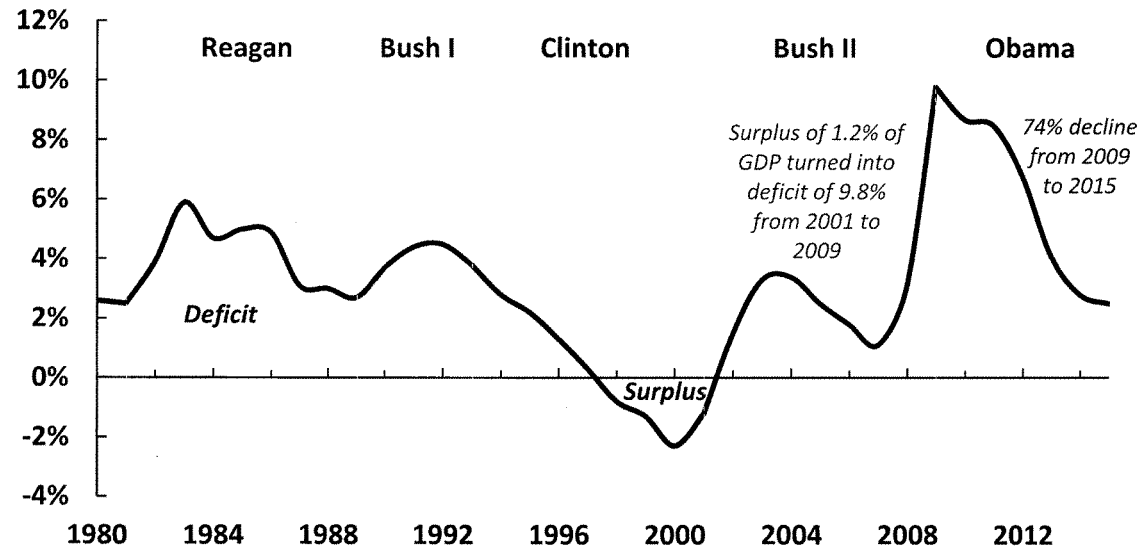
Source: JEC Democratic staff calculations using data from the Congressional Budget Office



Deficits Spiked Under Bush II; Dropped Dramatically Under Obama

3

Federal budget surplus/deficit as a percentage of GDP



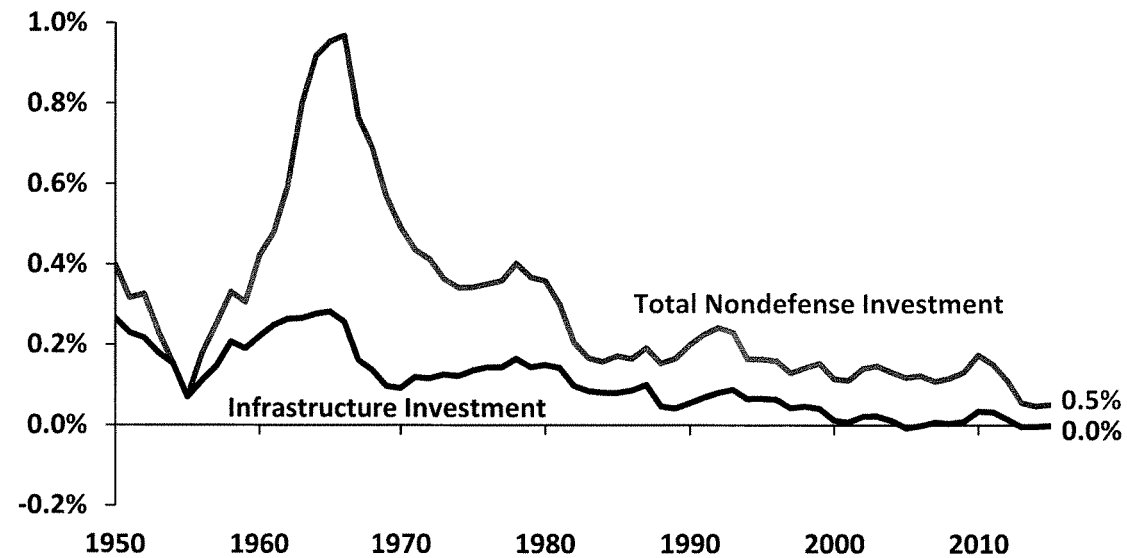
35

Source: JEC Democratic staff calculations using data from the Congressional Budget Office



Public Investment Is Historically Low

Federal nondefense investment, net of depreciation,
as a share of GDP, 1950 to 2015



Source: JEC Democratic staff calculations using data from the Bureau of Economic Analysis

Note: Infrastructure investment refers to federal nondefense investment in structures



United States Senate

WASHINGTON, DC 20510

March 15, 2011

President Barack Obama
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear President Obama:

As the Administration continues to work with Congressional leadership regarding our current budget situation, we write to inform you that we believe comprehensive deficit reduction measures are imperative and to ask you to support a broad approach to solving the problem.

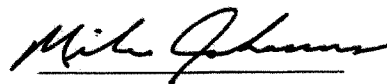
As you know, a bipartisan group of Senators has been working to craft a comprehensive deficit reduction package based upon the recommendations of the Fiscal Commission. While we may not agree with every aspect of the Commission's recommendations, we believe that its work represents an important foundation to achieve meaningful progress on our debt. The Commission's work also underscored the scope and breadth of our nation's long-term fiscal challenges.

Beyond FY2011 funding decisions, we urge you to engage in a broader discussion about a comprehensive deficit reduction package. Specifically, we hope that the discussion will include discretionary spending cuts, entitlement changes and tax reform.

By approaching these negotiations comprehensively, with a strong signal of support from you, we believe that we can achieve consensus on these important fiscal issues. This would send a powerful message to Americans that Washington can work together to tackle this critical issue.

Thank you for your attention to this matter.

Sincerely,



President Barack Obama
March 15, 2011
Page Two

Mark Udall --- Lamar Alexander

Dianne Feinstein John H. Brown

Ang Klobuchar Shirley M. Hufschmidt

Jeff Merkley Terry Moran

Janet Stutsman Clara Kim

Joe Testa Rep. Stutsman

Ben Cardin Rep. P. Brown

President Barack Obama
March 15, 2011
Page Three

My friend
Carl Castro

Ron Wyden

Mark Pryor

Ken Cal

Tom Carper

Al R. Urban

John Barrasso
Sen. Coats

Michael B. Eni

Rob Portman

Shelley Capelton

Mike Cray

Paul Blumenthal

President Barack Obama
March 15, 2011
Page Four

Chin Coon

Bill Nelson

Paul Byrd

Al Frank

Jon Lick

to Benjamin Nelson

Peggy Murray

Paul Byrd

John F. King

Kay R. Hagan

Tom Harkin

Herb Kohl

Nick Swin

Debbie Stabenow

President Barack Obama
March 15, 2011
Page Five

Joe Manchin

John B. Rostenkowski

Richard Shelby

Paul H. Ryan

Pat Johnson

Rob Portman

Wendell Scott

Rep. Blunt

Kelly Ayotte

John D. Dingell

Paul Cushman

Kay Bailey Hutchison

Bouie Carter

Tommy Davis

President Barack Obama
March 15, 2011
Page Six

Jeff G.
Wing Lee

James M. Clarke
Bill White

Tom Udall

Shirrod Brown

John Conner

PREPARED STATEMENT OF MITCHELL E. DANIELS, JR., PRESIDENT, PURDUE
UNIVERSITY, AND CO-CHAIR, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

My gratitude to the committee for the invitation to discuss our national debt and its implications for our nation's future. In my view, this issue transcends all the others before us; put another way, if we get this wrong, nothing we deal with successfully will matter very much.

On receipt of the invitation, I started preparing another fact-heavy, statistics-laden description of the problem, its near and long-term effects on the economy and on the ability of the federal government to discharge its many legitimate duties. But I decided that was not a good use of my time or yours. First, my fellow panelists are far more expert and current on the details of today's fiscal picture. Second, you've heard it all before.

You know, or you should, that our deficits have been running at historically unprecedented levels, so much so that another half trillion dollars this year, bigger than in any year in our history before 2009, was met with a yawn, or even by some, somehow, as a benign event.

You know, or you should, that our national debt has reached a peacetime record, and is heading for territory where other nations have spiraled into default, or into the loss of sovereignty as creditors use their leverage to dictate terms.

You know, or you should, that public debt this large weighs heavily on economic growth, crowding out private investment and discouraging it through uncertainty. And that much faster growth than today's is the sine qua non of the greater revenues that will be necessary to meet federal obligations, let alone reduce our debt burdens.

You know, or you should, that the unchecked explosion of so-called entitlement spending, coupled with debt service, is squeezing every other federal activity, from the FBI to basic scientific research to our national parks to the defense on which the physical survival of the country depends.

You know, or you should, that the whole problem is getting worse, and fast. Even if reform began today, past overpromising and demographic realities mean that the entitlement monster is going to devour accelerating amounts of additional dollars, all of which are scheduled to be borrowed rather than funded honestly.

You know, or you should, that we are kidding ourselves—except that it's no joke—in even the appalling estimates I just referred to. The official projections of growing indebtedness are built on a pile of wishful assumptions which repeated experience tells us are bogus: productivity assumptions are too high, interest rate assumptions too low; growth too high, spending too low. As each of these is proven unduly rosy, more zeroes will be added to the bill we hand to the young people of this country.

So, I will spare us all the statistics. Let me instead offer an appeal on behalf of those young people, the ones I am so lucky to live among at Purdue University, all their counterparts, and the new Americans not yet with us. The appeal is for a shift in national policy to the growth of the private, productive economy as our all-out, primary priority, calling all close ones and breaking all ties in its favor. And for decisive action soon, at long last, that begins the gradual moderation of unkeepable promises and unpayable debt loads which will otherwise be dumped on coming generations. This I suggest not only as wiser fiscal and economic policy, but for the sake of public integrity and the survival, literally, of our free institutions.

A national government that, year after year, borrows enormous sums and spends them not on genuine investment in the future but on current consumption, passing the bill down to others, pretending that the problem is smaller than it really is, lacks not only good judgment but integrity. It is not hyperbole to label such behavior immoral. For a long time, people have come to this Congress decrying the intergenerational injustice of this policy, but things keep getting worse not better.

A near-decade of anemic economic performance, the weakest recovery on record, has eroded badly the economic optimism on which, more than any other factor, Americans' faith in a better tomorrow has rested. A near majority now believes that America's best days are behind us.¹ As this new pessimism has deepened, it has turned into an ugliness, a meanness, a new cynicism in our national life, with a search for scapegoats on both left and right.

For almost two and a half centuries, Americans have argued strenuously about many things, but shared a resilient determination to be self-governing, to guard against tyranny at home and, on occasion, to resist by force its spread elsewhere in the world. But lately, and rather suddenly, there are alarming signals of a different outlook. A record 1 in 4 young people say that democracy is a "bad way" to run the country, and an even larger fraction of the citizenry would prefer an author-

¹ Rasmussen Reports (2015). "Do America's Best Days Still Lie Ahead?"

itarian leader who did not have to deal with the nuisance of elections. One in 6 are sympathetic to a military takeover, almost a three-fold increase from two decades ago.²

If national leadership continues to allow our drift toward a Niagara of debt, until solemn promises are broken as they would then inevitably be, today's sense of betrayal will seem tame. When today's young Americans learn the extent of the debt burden we have left them, they may question the premises of our self-government, with good reason. When tomorrow's older Americans finally understand how they have been actively misled about the nature and the reliability of our fundamental social welfare programs, it may be the last straw breaking the public confidence on which democracy itself depends.

In fairness, a few Members in each political party, some in this meeting room, have tried to address the coming crisis. To them, all thanks and credit. To those still in denial, or even advocating steps that would make our debts even higher, please reconsider. Your careers may end happily before the reckoning. Your reelections may not be threatened by your inaction. But your consciences should be. You know this, or you should.

PREPARED STATEMENT 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 toward 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 been able to muster in recent years is spending money we do not have to address issues that no one wants to pay

²Foa, Roberto Stefan, and Yascha Mounk. "The Democratic Disconnect." *Journal of Democracy* 27.3 (2016): 5–17.

for. Gridlock prevails in preventing changes to mandatory programs that will continue to grow on autopilot 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 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 10 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 reconstituted 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 5 percent from the prior year and payroll taxes should be increased by 5 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 majority votes 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.

PREPARED STATEMENT OF ALICE M. RIVLIN, BROOKINGS INSTITUTION AND
GEORGETOWN UNIVERSITY¹

Mr. Chairman and Members of the Committee:

I am happy to be back testifying before the Joint Economic Committee, one of the few venues on Capitol Hill where serious bipartisan discussion of economic policy happens. The JEC deserves great credit for having the fortitude to refocus attention on the budget future and the national debt—major economic policy challenges that have dropped from sight in this contentious election.

As the CBO has recently reminded us, our national debt is high in relation to the size of our economy and will likely rise faster than the economy can grow over the next several decades if budget policies are not changed. Debt held by public is about 74 percent of GDP and likely to rise to about 87 percent in 10 years and to keep rising after that.

This rising debt burden is a particularly hard problem for our political system to handle because it is not a crisis. Nothing terrible will happen if we take no action this year or next. Investors here and around the world will continue to lend us all the money we need at low interest rates with touching confidence that they are buying the safest securities money can buy. Rather, the prospect of a rising debt burden is a serious problem that demands sensible management beginning now and continuing for the foreseeable future.

What makes reducing the debt burden so challenging is that we need to tackle two aspects of the debt burden at the same time. We need policies that help grow the GDP faster and slow the growth of debt simultaneously. To grow faster we need a substantial sustained increase in public and private investment aimed at accelerating the growth of productivity and incomes in ways that benefit average workers and provide opportunities for those stuck in low-wage jobs. At the same time we need to adjust our tax and entitlement programs to reverse the growth in the ratio of debt to GDP. Winning broad public understanding and support of basic elements of this agenda will require the leadership of the both parties to work together, which would be difficult even in a less polarized atmosphere. The big uncertainty is whether our deeply broken political system is still up to the challenge.

The American economy is the strongest in the world. It has shown great resilience in recent years and recovered much better than others from the devastation of the Great Recession. But with an aging population, slow productivity growth, lagging wages, and increasing inequality we cannot afford policy gridlock. We need aggressive economic policies to grow the economy faster and create more and better-paying jobs. We do not lack for opportunities to do this. In recent years we have neglected our public infrastructure, allowed roads, bridges, rail, and water systems to fall into disrepair. We have failed to modernize our airports and air traffic control systems to keep up with the volume of flights or to invest adequately in public health. We have failed to keep the skills of our workforce growing in step with changing technology and to prepare young workers, especially those from low-income families, for

¹Alice M. Rivlin is a Senior Fellow in Economic Studies at the Brookings Institution and a Visiting Professor at Georgetown University. The views in this statement are strictly her own and do not necessarily reflect those of staff members, officers, and trustees of the Brookings Institution or Georgetown University.

the jobs the economy requires. And we have reduced the flow of funding into basic research on which future technological progress depends.

After years of neglect and under-investment, opportunities abound for public investment and public-private partnerships to increase future productivity growth and open new opportunities for current and future workers. We would be stupid and irresponsible not to take advantage of these opportunities to enhance the future productivity and income growth needed to keep the American economy strong and enhance American ability to be an effective world leader.

These growth-enhancing investments will require substantial public resources over quite a long period. What is needed is a well-planned and executed program of investment in knowledge, skills, and basic infrastructure, not a short-term stimulus designed to create as many jobs as possible quickly. Even if part of this spending is offset by reducing lower priority spending or rising revenues—as it should be—a sufficiently aggressive investment program will likely increase the near-term deficit. It will create additional jobs and take some of the burden off the Federal Reserve and monetary policy, which has recently borne the sole policy responsibility for keeping the economic recovery from stalling.

Opponents of undertaking a major productivity-increasing investment program argue that we can't afford the additional spending because government is already spending too much and the debt burden is already too high, so any additional spending must be fully "paid for" in the near-term. Proponents, by contrast, argue that we should borrow as much as we need for investment at current low interest rates and worry about the debt burden later. Both are wrong. Investment in future growth is essential to a prosperous future, but must be undertaken simultaneously with actions to reduce the growth of future debt. Faster growth alone will not reduce the debt to GDP ratio in a society that has already committed itself to benefits for a growing older population—benefits that will increase more rapidly than revenues even at hoped-for higher rates of GDP growth.

Why can't we focus on investments now and worry about the debt problem later? The main reason is that the adjustments that we need to reduce the growth in entitlement spending and increase tax revenues in the future take time and must be well designed and phased in slowly. Moreover, unless a credible longer-run debt reduction plan is put in place, it will be impossible to build bipartisan support for the needed investments or to deal effectively with another recession when one occurs. Moreover, without enactment of a credible long-run deficit plan, our creditors may gradually—and understandably—lose their faith that the United States is a credit-worthy nation. Then we would be faced with the far more serious problem of paying much higher interest rates on a larger debt.

There are three necessary elements of a long-run debt reduction plan:

- Putting the Social Security program on sustainable track for the long run with some combination of higher revenues and reductions in benefits for higher earners.
- Gradually adjusting Medicare and Medicaid so that federal health spending is not rising faster than the economy is growing. Indeed, we should use these programs to transform the whole American health delivery system, so that total health spending no longer absorbs a growing portion of total resources.
- Adjusting our complex, inefficient tax system so that we raise more revenue in a more progressive and growth-friendly way and encourage the shift from fossil fuels to sustainable energy sources. Such a tax reform program could involve limiting or restructuring tax expenditures that differentially benefit high-income people in exchange for lower marginal income tax rates; corporate tax reform aimed at taxing a broader base at lower rates; a carbon tax that starts low, but rises predictably over time; and possibly a progressive consumption tax.

You will notice that I do not believe that cutting discretionary spending further should be part of a long-run plan to reduce the debt burden. We need to work hard to increase the effectiveness of both domestic and defense spending (and we can argue about the balance between the two), but I believe that the Budget Control Act of 2011 cut discretionary spending too much. The investment program I outlined above would increase discretionary spending above the current caps.

Reaching agreement on the politically sensitive changes necessary to reduce the debt burden will take bipartisan negotiation and strong leadership in the White House and Congress—leadership committed to working together to get the economy growing faster and the debt burden coming down. In a country with a Constitutional structure that requires consensus and compromise, there is no way that the needed changes in taxes and entitlements can be made without bipartisan cooperation and compromise.

The major elements of such a plan closely resemble those of all the bipartisan plans seriously discussed in recent years—Simpson-Bowles, Domenici Rivlin, Obama-Boehner, the Super Committee, and the “gangs” of Six or Eight or whatever. The arithmetic of the budget drives all bipartisan problem-solvers to the same general conclusions and much of the staff work has already been done. However, I am not suggesting another grand bargain—at least not another attempt to wrap all these complex adjustments into a single piece of legislation to be voted on at once. That is too heavy a lift and would not produce the necessary buy-in. Instead, I am suggesting that the new Administration and Congressional leadership work out a general framework for investing in growth and getting the debt/GDP ratio coming down over time. Then the relevant committees can get to work on the major components (investment in infrastructure, skills, and knowledge; restoring Social Security solvency; reforming Medicare and Medicaid; and transforming the tax code). All this will be difficult and contentious and no-one will be fully satisfied with the result, but the point is to break out of gridlock and start working on constructive solutions.

Thank you for listening. I would be happy to answer questions.

QUESTIONS FOR THE RECORD FOR PRESIDENT DANIELS SUBMITTED BY SENATOR TOM COTTON

1. Mandatory Spending programs and interest payments are expected to grow in the years to come and consume increasing amounts of the federal budget. CBO projects by the year 2026 that 96% of revenues will be spent on mandatory programs and debt interest. How do you expect this to effect the primary responsibility of the federal government, which is funding our military and protecting our national security?

Whether one prefers big government or limited government, a social welfare state or a market economy state, has nothing to do with the fact that no enterprise—not a family, a small business, or a modern nation-state—can survive, let alone thrive, while carrying the incredible debt burdens we are about to confront. This is not a matter of opinion based on a preference for limited government. It's a brutally objective fact of life.

In the next 10 years, the United States will spend more on interest for its debt than it does for its military. And even as federal spending continues to grow, the average income for the American worker, who ultimately shoulders the burden of our spending spree, has essentially flat lined. All the appropriate and noble pursuits of our government are threatened by the debt burden amassed and continuing to grow—and the country will rely on a generation personally indebted by individual pursuit of a brighter future.

The Wall Street Journal recently reported that there are roughly 7 million men in prime working age (25–54) who are not holding paid jobs nor seeking work. The work rate for that age group is 84.4%—lower than in 1940, 86.4%, at the end of the Great Depression. How large of an impact do you believe this has on the federal deficit and how can Congress address the crisis of working-age Americans who have given up seeking employment?

The percentage of Americans with a job is near the lowest in decades. One in five men of prime working age, and nearly half of all persons under 30, did not go to work today.

We can't build a middle class out of government jobs paid for with borrowed dollars. In fact, it works the other way: a government as big and bossy as this one is maintained on the backs of the middle class, and those who hope to join it.

Those punished most by the wrong turns in recent years are those unemployed or underemployed, and those so discouraged that they have abandoned the search for work altogether. And no-one has been more tragically harmed than the young people of this country, the first generation in memory to face a future less promising than their parents did.

The routes back to an America of promise, and to a solvent America that can pay its bills and protect its vulnerable, start in the same place. The only way up for those suffering, and the only way out of the dead end of debt into which we have driven, is a private economy that begins to grow and create jobs, real jobs, at a much faster rate than today.

QUESTIONS FOR THE RECORD FOR SENATOR GREGG SUBMITTED BY SENATOR TOM COTTON

1. Mandatory Spending programs and interest payments are expected to grow in the years to come and consume increasing amounts of the federal budget. CBO projects by the year 2026 that 96% of revenues will be spent on mandatory programs and debt interest. How do you expect this to affect the primary responsibility of the federal government, which is funding our military and protecting our national security?

Answer: Admiral Mike Mullen, former Chairman of the Joint Chiefs of Staff, has said our debt is our greatest national security threat because it jeopardizes our ability to fund defense and undermines the economic security that is a critical part of national security. A nation with our current levels of unsustainable debt cannot hope to maintain military strength or influence in world affairs.

As you noted, spending on mandatory programs and interest on the debt are consuming an increasing percentage of our budget. This will only accelerate as society ages and the interest rate we pay to service our debt normalizes. The vast majority of spending growth over the next decade is a result of rising costs for health care, Social Security, and interest on the debt. These three categories are responsible for 84 percent of nominal spending growth over the next decade and 165 percent of spending growth as a share of GDP (with other budget categories shrinking). According to the CBO long-term outlook these three categories will consume every dollar of revenue raised by the federal government by 2038, with every dollar for defense or other spending financed by borrowing.

Failure to address the growth of entitlement spending and our debt will make it harder for Congress to find the resources to fund the military, and will eventually squeeze out funding for other investments in the domestic discretionary side of the budget. A large and growing debt will also reduce the fiscal space available to respond to emergencies such as a major military conflict without risking a fiscal crisis. We are already seeing the negative effect of a budgetary squeeze with the sequester, which imposes deep cuts on defense and nondefense discretionary spending because of the failure of Congress to address the deficit in a responsible manner.

Failing to address our debt will also threaten national security by harming economic security. U.S. national security in the 21st century rests upon both economic and military strength, for our military might and diplomatic muscle ultimately depend on a vibrant economy. Economic growth is the foundation of that strength, without which it cannot exist.

Our strong economy is the core of our nation's foreign policy power. Unless we change course, our huge and growing debt will undermine our economic growth, our military strength, and our global leadership. Absent a new, sustainable fiscal outlook, America's standing in the world and its national security will surely, if perhaps slowly, decline. We must resolve our immediate crisis in a way that drives the completion of a comprehensive long-term fiscal plan which supports America's continuing economic strength and global leadership role.

2. The Wall Street Journal recently reported that there are roughly 7 million men in prime working age (25–54) who are not holding paid jobs nor seeking work. The work rate for that age group is 84.4%—lower than in 1940, 86.4%, at the end of the Great Depression. How large of an impact do you believe this has on the federal deficit, and how can Congress address the crisis of working-age Americans who have given up seeking employment?

Answer: Since the Great Recession began in 2007 the employment rate for prime-age males has declined. But, as you note, that decline is part of a much longer-term fall in the share of men taking part in the workplace. The decline has been largest among less-educated men and larger among African Americans than among whites and Hispanics.

The reduction in labor force participation by working-age men has a direct negative effect on the budget, both in terms of foregone taxes received by the government and additional government benefits, such as SNAP, paid out to some (though not all) of these nonworking individuals. The impact on revenues is particularly pronounced for entitlement trust funds that are funded by payroll taxes from workers. Declining labor force participation exacerbates the declining ratio of workers paying into Social Security and Medicare to the number of beneficiaries.

Economic growth is essentially a function of how many people are working and how productive workers are. The decline in labor force participation limits the growth in the workforce which is necessary for a growing economy. Our economic output generally rises and falls with the number of Americans in the workforce. The more Americans who are working, the more wealth our society generates both in

terms of GDP and in terms of tax revenue that can be used to pay for spending. But the larger cost is to these men, who lose the opportunity to become self-sufficient, contributing members of their communities.

There are a number of causes for falling male labor force participation. Employment rates for men have declined even after controlling for individuals who report being in school or college. And nearly one-quarter of unemployed men report not working in the previous year as well, making it less likely that they will re-enter the workforce and build a successful career.

Disability benefit applications have also increased, with larger increases among less-educated individuals according to the studies done by Mark Duggan and David Autor. Applications are increasingly based upon mental illnesses and musculoskeletal pain that are difficult to verify. Disability applications rise and fall with the unemployment rate, making it reasonable to conclude that fewer job opportunities for less-skilled men have increased their likelihood of going on disability benefits. Once an individual begins receiving Social Security Disability Insurance benefits it is unlikely they will ever return to the labor force.

One reason for falling labor force participation by prime-age males is the well-documented decline in demand and wages for less-skilled individuals. Many jobs that once allowed a high school graduate to earn a decent living often no longer exist. And for those who can find jobs, wages have stagnated. At the same time, there is also an element of choice in falling employment by prime-age males. A rising number of nonemployed males tell the Census Bureau's Current Population Survey that they don't want to find a job.

In short, there are many reasons for the decline in labor force participation, and policy can only reasonably address some of them. But Congress could pursue a number of strategies designed to increase the rewards to work and encourage non-working men to re-enter the labor force which would in turn improve economic growth and improve our budget outlook. For example, increasing enforcement of work requirements for SNAP benefits and other social transfer programs could reduce the incentive to not work.

Targeted investments in education and job training, offset by reductions in spending for consumption, can help increase labor force participation by better preparing individuals for the workforce. Reforms to the Social Security Disability Insurance program that encourage individuals to remain in the workforce instead of going on SSDI, would help increase labor force participation. So would reforms that encourage SSDI recipients' return to work, such as those included in the Return to Work Act that you introduced with Senator Lee.

Congress can also encourage individuals to return to the workforce by promoting economic growth through business tax reform and individual tax reform, especially addressing very high effective marginal rates at some point of the tax code.

QUESTIONS FOR THE RECORD FOR DR. RIVLIN SUBMITTED BY SENATOR TOM COTTON

1. Mandatory Spending programs and interest payments are expected to grow in the years to come and consume increasing amounts of the federal budget. CBO projects by the year 2026 that 96% of revenues will be spent on mandatory programs and debt interest. How do you expect this to effect the primary responsibility of the federal government, which is funding our military and protecting our national security?

The projected growth of mandatory spending and interest payments is indeed a serious challenge. If policies are not changed discretionary spending (including defense) will be squeezed to dangerous levels, and deficits will rise rapidly. In my opinion we need to restrain the growth of mandatory spending, especially health care spending, and increase revenues from a more pro-growth tax system. If we can do both, interest payments will fall, and economic growth will pick up!

2. The Wall Street Journal recently reported that there are roughly 7 million men in prime working age (25–54) who are not holding paid jobs nor seeking work. The work rate for that age group is 84.4%—lower than in 1940, 86.4%, at the end of the Great Depression. How large of an impact do you believe this has on the federal deficit and how can Congress address the crisis of working-age Americans who have given up seeking employment?

I agree that low labor force participation among “working-age” men is a threat to prosperity. There are probably multiple reasons, including lack of well-paying jobs, reduced incentives to work in multiple-earner families, etc. We need to find out more about who is not working and why and then make a big effort to induce more potential workers to join the labor force and stay in it. The focus should not just

be on prime-age males. We have lower female labor-force participation rates than many advanced countries. We also need to find ways of keeping older workers employed at suitable jobs.

QUESTIONS FOR THE RECORD FOR DR. RIVLIN SUBMITTED BY VICE CHAIRMAN
PATRICK TIBERI

CBO estimates that Medicare outlays will double over the next decade. By 2026, net of offsetting receipts, outlays for the Social Security program, and major health care programs will grow at an average annual rate of 6.0 percent. Those programs account for 63 percent of the total increase in CBO's projected federal outlays between 2016 and 2026.

Having social safety net programs available to help the elderly and the sick is vitally important. Yet such programs are not free, nor are funding solutions so simple. We cannot just "raise taxes," because that would harm our sputtering economy. Our approach to funding these programs must account for how the economy will respond. Namely, to fund the programs, we need to pursue a fiscal policy that encourages private sector fixed investment and other components critical for economic growth.

In your testimony before this Committee, you recommend reforms to Social Security first and Medicare/Medicaid second.

Would you agree that responsible budgeting dictates that we focus on these largest two cost contributors first?

Yes, but we also need tax reform to raise more revenue from a more pro-growth tax system. A rapidly growing older population will require addition spending for Social Security, Medicare, and Medicaid. We need to retrain that growth (primarily by making health care delivery less wasteful) and raise more revenues at the same time.

Would you also agree that the Social Security program is relatively easy to fix—at least compared to Medicare—and therefore should be the first priority?

Yes.

Also according to CBO, outlays for Social Security will total 4.9 percent of GDP in 2017, rising to 6.0 percent of GDP in 2026; and outlays for Medicare rise from 3.1 percent of GDP to 4.0 percent in 2026. It is further projected that the average annual growth rate for real GDP will hover around 2 percent over the next decade.

If annual economic growth were a full percentage point—or even a meager half percentage point higher—how beneficial would that be toward both funding Social Security and Medicare programs and stabilizing their GDP percentages?

Higher growth is highly desirable, because it reduces the burden of public spending generally on taxpayers. However, if higher growth generates higher wages, which one would expect, it will not help the Social Security Trust Fund much, because higher wages mean both more payroll tax revenues and higher benefits for future retirees.

To accelerate economic growth, in your testimony you emphasize infrastructure and public investment and mention corporate tax reform, though not regulatory reform.

Would you agree that the fastest way to get a jump in economic growth is lower tax rates, especially the corporate tax rate, and reduce federal regulation of the private economy?

Yes, we need to design smarter regulations that accomplish the goals with much less drag on growth.

QUESTIONS FOR THE RECORD FOR DR. RIVLIN SUBMITTED BY SENATOR ROBERT P.
CASEY, JR.

(1) Dr. Rivlin, I think we share the belief that we must work toward creating an economy that ensures all Americans have a fair shot—one where workers can find jobs that pay family sustaining wages. Can you discuss how wage stagnation can create drag on economic growth, and how overall wage growth can help economic growth?

Yes, higher wages will stimulate demand for products and services and create incentives for hiring and business investment—a virtuous circle as long as inflation does not appear on the horizon.

(2) Dr. Rivlin, I believe one of the most critical long-term investments we can make is early childhood education. I like to say that when children learn earlier in life they earn more later. We need to start concerted investments today to ensure we are producing the type of workforce we need 10, 20, and 30 years down the road. Reflecting on your time in federal service and your time working on debt reduction, do you think spending on early childhood education is a worthwhile investment and one which warrants increased spending? Can you discuss your views on ensuring our workforce remains competitive, particularly as we see rapid changes in the demands on our workforce, many of which may accelerate over time?

Yes, I think the evidence is mounting that good quality education and nurturing pays off creating healthier, higher-functioning adults with greater opportunities, especially in low-income neighborhoods.

