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SAFEGUARDING THE AMERICAN DREAM: PROSPECTS FOR OUR ECONOMIC FUTURE AND PROPOSALS TO SECURE IT

HEARING

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

OF THE

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FIRST SESSION

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SAFEGUARDING THE AMERICAN DREAM: PROSPECTS FOR OUR ECONOMIC FUTURE AND PROPOSALS TO SECURE IT

THURSDAY, DECEMBER 17, 2009

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:03 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Joseph I. Lieberman, Chairman of the Committee, presiding.

Present: Senators Lieberman, Carper, Burris, Collins, McCain, and Voinovich.

OPENING STATEMENT OF CHAIRMAN LIEBERMAN

Chairman LIEBERMAN. Well, good morning and welcome to this hearing. I thank everyone for being here. I particularly want to thank our colleagues, Kent Conrad and Judd Gregg, Chairman and Ranking Member, respectively, of the Budget Committee. And I would say for the purposes of this hearing, I will unofficially designate you as leaders of the rebellion against our national debt.

Let me say just a few words in opening. Our focus here this morning is on our exploding national debt and what we can and must do about it. I want to say that the Committee is holding this hearing because under our traditional Governmental Affairs jurisdiction, before we came to also be known as the Homeland Security Committee, with oversight of all government operations, including the Office of Management and Budget (OMB) and, of course, the major Budget Committee is the one led by the two gentlemen before us, but we oversee OMB. We hear the nomination of the Director of Office of Management and Budget. And it is part of that jurisdiction that leads us to hold this hearing this morning.

Look, the facts and numbers of our current national debt, which is literally exploding, are so large that I think sometimes they are numbing and hard for individuals to appreciate when you think that we are now approaching $12 trillion in debt—$12 trillion. The Congressional Budget Office (CBO) tells us that we will run at least another $9 trillion into debt over the next 10 years.

If you consider unfunded liabilities related to Medicare, Medicaid, Social Security, and pensions, it totals over $40 trillion. By one estimate, this is more than $480,000 of debt per American household. It is astounding, and more than being astounding, it

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represents, it seems to me, the most serious threat that our Nation faces here at home.

In some senses, and I want to be careful about this, it is as dangerous a threat as some of the threats we face from foreign enemies and the Islamist extremists who attacked us on September 11, 2001. Obviously, it is a different kind of threat because they aimed to kill us, as they did on September 11, 2001. But they also aimed to defeat our way of life, our national strength. And unless we do something about the debt, that is exactly what will happen. Our country will not be what it has been for the generations before, including the one privileged to live in this country and to be Americans today.

Another consequence will be that we will face economic difficulties that will be, I think, greater than the great recession that we are just coming out of. So we have got to do something about this.

There is, as I suggested at the beginning, finally a rebellion beginning against our national debt, and it is beginning here in Congress, of which Senator Conrad and Senator Gregg have been leaders. But I do think, and I would guess my colleagues feel the same, that as I go home to Connecticut, the American people have reached a tipping point on this. They are getting it. It may be far away. The numbers may be beyond their comprehension. But they see that we in Washington are just incapable of dealing with the debt, of stopping it.

It is not because, I would say for the inside, we are evil. It is just because, ultimately, we are irresponsible. We like to spend money and we do not like to raise taxes. You do not have to be Alan Greenspan to know that if you keep doing that over a long period of time, you are going to run an unsustainable debt.

The rebellion has taken specific form in this Congress and—as Senator Voinovich and I have done in our so-called Securing America's Future Economy Commission Act (SAFE Act) and as Senator Conrad and Senator Gregg have done in their Bipartisan Task Force for Responsible Fiscal Action, which is really the leading vehicle of this rebellion today, with more than 30 Senate cosponsors—it is to create a process, a commission that will bring key decisionmakers from Congress, perhaps the Administration, perhaps from the outside together to make the tough decisions in the national interest and then to bring it back to Congress on an up or down vote.

And the reason for this is, I think we have all concluded ourselves that we are not capable of dealing with this problem as quickly as we have to deal with it. I am dating myself—but it is like the old Walt Kelly "Pogo" cartoon. "We have met the enemy and it is us." And so we have decided it is kind of a congressional fiscal 12-step program. We have got to discipline ourselves and the way to do it is with a commission.

And a group of us have said, under the leadership of the gentlemen here, and I am proud to say including about a dozen Democratic senators, we are not going to vote to extend the debt limit beyond the $12.1 trillion it is at now unless such a commission, such a process to deal with our debt is set up. We have had a partial victory so far in that the House did not approve a $2 trillion extension of the debt as it wanted, but $300 billion, which will take us to February. But we are still talking and I will be interested to hear from Senator Conrad how he feels about that this morning, about at least getting a vote for our proposal on a statutory commission before we agree to even a short-term debt.

So this morning, with our two colleagues at the beginning, with Chairman Greenspan and Dave Walker, who are leading the rebellion out in the provinces against the debt, we are going to consider what will happen if we do not deal with this and how can we best deal with it to literally secure the future of our country.

I will tell you, one reason why there is such anger at Washington today among the American people is, of course, about the economy, but it is also because the economic troubles have led most every family I know to tighten their belt, to put some money away to save some, not spend as much. And yet they watch us and we are not doing that. This concern has obviously agitated people, affected the current debate over health care reform, and certainly part of why I was so concerned about creating a new public government insurance option and expanding Medicare at this time.

Anyway, that is my opening statement. I thank everybody for being here and I hope this hearing can help, frankly, to build a rebellion against the national debt to the point where we finally do something about it.

Senator Collins.

OPENING STATEMENT OF SENATOR COLLINS

Senator COLLINS. Thank you, Mr. Chairman, for conducting this hearing on a matter of such importance to our country.

I want to join you in commending Senator Conrad and Senator Gregg for their extraordinary leadership in this area. As you pointed out, they are not Johnny-come-latelys to this debate. They have been sounding the alarm on the fiscal crisis for a long time now.

Now, I hadn't thought of them as leading the rebellion, but then I thought of Senator Gregg's State motto, which is "Live free or die," and I guess it is really "Live free of debt or die." So it is appropriate that they are here today.

I also want to thank Mr. Greenspan and Mr. Walker for their service to our country, for their leadership, and for their participation today.

Earlier this year, Mr. Walker brought the Concord Coalition's Fiscal Wake-Up Tour to the State of Maine, and I will tell you, the numbers are a clarion call to action. To paraphrase the Senator for whom this building is named, a trillion here, a trillion there, pretty soon you are talking about a real fiscal catastrophe. Nothing underscores the scope of the crisis we face more than the fact that the billions of taxpayer money that so concerned Senator Dirksen just a few decades ago pale by comparison to the prospect of annual deficits exceeding a trillion dollars that we confront today.

The dire consequences are found in innumerable charts, graphs, and spreadsheets. This debate is, however, not just about numbers and cold data. It is about our obligation as policy makers and as citizens to future generations of Americans. The basic problem is that government has promised more than our citizens can afford to pay. One columnist has described it as the collision between the high and rising demand for government services and the capacity of the economy to produce the tax revenues to pay for those demands.

Historically, Americans have paid about 18 percent of the Gross Domestic Product (GDP) in Federal taxes. But with the explosion in entitlement spending that is tied to the retirement of the baby boom generation, plus interest on the debt, Americans would have to pay taxes equal to 34 percent of GDP to keep pace with spending 25 years from now. Even if that were possible, the remedy would do tremendous damage to our economy. It would crush job creation, devastate our already battered small business community, and dash the aspirations and "can do" spirit of our citizens. Thus, our decisionmaking must begin by reconsidering spending that, although popular, simply cannot be justified during this fiscal crisis.

It is also wishful thinking to think that we can simply grow our way out of this problem. The SAFE Commission Act introduced by the Chairman and Senator Voinovich and the bill introduced by Senators Conrad and Gregg are thoughtful approaches to addressing this crisis. We will hear more about that, so I will not repeat in my testimony exactly their approach.

Let me say, however, that this examination is not merely necessary, it is urgently needed. We simply cannot continue business as usual and there is no better evidence of the need for change than the budgets that we have recently approved. I opposed the budget because I believe it accelerates our journey down the primrose path to fiscal ruin. It projects an enormous increase in spending that will double the public debt in just 5 years.

This is a moment in history in which we must confront the conflict between what we want and what we can afford. It is time to reassess our national priorities to make the hard decisions and to set a new course. The budget reform proposals, the thoughtful legislation presented by our colleagues, would begin to move us forward as a Nation in facing our fiscal challenges.

I do want to say that I believe the legislation could be improved. Instead of legislation that would not be amendable, I believe that Members of Congress should have some ability to amend the Budget Commission's recommendations. What I would suggest is that ability should not be unlimited and that amendments should be required to be revenue-neutral, not affect the overall balance.

We can put this country back on track. We can do what needs to be done to ensure that future generations of Americans enjoy what every American generation has proudly proclaimed as a birthright, and that is the promise of a better quality of life than the generations that preceded it.

Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thank you very much, Senator Collins.

Senator Voinovich, you have been so active in this quest for so many years, and I know, because you have announced you are retiring after this term, that you have really focused on this as something you want to feel that you have made some progress on before you leave public office, after an extraordinary career at many levels of government. So I would, with respect, invite you to give an opening statement this morning.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Thank you, Mr. Chairman, for holding this hearing. After national security, I think the most important issue Congress and our Nation faces today is this issue of our debt and budgets that are not balanced as far as the eye can see in the future. And as you said, if we do not deal with it, it will affect our national security and will have an impact on world peace. So I want to thank you for your work and our work on the SAFE Commission.

I want to thank our panel, the Chairman and Ranking Member of the Senate Budget Committee, Senators Conrad and Gregg, for your leadership to unite efforts of the Members of the Senate to come up with a bill that we can get passed and that will start to make a difference.

The bill would force Congress to fully address our Nation's fiscal crisis. It forces us. It recognizes that, despite all our good intentions, Congress has failed to balance our budgets and stop our rapidly-climbing debt, a $1.4 trillion deficit last year, over $12 trillion in terms of our debt limit.

I think it is really important to point out that the American people, as well as the international community, recognize the fiscal crisis our Nation faces. Everywhere I go around the world, people are saying, "what are you guys doing?" Canadians, they have said, "if you do not get your house in order, we are dead, because our economies are intertwined. You must face up to doing something about it."

So our Nation does stand on thin ice and our credit and our creditability are in jeopardy. And it does not take an economist to realize our course is unsustainable. The Federal Government is the worst credit card abuser in the world and we are putting everything on the tab of our children and grandchildren.

So today, we are here to discuss Senator Conrad and Senator Gregg's Bipartisan Task Force. When we had our press conference, I told you there was a big smile on my face. That is something I have been working on for a long time around here, as Senator Conrad and Senator Gregg know. The thing that tickles me is that at last count, we have 33 sponsors. That is pretty darn good for the U.S. Senate.

I just heard, though, yesterday that President Obama is considering an Executive Order to create a Bipartisan Debt Commission, but I think it is important to recognize that the authority does not mandate congressional action. I am going to ask Chairman Greenspan—he was the last one that had a successful commission around here—what the differences are between today and when he did it in 1983. But the fact is that this fiscal task force should be made up of Members of Congress. If we get the 14-vote majority, those Members who work their you-know-whats off on that commission and their staffs should know that their hard work is going to result in some action and not be dilly-dallied like so many other things where people bust their back and nothing happens.

I know that some Members of Congress say that this should be done in regular order, particularly over on the House side. In an ideal world, that is what we would do. Unfortunately, for my entire time in the Senate, we have not been able to address this crisis.

Congress is simply not willing or capable of enduring short-term pain for long-term gain. You just laid it out. It is the way it is. It is the reality. So that is why we need the commission, to provide solutions and an expedited procedure for an up-and-down vote so the reform proposals do not die in committee or become an exercise in political messaging.

I am fed up with political messaging. We have it all the time on both sides of the aisle. And you want to know what? So are the American people. They see through it. That is why they are so upset with what is going on down here. They have had enough of it, and I will not use another word that I might have used because this is a hearing. [Laughter.]

The Conrad-Gregg Fiscal Task Force is an example of bipartisan compromise to achieve a productive process to tackle an enormous problem. And I hope that this Committee and my colleagues do not make the mistake that we too often make, and that is we let the perfect get in the way of the good. And that is what I think that you guys were able to do. You have put this together. You have combined a lot of good ideas. I think the legislation you have put together is terrific. I am hoping that it gets the support of the Senate and the House and it is a strong message, I think, to the President that we have got to act now.

And I think the President and our OMB Director realize it needs to be addressed as both a policy and a political issue. And the American people are going to want to know it is real, not another Saturday night special. We have got people out there across the country that are saying to us, "What are you doing?" Some are saying, "We are losing America."

I was really upset the other day, and I think, Senator Lieberman, you were there when we had the expert on China talking about the fact that the Chinese once looked at us as the model——

Chairman LIEBERMAN. Right.

Senator VOINOVICH [continuing]. And now they have concluded that we are on our way out. I think that this cannot be the last generation of Americans, like Senator Collins said, that they are not going to have an opportunity for the same standard of living that we have had. And I think that this is a moral issue, a moral issue for us and for our country and, quite frankly, as I said, for the world. Thank you.

Chairman LIEBERMAN. Thanks very much, Senator Voinovich.

Thanks to our colleagues for your patience as the three of us really cleared our chests, because it is right in there.

I want to make clear when I said you were leading a rebellion that it is a patriotic rebellion to help the government do what it should do. So thanks very much for being here and we will begin with Chairman Conrad.

TESTIMONY OF HON. KENT CONRAD,[1] A U.S. SENATOR FROM THE STATE OF NORTH DAKOTA

Senator CONRAD. Thank you, Mr. Chairman, thank you so much for holding this hearing. Thank you for your strong leadership on this issue. I personally appreciate it very much.

Senator Collins, to you, as well. You have been a stalwart and we very much appreciate it.

Senator Voinovich, there could not be a more passionate, articulate advocate for taking on the debt of this country than you are and you have been, and we thank you for your willingness to partner with us to try to get something done that is in the important interest of the country.

As always, it is good to be with the former Chairman of the Budget Committee and my friend, Senator Gregg, to discuss this critical issue.

Senator Lieberman, you have been a leader in the Senate, bringing attention to our long-term fiscal crisis. Along with Senator Voinovich, you have introduced the Securing America's Future Economy Commission Act, or SAFE Commission Act, which would establish a special process to develop legislation to significantly improve our long-term fiscal condition.

I believe that you are exactly right, that a special process is required. Those who say, leave it to the regular order, it will not happen. We all know it will not happen. We only need to point to the most recent effort on health care reform, which I believe does make modest improvements, but it does not fundamentally address the long-term imbalances.

And it is the nature of the beast here. I have been here 23 years. If there is anything I am certain of, I am certain that the regular order is not going to take on this burgeoning debt.

As you know, last week, Senator Gregg and I reintroduced our proposal for a special process. We call it the Bipartisan Task Force for Responsible Fiscal Action. That bill already has the support now of 34 of our colleagues—we had another colleague join just last night—20 Republicans and 14 Democrats, including Senator Lieberman, Senator Murkowski—who is the one that joined just yesterday—and Senator Voinovich is a leader, as well. I thank you for your support. Thirty-four cosponsors in that short of a period, because we just circulated this proposal days ago. I thank all of the Members who have signed up, and some of them under pretty fierce lobbying by those who do not want to see us proceed in this way.

We have colleagues who are very dug in on the notion that this invades their turf and this upsets the normal distribution of responsibilities to the committees of Congress. I would just say to those members, I respect the jurisdiction of your committees, but even more than that, I believe the threat posed by the debt crisis in this country supercedes any commitment to the jurisdiction of any specific committee because the committees of jurisdiction have had years to face up to this problem and have failed to do so. That is a fact.

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[1] The prepared statement of Senator Conrad appears in the Appendix on page 51.

Before I discuss the specifics of the Conrad-Gregg Task Force, allow me to take just a moment to discuss how I see our economic future and why I think some special process is absolutely essential. Nothing short of the economic future of our Nation is at stake.

Here is *Newsweek's* cover story from December 7, 2009. I note parenthetically December 7 is Pearl Harbor Day. I hope we do not have to have a similar catastrophe before we wake up and face up to this problem. The *Newsweek* cover is titled, "How Great Powers Fall: Steep Debt, Slow Growth, and High Spending Kill Empires—and America Could Be Next."[1]

If you go inside the magazine and read the article, this is one paragraph. "This is how empires decline. It begins with a debt explosion. It ends with an inexorable reduction in the resources available for the Army, Navy, and Air Force. If the United States does not come up soon with a credible plan to restore the Federal budget to balanced over the next 5 to 10 years, the danger is very real that a debt crisis could lead to a major weakening of American power. We cannot allow that to happen."

The debt explosion in our country has already begun. The Chairman referenced it, as did Senators Voinovich and Collins. Under one 10-year scenario, gross Federal debt could rise to 114 percent of our GDP by 2019. That is approaching the record 121 percent of GDP debt level reached at the end of World War II.

I do not know what it is going to take to convince some of our colleagues that we have to act and we have to begin to act now. If this isn't a warning sign, if this isn't an indication that it is imperative that we take on this burgeoning debt, I do not know what it would take. But, the longer-term outlook is even more serious.

Mr. Chairman, according to the CBO and their long-term fiscal outlook, over the next 50 years, with rising health care costs, the retirement of the baby boom generation, the permanent extension of all the 2001 and 2003 tax cuts, the Federal debt could climb to more than 400 percent of the GDP. That is totally unsustainable.

And you do not have to have my word or Senator Gregg's word for it. We have had the head of the CBO tell us that is completely unsustainable, and the head of the Government Accountability Office (GAO) when the distinguished David Walker was in that position, who will be testifying before you shortly. We have had testimony from the Secretary of the Treasury in the previous Administration and this Administration. We have had the testimony of the Chairman of the Federal Reserve. And you will be hearing from a former Chairman of the Federal Reserve a little later in this hearing. No doubt, he would make the same judgment. We have never had a debt in this country's history of 400 percent of the GDP.

We believe that our task force proposal will work because it is based on several key principles. First, it is based on the principle of accountability. All of the task force members would be directly accountable to the American people. The panel would include 18 members, 10 Democrats, two of whom would be from the Administration, and eight Republicans. So in terms of Members of Congress, it would be eight Democrats, eight Republicans, two representatives of the Administration.

[1] The exhibit referenced by Senator Conrad appears in the Aoppendix on page 51.

It would be made up of currently-serving Members of Congress selected by the Democratic and Republican leaders in Congress. The Administration officials would be the Treasury Secretary and one other official selected by the President. This means the bipartisan leadership at the highest levels of the government would be responsible for the panel's outcome.

Second, the task force would have broad coverage. Everything would be on the table, including spending and revenues. We cannot solve this problem, I believe, by looking at only one side of the ledger.

Third, the task force would follow an expedited process. To minimize politicization of the task force, its recommendations would be submitted after the 2010 election. If there is a broad bipartisan agreement of the task force members with at least 14 of the 18 members agreeing, the recommendations would get fast track consideration in the Senate—no amendments, no filibustering.

I know there are many who are concerned about the no amendment provision. Senator Collins, you referenced it. Let me just say there are some who have suggested alternatives, such as actuarially-equivalent amendments. The reason Senator Gregg and I reached the conclusion of no amendments is because in watching the process here, we have concluded if there are amendments, the Republicans will put up an amendment that will say, we will address the deficit but just in one particular way. The Democrats will do the same. Everybody will have their amendment to explain to their constituents to explain why they did not support the final package, and therefore we never get to implementation of an actual solution.

A final vote on the recommendations would occur before the 111th Congress adjourns. That is what we call the Voinovich Provision. Senator Voinovich, after all this effort, deserves to be here to vote, as does Senator Gregg. Senator Gregg has also announced, and I lament this, that he is going to be retiring. And he and Senator Voinovich, if we do not vote in the 111th, will not have a chance to do something that they have worked so hard to achieve.

Fourth and perhaps most important, the task force would ensure a bipartisan outcome. As I noted, it would take 14 of the 18 task force members to agree to report the recommendations to get fast track consideration. Final passage would require a three-fifths super-majority in both the Senate and the House. And the President would still have to sign the bill, and, of course, he would reserve and preserve his ability to veto.

So everybody would have to be in. Everybody would have to be supportive of a solution. We believe, Senator Gregg and I, that is important for the sustainability for whatever is done, because this will not be a single year solution or a couple of years of alterations of the trajectory. This is going to have to be a long-term strategy and plan if it is to succeed.

We believe this is the best way to accomplish the changes that are needed and to maintain them over time. No one party can or will do this on its own. It is not going to happen. And if we are going to be honest with each other and honest with the American people, we have to acknowledge it is going to take a special process to get this job done.

This is the formulation that Senator Gregg and I have come to after many months of discussion and negotiation. It is very similar in many ways to your SAFE Commission. Both of our proposals require bipartisanship in the task force and in Congress. Both require that everything be on the table. And both guarantee that the task force recommendations get a vote. I cannot overemphasize that point. We have to structure a circumstance that allows the recommendations to get a vote.

Your proposal would have some private citizens serve on the SAFE Commission and require the Commission to hold public town hall meetings. Certainly, those are worthy ideas. We held a Budget Committee hearing on this topic in November and you testified about the SAFE Commission, and we appreciate your testimony. As a result of that hearing, Senator Gregg and I made changes to our task force that would allow it to benefit from the assistance of knowledgeable and reputable citizens as part of an advisory panel. These same people could help the task force engage the public and build support for the ideas contained in the recommendations.

One area where our proposals differ is the use of alternative ways of budget scoring to evaluate the long-term effects. The discussion about whether there are better ways to evaluate the budgetary effects of legislation is complicated. I personally prefer traditional CBO scoring. But again, I do not think we should let any of these issues stand in the way of a resolution.

The single most important thing we can do in terms of our fiscal future is to put in place a process that can lead to a conclusion and can lead to the implementation of a solution.

Chairman Lieberman, the work of any task force like you and I have proposed will not just be formidable, but it is critical to our country's future. Thank you and Senator Collins for this opportunity, and again, special thanks to my colleague, Senator Voinovich, for his leadership over a very long time on this issue. He does not just talk the talk. He has walked the walk, as have you, Chairman Lieberman and Senator Collins. And I notice that Senator Carper has joined us. He, too, has been somebody, as a Member of this Committee and as a member of the Senate Finance Committee, who has shown a real willingness to take on this threat.

I have said to my colleagues on many occasions, the debt is the threat. That is where we must focus our energy and attention. I thank you very much for this opportunity.

Chairman LIEBERMAN. Thank you, Chairman Conrad, for an excellent opening statement.

Senator Gregg, great to see you. Thank you for your leadership over a long time here. I can see a theme building. We are going to win this one for George and Judd. [Laughter.]

Senator GREGG. I like that.

Chairman LIEBERMAN. And anyone else who is retiring who would like to do something about the debt.

Senator GREGG. For all our grandchildren, hopefully.

Chairman LIEBERMAN. Amen. Please proceed.

TESTIMONY OF HON. JUDD GREGG,[1] A U.S. SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator GREGG. Well, thank you, Mr. Chairman. Thank you for holding this hearing. Senator Collins, Senator Carper, Senator Voinovich, all of you, thank you for your interest in this and for your proactive approach to this issue.

A lot of good statements and thoughts have already been given. I just would like to tie together a few. Unfortunately, I am going to have to leave after I speak because we are about to confirm the Chairman of the Federal Reserve in the Banking Committee and I want to make sure I make that vote.

As you said, Mr. Chairman, I view this issue as the most serious issue our Nation confronts after the issue of a terrorist getting a weapon of mass destruction and possibly using it against us, because the implications of the numbers that Senator Conrad has outlined here in a very stark way are pretty clear. Essentially, we will reduce the quality of life of our Nation and of our children and our children's children if we do not do something about the burden of the debt that we are passing on to them.

We are already seeing signs of this. This used to be an issue that was over the horizon. No longer. It is coming at us. It is on the horizon. It is closing. We are seeing signs of this in the world community. We are seeing nations which are confronting the problem today—Greece, Ireland, potentially Spain, maybe Austria—where they basically have run up so much debt as a result of not running proper fiscal policy that they are essentially collapsing.

We have the unique luxury of being able to monetize our debt because we are the world currency. But even that luxury and strength cannot confront and stand up to the debt numbers that are coming at us. We know that for a fact. And we are being told this. We are being told it by independent groups.

Moody's just took us and put us on a special list. There are 17 industrialized nations which they have in a certain category in rating bonds. They have decided that amongst those 17, the United Kingdom and America will be put on a special group. They have not put us on a warning or a watch list yet, but they have given us a new title. I think it is called "Resilient" or something. It is reflecting the fact that they know the problem is coming unless we address it, and address it soon.

The issue, of course, is why do we not do it through regular order. I mean, that is our job, is it not? That is what we are paid for. That is why the people send us here. And it is pretty obvious why we do not do it through regular order, because the political system does not allow it to happen. It is just that simple.

You quoted Pogo. I have used that line a few times myself. Another way to express it is this way. We keep looking around for what is the next systemic risk in our economy. The systemic risk is the Congress. It is that simple. Because as a very practical matter, what happens here is when you put policy on the table, when our side of the aisle, for example, suggests something on Social Security, or your side of the aisle suggests something on tax policy,

[1] The prepared statement of Senator Gregg with attachments appears in the Appendix on page 56.

immediately, there is this massive cadre of interest groups out there who essentially make their living off of demonizing whatever the proposal is, and poisoning the well and making it impossible. Sometimes we cannot even get the policy to the start line, but we can never get it off the start line when it is big issues like this.

And so we concluded, Senator Conrad and I, that starting at the policy inevitably leads to virtually nothing happening. And so what we have to do is set up a procedure that drives policy, and that is what we tried to do with this proposal.

The proposal itself has obviously some differences from your SAFE Act and from concepts that are on the House side, but let me talk about some of the reasons why we came to the conclusion that we should do it the way we have proposed—obviously, nothing is written in stone around here, but the concepts.

At the core of this, the American people have to believe that whatever is proposed is absolutely bipartisan and fair. These issues are so all-encompassing, they impact every American in such a personal way—Social Security, Medicare, tax policy—that unless you do it in a bipartisan, fair way, the American people will reject it. They simply will. And so the process of drawing up the policy must be seen as fair and bipartisan.

So a lot of effort was put into the issue of the make-up of the commission, what the membership would be, and how the vote process would occur, and that is why we have these super-majorities, 14 to report of the 18 people. That means the majority, which will be the Democratic Party in this instance because you will have eight members from the House and Senate and two members from the Administration, and the Minority, which will be eight members from the House and the Senate, are assured that neither side can game the other. Four people have to be there from the Minority to vote for it. So a majority of the Minority basically has to vote for the final product, assuming they got into that type of conflict, which hopefully they would not. But the purpose is to send a clear signal that it has to be fair, it has to be bipartisan, which I think is critical to this effort.

The commission has co-chairmen, one Republican, one Democrat, so it is very clear that the purpose is to have bipartisanship.

Why did we not put outsiders on the commission? Well, that is a legitimate point. I mean, how do you handle that? Our conclusion was this. We wanted people who had skin in the game, knew the process, because this has to be done. The people who reach these conclusions have to be able to execute the conclusions, and that means we think they should be Members of Congress and members of the Administration.

And the secondary issue which concerned us about the outsider issue is who do you pick? I mean, there are so many people who have a legitimate right to be on this undertaking, that once you start choosing from one group, how do you say no to the next group, and you would end up with a massive commission, probably unwieldy, and there would be questions about whether or not it was going to be fair and bipartisan because these different interest groups would bring such issues to the table that would be singular in their sense of purpose. So we went with purely Members of Congress and members of the Administration.

The issue of amendment, that is probably the key issue, in my opinion, and I think Senator Conrad explained it. But basically, amendments allow Members of Congress to hide in the corners. That is what amendments do. You vote for an amendment, then you can vote against the final passage.

The Base Realignment and Closure (BRAC) Commission, which we basically track, did not allow amendments, and I think it worked because it did not. If there had been amendments, the BRAC Commission probably never would have passed. So I do not think you can do amendments and have this work. I feel pretty strongly about that, because I know that the way the place works, people who vote for the amendment did not vote for final passage and claimed it is simply because their amendment wasn't included.

You have to believe, if you take this route, that the people who are sitting on this commission who are going to come to this conclusion are not going to do anything that isn't bipartisan and fair, and it is structured so they cannot. The amendment process will have been addressed in the development of the issues and the policies.

It is, obviously, time to act. Even if we were to put this in place today and have this fast time frame, the Voinovich time frame that it is concluded by the end of the Congress, that policies that are going to correct this are not going to be precipitously undertaken. You cannot do that precipitously. It would be too much dislocation to the economy. It is going to take probably years for these policies to be implemented. Many of them are going to require fairly significant phase-in times. And yet the debt is going to mount all the time. So we need to start acting now.

But as a very practical matter, if we pass this commission today or within the near term, we would be sending a message, an unequivocal message to the world that America is going to stand up to our problem and we are going to do something about it, and I think that would have a massively positive impact on our ability to sell our debt, on interest rates in this country, and on our economy generally, because the American people would see that we are going to do something and the world would see that we were going to do something.

So I think just the passage of this commission, or this task force, would have a hugely positive effect on our Nation's economic well-being, and I thank you very much for your time.

Chairman LIEBERMAN. Not at all, Senator Gregg. Thanks for the time you spent with us. Thanks for an excellent statement.

I will say for myself—I think you know this, and I think I speak for Senator Voinovich, but obviously he will speak for himself—that though we have sponsored another proposal, the proposal that you and Senator Conrad have put forward is the proposal now. We may want to tinker with it, all of us in one way or another, before it comes to a vote, but this is the vehicle for finally doing something about this, so I appreciate it.

Normally, we do not ask our colleagues questions. If you have time, Senator Conrad, and I do not want to keep Chairman Greenspan and Mr. Walker waiting too much, but I want to suggest to my colleagues, maybe we just each take one question to ask of you.

Senator CONRAD. I am happy to answer any questions you have.

Chairman LIEBERMAN. OK, good. I realized as I am formulating, I am going to try to ask two questions in one. Sorry. [Laughter.]

I really want to ask you where we are now in the process—some people say this commission can be established to do what we want to do by Executive Order. Now, of course, the great challenge to that is the Executive Order cannot bind Congress to a no-amendment process. The Executive Order can set up a commission very much like the commission we are talking about here. So how do you evaluate those two ways to achieve our goal?

Senator CONRAD. Let me say that an Executive Order commission—and the commission in the 1980s to deal with Social Security was an Executive Order commission. We ought to acknowledge that. I think this is a different time and a different circumstance. Then, you had an immediate crisis. And then, you had a special relationship between the Speaker and the President of the United States, who were of opposite parties.

Chairman LIEBERMAN. Right.

Senator CONRAD. That is a different circumstance than we have today. So we chose to have a statutory commission, one that would be in law, that would be able to assure—and I think this is the single most important point—that the recommendations get to a vote, up or down, in the Congress of the United States. Senator Gregg said it well. I think if any structure that is put in place that does not assure an up or down vote on the recommendations is highly unlikely to succeed.

With respect to amendments, we chose to have no amendments and again, the only way you can do it is in a statutory commission because then it is law. In an Executive Order commission, you could not restrict the number of amendments. But there are negotiations ongoing to deal with a whole series of issues.

One possibility on the amendment front is actuarially equivalent amendments. So, for example, if the commission said you have to save a trillion dollars over 5 years, and it is 50 percent revenue and 50 percent spending cuts, or it is 60 percent spending cuts and 40 percent revenue, whatever it is, that you require amendments to be actuarially equivalent, that they would have to meet those same metrics, that same amount of savings, that same distribution. That would be one way of preventing a gaming of the system and still provide an ability to amend. I think Senator Collins was describing in some way an actuarially equivalent approach. So that is one possibility.

Chairman LIEBERMAN. Thanks for that. That is my one question. I will say that as I listen to you and think about this, that it is clear that the preferable course is a statutory commission because then we really create a process. We may come to a point of decision where, for some reason, we cannot enact a statutory commission through both Houses of Congress, and then we are going to have to decide if the President is intending or willing to issue an Executive Order, because of the urgency of the crisis, if that a better way to proceed, and if there some way we can try to do what the commission would do to limit amendments.

I am going to yield to Senator Collins.

Senator COLLINS. Thank you.

Senator Conrad, there is a third commission approach that has been proposed by our colleagues. I think it is Senators Feinstein and Cornyn. They have proposed a commission that would focus on the three major entitlement programs—Social Security, Medicare, and Medicaid. They argue that those three programs are the big cost drivers in the budget and that it would be best to try to have a more narrow focus and get a consensus on what to do with those three programs. What is your reaction to that approach?

Senator CONRAD. My reaction is, I think you also have to have revenue on the table. And I say that because as I analyze our current revenue system, it is inefficient, it is unfair, and it is hurting the competitive position of the country. I say that because by my calculations, we are only collecting about 76 percent of what is actually owed under the current system. We have an extraordinarily inefficient system that is hemorrhaging revenue to offshore tax havens, to abusive tax shelters, the tax gap.

I think we are going to have to fundamentally change the tax code in light of the world we live in today. Our tax system was constructed at a time we did not have to be worried about the competitive position of the United States. We were so dominant. That is no longer the case.

So many people say, well, if it is revenue, that automatically means a tax increase. My own belief is, before you ask anybody for a tax increase, we ought to construct a tax system that collects most of what is owed in a far more efficient way, in a far more fair way, and in a way that enhances the competitive position of the country. So I think revenue has to be on the table.

Finally, what they are suggesting leaves out, of course, is domestic discretionary spending, including defense, and we have found in reactions across the country, people want everything on the table. They want everything on the table. They simply do not believe that there are only a few places where money is being wasted. And you know what? I think they are right.

As Chairman of the Budget Committee, I have often thought about writing a book about what I have seen and what I have found. I think the American people get it. They know we can do a lot better.

Senator COLLINS. Thank you for your leadership.

Chairman LIEBERMAN. Thanks you. Senator Voinovich, one question.

Senator VOINOVICH. As you know, there is some difference of opinion in the House, I think, on the SAFE legislation. We have about 100 sponsors. But it has been pretty clear that the Speaker and the Chairman of the Ways and Means Committee are not enthusiastic about this. Do you believe that this cannot get done without the support of the President of the United States?

Senator CONRAD. Well, we could, just as a factual matter, put in place a commission through negotiation, because there are those of us who have taken the position we will not vote for any long-term extension of the debt without this being included. But as a practical matter, the President, I think, has to be supportive.

Now, does that mean he has to support every jot and tittle of what we have outlined here in the Conrad-Gregg Act? No. Is there room for negotiation? Yes. Is it possible that we could find ourselves in a circumstance where we cannot pass a statutory commission, because it would require 60 votes in the U.S. Senate. We have 34 cosponsors. Thirty-four is not 60. It is also possible, even if we passed it in the Senate, that it would not get passed in the House.

So I think we have to preserve the alternative for some other type of commission. My first preference would be another form of statutory commission, maybe not a BRAC-like process but at least one that would assure us by law that you would get to a vote on the recommendations of a commission, and certainly an Executive Order commission, properly designed and properly committed to by the leadership, including the President, could result in a vote on the commission recommendations.

But I think, by far, the most preferable is a statutory commission, as we have outlined and as you outlined.

Senator VOINOVICH. And the answer is that the President will have to embrace something and take a leadership role for this to happen?

Senator CONRAD. As a practical matter, I find it hard to believe that we could get to the end of this process without a President being engaged and a President being supportive, and I cannot speak for the President. I cannot speak for the leaders in the House. I believe there is growing momentum behind this idea. In the negotiations I have had with the White House, with colleagues in the House, because remember, the Majority Leader there, Mr. Hoyer, is a strong supporter of the commission approach. And I think there is a growing recognition in the House, Senate, and the White House that we confront something here that is going to require a special process.

Senator VOINOVICH. Thank you.

Chairman LIEBERMAN. Thanks. Senator Carper.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. I am almost reluctant to try to ask a question. Let me just start out by saying thank you so much for your leadership day-to-day of the Budget Committee and all the time and energy that you and Senator Gregg have put into this idea. I know it is extraordinary. And to your staffs. Thank you for standing up and saying, all right, this is where we draw the line.

I also want to thank you for showing a fair amount of flexibility in taking input and suggestions to modify the original proposal that you started off with.

I am not going to ask you a question. I just want to say, yesterday in this same room, I chaired a hearing of another nature. When I was in the House, Charlie Stenholm and I and others sponsored a balanced budget amendment to the Constitution, not one that mandated a balanced budget every year, but something that actually mandated the President propose a balanced budget and allowed the Congress to unbalance the budget with a three-fifths vote, allowed the Congress to raise the debt ceiling with a three-fifths vote, but put some emphasis on the President.

I was struck by Senator Gregg's comments. He says, it is basically the Congress's fault that we are in this mess. Well, there is plenty of blame to go around, and I would suggest that it is a shared responsibility of both the Legislative and the Executive Branch.

The hearing that I held yesterday was on one subject that would require a vote on the President's rescissions, would allow us to defeat the rescissions with a simple majority vote in either the House or Senate, and would compel us to vote on a rescission. I am struck by one of the themes that comes through your proposal is that it gets us to a place where we have to vote, and I think that is part of the beauty of it.

I am mindful, having worked with some of our colleagues in this group of 10, five centrist Democrats and five progressives, to try to come up with a compromise on the public plan and how to go forward on the health care, that it is hard to get members to spend concentrated amounts of time for an extended period of time. It is very difficult to do that, as you well know. And in terms of constructing the membership, where it is largely House and Senate Members, I would just ask us to keep that in mind.

There are a number of people who used to serve here, though, who know a lot about the budget process, who understand government very well, and frankly, who might have a little more time on their hands than we do, and I would ask that we particularly keep some of them in mind as possible people to serve here and could add a whole lot—not just to the process, but to the outcome, as well. Any thoughts on that?

Senator CONRAD. All of this is delicate in terms of responses I might make because we are in a negotiation and I do not want to negotiate against myself, especially in public.

Chairman LIEBERMAN. Don't.

Senator CONRAD. So we have been careful to outline what we think would be the most effective way to approach this. Are there other ways? Yes, there are, and many of those are on the table, and I think, without my referencing what I would support, I am flexible. Senator Gregg is willing to be flexible. We are interested in getting a result and we are interested in getting a result that can actually transfer into this country effectively taking on this debt threat.

Chairman LIEBERMAN. Thanks. Senator Burris, we are just doing one question on this round.

Senator BURRIS. One question?

Chairman LIEBERMAN. That is all, because I want to get to the next panel.

OPENING STATEMENT OF SENATOR BURRIS

Senator BURRIS. Thank you, Mr. Chairman.

I will have a quick question. Is there a conflict between S. 2835 and S. 1056? You two have a bill, and you two have a bill, Gregg and Conrad. Are you all going to merge these, or is there a conflict?

Senator CONRAD. There is conflict in the sense they are somewhat different approaches, which I outlined in my statement. But by and large, they have a lot of commonality, and the commonality is it has to be bipartisan, it has to have a special process, it requires a super-majority to advance, and that the President retains all of his powers. Those are commonalities.

There are differences, but really the differences are in nuance and membership. We have all Members of Congress and representatives of the Administration. The alternative proposal has some outsiders, so I would say that is probably the major difference, whether there should be outsiders as members or it should all be Members of Congress and representatives of the Administration.

Senator BURRIS. Senator, I assume that we are trying to do this after the 2010 elections and you have a strict timetable and strict restrictions. So you are trying to freeze things as they are in your proposal going forward so that we will not do any borrowing, and you look at how you are going to educate the public to the fact that every demand that the citizens are making on the Federal Government cannot be met if we go to this type of process.

You do know the reason why we have debt, right? It is because we believe we have to meet the demand of our citizens and everybody has their little special project that they need and they want somebody's ox to get gored and rather than goring their ox. So I just hope any commission that takes this into consideration will definitely understand, because I spent half of my life in government, especially on the State level, and we do have balanced budgets. But right now, those balanced budgets are killing all the States. Most all of them have deficits and they are running them and they do not know how to meet it. That is because of the demand of the citizenry. So please, with all due respect, we have to do it, but we have to keep that in mind.

Senator CONRAD. Yes, I could not agree more, Senator Burris. I want to make clear that we recognize debt can be a positive thing. The problem is when debt swamps you, and we know that the United States can handle its current debt. The problem that we confront is where we are headed. Where we are headed is towards unsustainable debt, and the goal that we have outlined here is to try to prevent that unsustainable debt from becoming a reality. We recognize debt financing as healthy for families and for governments up to a point. The problem we confront is we all know that we are headed for a circumstance in which, if we stay on the current trend line, we will have a debt that totally swamps us, and that is what we have to try to prevent.

Senator BURRIS. Thank you, Senator. Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thanks, Senator Burris.

Senator Conrad, thanks very much. You said at one point—I forgot your exact words—that the process, executive and legislative, seems to be now responding to what you and those of us who support you are asking for, and honestly, because of all we have said about the process, the only reason I believe—well, two reasons. One is that the problem, the debt, is getting so serious for our country.

But the second is that a group of us in the Senate, including about a dozen Democrats, have said we are simply not going to vote in the next week for a long-term extension of the debt unless something is done about this, unless we create a process, unless we get a vote on a statutory commission.

This is unprecedented, and this is why I called it a rebellion. The stress level is going to go up and the pressure on all of us is going to go up. But this is so critical to our country's future that I know you will remain strong, and I pledge to you my support, as well, as we go forward. It is only going to take—you mentioned—about 60 votes to pass this commission. It also takes 60 votes to extend our current debt limit, and I think that is going to be very hard to obtain before the end of this year, certainly a long-term extension, unless we get some specific response to the request that a group of us are asking under your leadership. So I thank you for that, and if we stick together, we will make something good happen.

Senator CONRAD. Let me just say, if I can, there will be no long-term extension of the debt without this being included. Our group is resolute and they have held up under a great deal of pressure and we are not going to approve any long-term extension of the debt without this being addressed.

Chairman LIEBERMAN. Thank you.

Senator CONRAD. Thank you.

Chairman LIEBERMAN. Stay strong. See you soon.

I am glad now to call the second panel, Alan Greenspan, former Chairman of the Federal Reserve, and David Walker, former Comptroller General of the United States of America and now the head of the—what do you go by now?

Mr. WALKER. Mr. Chairman, I am President and CEO of the Peter G. Peterson Foundation.

Chairman LIEBERMAN. The Peterson Foundation. I thank you very much. I thank both of you for your patience as we were listening to, and I think being encouraged and learning from——

Senator MCCAIN. Mr. Chairman, I am sorry I was not here to ask the Senator from North Dakota how you want to have a commission to cut spending and at the same time approve of and vote for $4 billion in earmarked pork barrel projects. I am sorry I wasn't here to ask the Senator that. There is a certain amount of a double standard there that I strenuously object to.

Chairman LIEBERMAN. I am sure Senator Conrad is upset that you were not here to ask him that question, too. [Laughter.]

Chairman Greenspan, thanks so much for being here to bring your own experience, your voice of authority, all that you know about the economy to bear on this urgent problem. You have obviously spoken about it a lot before, but at this moment in this Congress, your voice publicly, I think, really can be very critical, very important. So we welcome your testimony at this time.

Again, there is a time limit up there, but do not feel controlled by it. Just speak as long as you want to speak. Now, I say that to you because you are not a Senator. [Laughter.]

Go ahead. Please proceed.

TESTIMONY OF HON. ALAN GREENSPAN,[1] FORMER CHAIRMAN OF THE FEDERAL RESERVE

Mr. GREENSPAN. Thank you very much, Mr. Chairman. I also want to thank Ranking Member Collins and Members of the Committee for coming to what I think is one of the most critical hearings in quite a long time.

For more than two centuries, we have been able to hold the level of U.S. Federal debt to well below our capacity to borrow. But for

[1] The prepared statement of Mr. Greenspan appears in the Appendix on page 63.

the next decade or two, on some reasonable sets of assumptions, our borrowing cushion shrinks significantly, threatening to test our capacity to raise funds to finance unprecedented deficits.

The challenge to contain this threat is more urgent than at any time in our history, in part because of today's limited flexibility of adjustment, especially of entitlement spending whose constituencies are very well entrenched. Compounding this concern is our inability to accurately forecast current services spending. Projecting Social Security 10 or 20 years into the future is not too difficult. It is a defined benefit program whose payments in real terms are narrowly defined by law. Similarly, owing to long experience in forecasting non-military discretionary budgets, outlay projections in this area are also narrowly defined.

Projections of Medicare and Medicaid, however, are far more daunting. Unlike Social Security, these are in-kind entitlements whose levels are determined by individuals' particular medical needs. The number of future beneficiaries in, say, 2030 is readily predictable, since they are already born. But future per capita benefits are subject to very wide uncertainties.

Medical technology and pharmacology are advancing rapidly to previously unimagined heights. With no meaningful restraint on our subsidized fee-for-service medical care system, demand for advanced technologies and drugs is largely without limit. Medicare Trustees' forecast assumptions, especially beyond 10 years, are, of necessity, assumptions, not forecasts.

Short of some form of market price or administrative rationing—a political third rail, obviously—ever-rising medical services will eventually strain the physical capacity of our economy. Since demand for medical services by its nature is highly inelastic, medical services' share of GDP has no credible immediate upside restraint.

The simple fact is that we have promised resources which by any reasonable projection we will not have, a morally untenable position. Those who will retire in the years ahead depend on government's promises to plan their future.

We are not dealing with a simple problem of finance solved with the addition of appropriated dollars. It is a physical resource crisis. If the dollar share of GDP devoted to medical services is rising, so is the share of medical workers in our labor force and medical hardware in our capital stock. Importantly, a dollar of the Nation's scarce savings employed to finance new medical technology investment is a dollar not available to fund other critical non-medical cutting-edge technologies that enhance our material well-being.

The health of the population, of course, must take precedence over material considerations. An unhealthy population will not be productive. But there has to be a point where diversion of real resources to medical services no longer measurably enhances longevity or reduces morbidity.

Our scope for increasing the size of the overall economic pie to resolve our pending crisis is limited by the growth of our labor force and growth of productivity. Short of a significant increase in immigration, the size of our labor force in 2030 is fixed in a relatively narrow range. And if history is any guide, so is long-term productivity growth.

Since 1870, non-farm productivity gains over 15-year periods has rarely strayed outside the range of 1 percent to 3 percent annually, averaging slightly more than 2 percent. We and the rest of the developed world are at the cutting edge of technologies. Accordingly, we apparently cannot for a protracted period exceed 3 percent productivity growth, presumably because there is a limit to human intelligence, the source of all innovation.

The recommendation of Senators Conrad and Gregg for a Bipartisan Fiscal Task Force is an excellent idea, and I thought the discussion that was very interestingly expanded earlier this morning is clearly going in the right direction and I hope that you succeed. I trust any such task force will address the very thorny issue of the asymmetrical consequences of too much or too little fiscal restraint.

In the former case, too much restraint is not a risk and would in any event free resources for other initiatives. The dire consequences of a failure to tighten sufficiently to balance our books, however, calls for policies that err significantly on the side of restraint. I understand that this is politically extraordinarily difficult to do, but our Nation has never before had to confront so formidable a fiscal crisis as is now visible just over the horizon.

Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thank you very much, Chairman Greenspan. It is very serious, very somber, and very insightful particularly to hear from you that this really is unprecedented in our history. It is a fiscal crisis the likes of which we have not faced before and it challenges us to respond equally in an unprecedented way.

David Walker, welcome back. We feel like you are a member of the family at this Committee. Thank you for the work you have done at the Peterson Foundation and really around the country to inform the public and, I think, inform what I described earlier as a citizens' rebellion, uprising against the debt. So we welcome your testimony now.

TESTIMONY OF HON. DAVID M. WALKER,[1] FORMER COMPTROLLER GENERAL OF THE UNITED STATES

Mr. WALKER. Thank you, Chairman Lieberman, Senator Collins, and other Senators. It is truly a pleasure and an honor to be here today, especially with Chairman Greenspan, really an honor to be here with him on this panel. I can see that now that he is no longer the sitting chairman of the Federal Reserve, he is very clear and very compelling on his language. You can understand everything that he says—— [Laughter.]

Which is great. And I remember one of his best quotes, which was in the critically-acclaimed documentary, "I.O.USA," which I also had the pleasure of being part of, where he said, "without savings, there is no future," and he is 110 percent right. And rather than having savings, we have debt.

I am from Alabama. I live in Virginia——

Chairman LIEBERMAN. And where are you moving?

Mr. WALKER. Moving to Connecticut, the Constitution State. [Laughter.]

And let me say for the record, I am a rebel with a cause.

[1] The prepared statement of Mr. Walker appears in the Appendix on page 66.

Chairman LIEBERMAN. Good.

Mr. WALKER. And you and others may be forming the rebellion peacefully within this institution and I am helping to lead the effort in the real world outside of Washington's beltway, and it is working, and I will come back to that.

I have the honor to testify today on behalf of the Center for the Study of the Presidency and the Congress on the strategic initiative that I happen to co-chair. Ambassador David Abshire is head of that institution. There are three co-chairs, former Governor Roy Romer from Colorado, also former chairman and CEO Norm Augustine of Lockheed Martin, and then myself. So it is a non-partisan commission, a Democrat, a Republican, and I, myself, for a number of years an Independent.

I would like to commend Chairman Conrad, Senator Gregg, and other Senators here, especially Senator Voinovich, Senator Lieberman, for leading the charge here with regard to trying to bring fiscal sanity to this country. We are out of control and we are reaching a precipice, that if we do not take definitive action soon, we could pass a tipping point, a loss of confidence on behalf of foreign lenders that could have serious adverse consequences for the United States, for the American people, and for the world.

Our challenge is not short-term deficits. Our challenge is not the current debt. Our challenge represents the serious structural deficits that are large, known, and growing, that are worse today than they were before the recession and the bailouts, and are closer to hitting our shores and that threaten to swamp our ship of state.

As Chairman Greenspan said, for over 200 years, this country had a history of not running deficits and accumulating debt unless we were at war, faced a depression, or a serious recession. But that has changed in recent years. Everybody wants it all and they do not want to pay for it. And so they charge the national credit card, which at present we do not have a constitutional limit, which we should. We have a limit right now on what our credit is. We just do not know what it is because the Chinese, the Japanese, and Organization of the Petrol Exporting Countries (OPEC) have not told us yet.

It is important that we recognize that the four factors that contributed to the mortgage-related subprime crisis exist for the Federal Government's own finances. There are two big differences. The numbers are much bigger. The risks are much greater. That is one. The second is nobody is going to bail out America. We have to solve our own problem, and we need to get started soon.

Chairman Conrad already noted the December 7, 2009, issue of *Newsweek*. I noted that he took out the part that said "Cheney in 2012" on the top of it. [Laughter.]

But in any event—I am not going to comment on that, but in any event, it was pretty clear and compelling and that article is an outstanding article. But I think it is important that we can still change course. We can be the first republic to stand the test of time. But we have to change course because we will not succeed unless we do.

Theodore Roosevelt recognized that sometimes you have to do things differently. You need dramatic and fundamental reforms. You need to engage in movement politics. I think that is where we are here today. Roosevelt recognized that the necessities of time and the challenges that we face sometimes require breaking out of normal party structures, normal legislative processes in order to leap forward. That is where we are today.

At the Peter G. Peterson Foundation, which I am honored to head, we have been engaging in a variety of citizen education engagement efforts and this represents the results of the latest statistically valid public opinion survey. Eighty percent of Americans believe that escalating deficits and debt should be a top priority, secondary only to the economy and jobs, way ahead of health care reform, way ahead of climate change, way ahead of tax cuts, way ahead of proliferation of weapons of mass destruction, not that those are not legitimate issues, but they are relative priorities.

Second, two-thirds of Americans believe that Washington is not paying enough attention to this issue.

And third, 70 percent of Americans agree with Senators Conrad and Gregg, Lieberman, Voinovich, and others that we need a special commission that will engage the American people with the facts and the truth and the tough choices, that will make the case that we need to act soon, the benefits of doing so, the risks and consequences if we don't, and that, in addition to that, will result in a vote in the Congress of the United States. One bill will not solve the problem. One act of Congress will not solve the problem. But we must receive a significant reduction in the $60-plus trillion in liabilities and unfunded promises that are growing by trillions of dollars a year on autopilot. We must do it before we pass the tipping point and lose the confidence of our lenders, especially our foreign lenders.

Unfortunately, America is increasingly being mortgaged, and to a greater extent, that mortgage is held by foreign lenders. That is not in our long-term economic, national security, foreign policy, or even domestic tranquility interests over time. At the end of World War II, we had debt equal to GDP of 122 percent, but it was all owed to Americans. Today, 50 percent or slightly over of public debt is held by foreign lenders and growing. We are fortunate that they will lend us that money at low interest rates, but on our present course, both with regard to fiscal policy and monetary policy, once the economy turns around, we are likely to see higher interest rates. The question is, how much higher?

I have a lot higher degree of confidence in the Federal Reserve to be able to make the changes that they need to make to turn around monetary policy than I do fiscal policy, because, quite frankly, fiscal policy is out of control. In the last 2 years alone, discretionary spending, if the appropriations bills for 2010 pass, will go up 20 percent in a time of no inflation. It is amazing, absolutely amazing.

So we do need a special commission, one that will educate and engage the American people and result in a vote in the Congress. Some have argued that the commission is not the way to go, that the Congress ought to handle it in the regular order. Well, if the regular order was working, that would be a valid assertion.

Some have argued that this is unconstitutional. That ignores the fact, in the final analysis, the only votes that count are the votes of Senators and Members of Congress and whether or not the

President signs the bill or vetoes the bill. So all the constitutional prerogatives are protected.

And as everybody has said, everything has to be on the table. That is of critical importance in order to achieve a positive outcome.

In closing, our Nation's current fiscal path is irresponsible, immoral, and unsustainable. Our children and grandchildren will end up picking up the bill while at the same point in time we are reducing relative investments in their future at a time where they face increasing competition in an interconnected global economy. We are approaching a tipping point in American history. We are at a crossroads. We must choose the right path forward. We cannot allow America's future to be worse than its past.

We must be the first republic to stand the test of time. We owe it to ourselves, our country, and our families to do no less. In fact, we have a patriotic, fiduciary, and stewardship obligation to do no less, and a special commission is the way to go.

Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thanks very much, Mr. Walker. That was great.

We will do 7-minute rounds of questions.

Chairman Greenspan, you said something at the outset of your opening statement that I want to invite you to develop a bit. "For more than two centuries, we have been able to hold the level of U.S. Federal debt to well below our long-term capacity to borrow. But for the next decade or two, on some reasonable sets of assumptions, our borrowing cushion shrinks significantly, threatening to test our capacity to raise funds to finance unprecedented deficits." That is the end of the quote from you.

You are obviously not just talking about the statutory debt limit. You are talking about our national capacity for borrowing. And I wanted to ask you to speak a little bit more about that, because obviously if we run up against that, it is as consequential—I suppose even more consequential—than extending the debt limit. Tell us more about what you mean.

Mr. GREENSPAN. We do not know where our borrowing capacity is. We have never tested it, never thought about it, never thought it was relevant. When you begin to look now at the potential escalation of debt outstanding, not only in the standard current services projections of CBO or anybody else, because that is pretty much of a guess in the longer-term years, but what we do know is that the range of error that the number can hide is very large. And when you see the daily, weekly rise in the net debt to the public, the Federal debt to the public——

Chairman LIEBERMAN. Right.

Mr. GREENSPAN [continuing]. It is on a wholly different track than any time we have ever imagined.

The trouble is that we are going to learn where the ceiling is through long-term interest rates beginning to move higher, very significant pressures on, for example, the Treasury Department, in auctioning its Treasury notes and bills. At that point, we are already beyond the point where simple action will restore balance. Because we do not know where that actual borrowing capacity, it is essential that we take actions well in advance of anything that could occur which would disable the economy, because there is no way, as David Walker has been pointing out, to restore the budget balance unless we do very drastic things, and these are exceptionally difficult to implement in a democratic society.

Chairman LIEBERMAN. So the question of borrowing capacity and what the limits of America's borrowing capacity are, is not a question, if I am hearing you correctly, of when it is impossible for America to borrow in world markets. It is a question of when the interest we have to pay begins to rise so much that it will compromise our standard of living and so much more we value.

Mr. GREENSPAN. If we ever get to that point, we will see it first in rising long-term interest rates——

Chairman LIEBERMAN. Right.

Mr. GREENSPAN [continuing]. Because, clearly, the credit quality of any entity tends to be very evident on its ability to market long-term Treasury issues, or any long-term issue, and that when you see a particular entity in trouble, like the City of New York——

Chairman LIEBERMAN. Right.

Mr. GREENSPAN [continuing]. What you saw first was they could not sell municipal bonds. Then they could not sell intermediate notes. And eventually, at the tail end of a process which led almost to the cliff of default, they could barely sell overnight issues. We are nowhere near there at the moment.

Chairman LIEBERMAN. Right.

Mr. GREENSPAN. Indeed, we have time. This is not months or quarters. It is years. But once the process is underway, when you have a highly inflexible budget situation—the problems begin. When we came out of World War II, we knew what was going to happen to overall expenditures.

Chairman LIEBERMAN. Yes.

Mr. GREENSPAN. We were not going to continue to spend militarily and spending came down very dramatically. We do not have that luxury anymore.

Chairman LIEBERMAN. Take a moment, if you will, and explain for people who are listening or watching on TV, if long-term interest rates that the United States has to pay to sustain a debt begin to rise, as they will once we reach our borrowing capacity, if we do not do anything about it, how is that felt by average families or businesses? What happens?

Mr. GREENSPAN. It is felt across the board, Mr. Chairman. First of all, very simply, if you get a rise in long-term Treasury rates, mortgage rates will move right with them. And mortgages are an $11 trillion market at this stage.

As rates go up, not only in the out years, which is not our biggest issue, but as they gravitate back towards the shorter end of the market, the debt servicing costs become a very critical issue. When your debt is low, it is a problem when rates go up, but not a big one. But when you have very low average debt service rates, as we do now, in the context of swinging over to a very large level of outstanding debt that must be serviced, every point of additional interest rate has a very large impact on total spending, which, of course, means on the deficit itself.

Chairman LIEBERMAN. Right.

Mr. GREENSPAN. And the critical issue that economists worry about is the spiral that begins to occur as you begin to get ever-rising debt and debt service, and as interest rates rise as a consequence of that, the debt service becomes explosive and that goes directly into the budget deficit, which makes the deficit begin to rise uncontrollably.

Chairman LIEBERMAN. Higher, right, it is a vicious cycle. And just to try to close this round of questioning for myself, as long-term interest rates rise on our debt and mortgage rates rise, that obviously has an effect on the real estate sector of our economy, both residential and commercial. I presume it also has an effect on the capacity of businesses to borrow to sustain themselves, and that, in turn, would have an effect on employment, which is to say that it would lead to more unemployment.

Mr. GREENSPAN. Yes, Mr. Chairman. And we could go over item after item——

Chairman LIEBERMAN. Yes.

Mr. GREENSPAN [continuing]. In which it would affect it. It also would affect equity prices, which are not a small issue in an economy such as ours. So I would be very fearful that the ability of the business sector to borrow and invest is reduced, but also remember that as the government takes an ever-increasing share of our scarce savings——

Chairman LIEBERMAN. Right.

Mr. GREENSPAN [continuing]. There is less of it available for the rest of the economy, the market-based economy. And since government has the prior lien, so to speak, on the Nation's savings, the more it draws off, the less there is available in the mortgage market, in housing, for investment, physical investment, and our capacity to produce. So there are so many avenues in which this process, which we have never actually had to observe——

Chairman LIEBERMAN. Right.

Mr. GREENSPAN [continuing]. There are so many avenues that this carries that its devastation in eroding the economy over the longer run is a frightening expectation.

Chairman LIEBERMAN. Yes. Well, I thank you. My time is up. You see, I think it is very important for us to try to go down that road, and even though it is unprecedented, to begin to think about what the effects would be on every American, every family, every business, and our government, because as we confront what you obviously correctly describe as the very difficult political decisions we have to make to turn this around and what we will face if we do not do anything is, as you said, devastating compared to the difficulty of the challenges we are going to face to try to avoid that. I thank you.

Senator Collins.

Senator COLLINS. Thank you, Mr. Chairman.

Mr. Walker, I cannot help but observe the irony that we are having this debate about what to do with the unsustainable debt load of this country at a time that we are debating on the Senate floor a huge health care bill that is, in essence, creating a new entitlement program that has enormous consequences for our future budgets, and that the Chief Actuary for the Center for Medicare and Medicaid Services has estimated will actually drive national health care spending up, not down. And Chairman Greenspan mentioned in his opening remarks just how important health care spending is to this whole debate.

I know that the Peterson Foundation commissioned the Lewin Group to look at the impact of the Senate bill on long-term costs for the government. Could you comment on what the analysis found and also give us your own views on what we are doing on the Senate floor even as we speak?

Mr. WALKER. Thank you, Senator Collins. It is somewhat ironic. Let me just note that the Lewin Group is owned by United Health Care, but they are an independent operation. They are not controlled by United Health Care with regard to what they do. The people that are there are former CBO people and they do great work. Let me also note that their findings are their findings, not the Peterson Foundation's.

But generally, we have found that the Peterson Foundation believes that fiscally responsible health care reform should meet four tests. Number one, it should pay for itself over 10 years.

Number two, it should not add to deficits beyond 10 years.

Number three, it should result in a significant reduction in the tens of trillions of dollars in unfunded obligations we already have. Medicare alone is underfunded $38 trillion and growing.

And number four, it should result in total health care costs as a percentage of GDP that is less after the reform than before the reform. In other words, bend total health care cost curve down, not up.

None of the bills meet that. None of them come close on number three and number four. Some of them meet it on number one and number two, but then the question is will the assumptions that they rely upon with regard to cranking down on provider reimbursements and other things actually be realized, because the track record in the past is not very good in that regard.

So I think we need comprehensive health care reform. But frankly, the bill that is being talked about now is a coverage bill, and the only reason that people are talking about cost is to pay for coverage. The one thing that could bankrupt America is health care cost and we are not doing enough to really, truly be able to reduce health care costs as well as the rate of increase. That is where we need to keep our eye on the ball, and so far, people are not doing that.

Senator COLLINS. Thank you. I could not agree more with what you have just said.

Chairman Greenspan, you headed a very successful commission in 1983 to deal with a looming crisis in the Social Security system. Reflecting back on that experience, could you give us any advice as we look at the commission model, since you chaired a successful model for constraining the costs of a major entitlement program?

Mr. GREENSPAN. Certain things occurred during that commission that were really quite different from previous commissions which ended up with a very thick report gathering dust on everybody's shelf. Its recommendations were implemented virtually in full. And the reason was that we did several things.

First of all, it was a commission that was created by President Ronald Reagan with Speaker Tip O'Neill's agreement, and the commission itself worked for quite a long period of time, but as part of the process, we kept the political system wholly informed as to what we were doing, so that I would report to President Reagan and Jim Baker, who was operating as the key staff person in that regard, and Bob Ball, who was a former Social Security Administrator under Lyndon Johnson, reported to Speaker O'Neill. And he and I, Ball and I, worked very closely together.

So, as the various different proposals went forward, the senior leadership of the Congress and the Administration were wholly informed so that they could absorb it, react to it, and feed it back to the commission so that we did not end up with a report coming out at the end that was a "take it or leave it" type of report with 20 different issues that nobody could think about in a coherent manner. And what you avoided from that process were particular Congressmen and Senators taking quick positions with respect to various aspects of the report without having had time to really think them through. So that process kept everyone engaged.

Then finally, when the agreement was complete and we all agreed that it was non-amendable, because it was a very tightly argued commission report, Bob Ball and I went up to the Hill and, as the Republican member, I would answer the Republican questions and he would answer the Democratic questions, as we held to a unified position, saying, you take it or you leave it. We will try to explain it as best we can. But if you try to amend it, it will not work. And it turned out to be a reasonably sensible set of recommendations which was overwhelmingly accepted.

Now, the existing Fiscal Task Force recommendations all have some of those qualities right off the bat. In fact, having Senators and Congressmen as well as members of the Administration on that task force solves the political problem and provides continuous updating, which is essential.

I do not want to comment because I do not really know as much as I need to know about the existing structure of what can happen in this context. There are many commonalities and there are many differences, though.

Senator COLLINS. Thank you.

Chairman LIEBERMAN. Thanks, Senator Collins.

Senator Voinovich, if you would indulge Senator Burris, he has got to go over and preside. He has asked for the opportunity to ask one question before he goes.

Senator VOINOVICH. That is OK, but Senator Carper has an appointment, too, and only has one question.

Chairman LIEBERMAN. OK. Go ahead, Senator Burris.

Senator BURRIS. Thank you, Senator Voinovich. Thank you, Mr. Chairman, mine will be very short.

I am asking for a personal opinion of these two distinguished American citizens. I am just concerned about the commission that would be created and whether or not we should do something about campaign finance reform in reference to the political process because I do not see us being able to get any control in the financing of programs in the Federal Government unless individuals who have to run for these offices are not beholden to special interests which drive up the costs of government because they want their program to be in place. And I just wondered if you all had given any thought in the commission as to whether or not campaign finance reform should be a part of this.

Mr. GREENSPAN. Do you want to take a shot at it or do you want me to?

Mr. WALKER. Do you want to go first, Mr. Greenspan?

Mr. GREENSPAN. Not particularly.

Mr. WALKER. All right. I will start. First, I think the Fiscal Future Commission, with everything on the table, which would mean statutory budget controls, Social Security, Medicare, Medicaid, other spending, tax reform, that is broad enough. I think campaign finance would be probably beyond the scope of this.

I will say this. We need campaign finance reform. There is no question about that.

Senator BURRIS. Well, if you do not get campaign finance reform, we are not going to be able to do anything about the deficit and the debt because politicians have to run for office. They have got to raise money. The only way to raise money is to make commitments to special interests, and special interests then drive this whole country.

Mr. WALKER. Quick comment, Senator. I have got a book coming out in January called "Come Back, America." It talks about policy, operational, and political reforms that this country needs, including campaign finance.

Senator BURRIS. Mr. Greenspan.

Mr. GREENSPAN. We have a sitting House of Representatives and a sitting Senate. Irrespective of how they came to office, there are some very good people in both bodies and very thoughtful people on a lot of the committees. So I agree with David Walker that, clearly, campaign finance reform is a critical issue. It has to be resolved. But I do not think it needs to be resolved prior to coming to grips with this issue.

Senator BURRIS. Or part of.

Mr. GREENSPAN. They are separable issues, really, as far as I can see.

Senator BURRIS. Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thanks, Senator Burris. Senator Carper.

Senator CARPER. I hadn't planned to go into this point, but I want to start off by saying a word or two on the health care reform and the implications that it has for long-term deficit reduction.

I serve now on the Finance Committee and have had an opportunity to work this year on the issue, and I have said countless times—and so has Senator Conrad, who was here earlier—if we do not rein in the growth of health care costs as we go through this process, we may extend coverage to people who do not have it, but we will not be able to sustain that extension of coverage for very long.

A lot of the press coverage on what we have produced focuses on issues like death panels and abortions and we are going to cover all of the illegal aliens and stuff like that. But there are actually a number of reforms. I just want to take a minute just to mention some of what I think are the most important things that are part of the bill.

We are trying to replicate what works. One of the things that works in delivering health care, better results, less money, is health care that is provided by the Cleveland Clinic, Mayo Clinic, Geisinger, Intermountain Health, and Kaiser Permanente. They get away from fee-for-service and we need to move away from fee-for-service. They focus on prevention and wellness. They focus on primary care. All the people that they care for have electronic health records. They coordinate care in order to address chronic diseases. There are a whole lot of smart things that they are doing and we are trying to take that health care delivery system and infuse it into Medicare and to Medicaid and to really any other forms of health care delivery in our country.

The other thing that we are trying to do is to create large purchasing pools. We participate in a large purchasing pool, the Federal Employee Health Benefit Plan, eight million people strong. We not only get cheap health insurance, but we get reasonably priced health insurance because a whole lot of health insurance companies want to compete for our business. It helps drive down the cost of the health care that we buy. Our administrative costs are 3 percent of premium dollars, much lower than what most other people pay for individual coverage or small business coverage.

And what we are trying to do is to allow for the creation of large purchasing pools in every State, and if States have too small a population to have a large purchasing pool, they create regional purchasing pools across State lines. If we create regional purchasing pools, insurance could be sold across State lines to increase competition and the availability of choices.

Those things very rarely get discussed in the media, but what we are trying to do is to replicate what works, and one of the health economists who has followed this very closely has said, if you look at all the provisions that are actually in the bill bumping up the service, restraining the growth of health care costs, he said, you are really throwing everything up against the wall and we will see what sticks. And my guess is that some of what we are doing will stick and some of it will not.

But that is not my question. I just wanted to mention that. Here is what I want to say. It is the same question I asked Senator Conrad. The role of who is going to serve on this commission. I am sure Senator Lieberman and Senator Collins remember when we had Lee Hamilton here, who was good enough to co-chair the 9/11 Commission, and I asked him, how come you guys were able to get so much done? Virtually everything they recommended, we did. And for the most part, I think everybody on that commission—nobody was in the Congress. They worked very hard.

And I said to Lee Hamilton, why were you so successful in presenting to us all these recommendations which we ultimately subscribed to and adopted in toto, and he said it was we had plenty of time, we had plenty of time to work with one another, we got to know each other, and the vice chair was the former governor of New Jersey, Tom Kean. And he said, Tom Kean and I developed a sense of trust and confidence in one another and, he said that spirit of trust infused the entire commission and it led us to a very successful effort and enabled us to speak with one voice, not unlike what happened in the commission that Chairman Greenspan led.

So, a question. In terms of looking for other people to serve on the commission beyond members of the House and Senate and one or two people named by the Administration, give us a word or two on the profile. The idea of people like Bob Dole or Tom Daschle or George Miller, folks like that, people who have served—maybe people who have chaired the Budget Committee in the past who have a whole lot of knowledge, and a lot of trust and confidence, and understand the politics as well as the policies, your thoughts, please.

And I again want to thank George Voinovich for yielding. Thank you, George.

Mr. GREENSPAN. I think it is less important who the individual members are than the process of the deliberations and how it ultimately is constructed into a report and eventually into legislation.

There are certain critical things which my experience suggests have to be done: Specifically you cannot drop a whole report on everyone's desk, after secretive deliberative, discussions by some private group. It will go nowhere. And the reason, is that when you have a commission, especially for controversial issues, the ideas and notions of change have to be absorbed gradually by the Congress. If you force them to react immediately, they will take positions which they may be sorry about, but they will not be able to reverse, having taken a commitment, it ends the whole deliberative process.

So I would say it is less important who is on the committee than how it functions.

Senator CARPER. All right. Thank you. Mr. Walker.

Mr. WALKER. Senator, in my view, without mentioning any names, they need to be knowledgeable, respected, credible, and committed to making it work, to making best efforts to come up with recommendations that actually will be acted on and approved. And last, they have to be willing to dedicate the time.

One of the concerns that I have is what you said before. I think for this commission to be successful, it has to do two things. It has to educate and engage the American people, representative groups of the American people beyond the beltway. That is going to take time. And it has to do things with elected officials and others and key stakeholders, as well. And so you have to think about can they dedicate the time.

The last thing is, keep in mind, we need nonpartisan solutions. A plurality of Americans consider themselves to be political Independents today. The simple truth is—and I have been to 46 States in the last 2½ years, I am going to the last four States in the next 6 months—the simple fact of the matter is, if you have a hard "D" or "R" on your sleeve, you are going to be discounted dramatically by the American people, no matter who you are and how good you are and what your intentions are. That is reality in America today.

Chairman LIEBERMAN. That is very nice of you to say. [Laughter.]

Mr. WALKER. I was going to ask the Chairman, who is going to answer the Independents' questions?

Chairman LIEBERMAN. Well, you did it. Thank you. [Laughter.]

Senator CARPER. Again, thank you for those responses, and Senator Voinovich, thank you so much for your kindness and for yielding. Thank you.

Chairman LIEBERMAN. Thanks, Senator Carper. Senator Voinovich

Senator VOINOVICH. Mr. Greenspan, you have talked about 1983 and the unusual interpersonal relationships between the President and the Speaker of the House and the fact that you kept people informed as you moved along and it worked out. The question I have is, compare that period of time—now, you have done it in your testimony, but really, compare that time in terms of the urgency of the situation, and I would like the same comment from Mr. Walker.

In other words, there are some people who say that we do not have an urgency today. We can kick the can down the road. We do not really have a crisis that needs to be met. I would like the two of you to comment on that.

And the second question is, what do you think it will take to convince the American people, and probably just as important, the international community, that we are getting serious about dealing with this problem?

Mr. GREENSPAN. Well, first, let me say that the first act the 1983 commission implemented was to recognize that Medicare, which was part of our mandate, was much too complex to handle, and besides, we had a quarter century before the baby boomers retired and we would run into trouble.

All of the facts that confront us now were available in 1983. This crisis is to a very large extent a demographic crisis, where we are doubling the number of retirees. We are essentially altering the structure of our labor force, because remember, it is not only the question of the baby boomers retiring and their impact on the retirement programs, it is the fact that we are losing very productive people and a very large cohort of our population is going from work to retirement, and we knew that 25 years ago. We could see it coming and we knew the implications, but always it looked too daunting to endeavor to come to grips with it.

Social Security is a defined benefit program which was reasonably resolvable once Claude Pepper, who was a member of that commission, said it was inconceivable that we would use general revenues to solve the problem that seemed to appear fairly quickly in the trust funds.

Once we had the arithmetic of the Social Security program, I remember Senator Patrick Moynihan, who I miss considerably, said, everyone can have their own opinions about policy, but there is only one law of numbers and one rule of arithmetic, and to solve this problem—meaning the problem back then—we needed either to raise payroll taxes or lower benefits. There was no third alternative. If we could get to this problem as succinctly defined as Senator Moynihan defined it, I think we are a good way down the road.

On the second issue—how will the foreigners know when we are serious? When the American people know we are serious. It is the same evidence and basically they are watching this very closely. And indeed, if it were not for the fact that our debt is becoming increasingly held abroad for reasons other than the quality of our debt. In the case of China, for example, they are trying to maintain a competitive position by keeping their exchange rate down, and the only way they can do it is to buy U.S. dollar debt. It does not help all that much if you are exporting to the United States to buy

Euros or other currencies. They are building up dollar balances not because they want to invest in the United States, but because it is the only means by which they can keep their exchange rate at a level that keeps their labor force employed.

At some point, that has to stop, and it will. It will stop because the markets will not continue to function in the manner in which they are able to do that.

Mr. WALKER. Senator Voinovich, first, I think the Greenspan Commission deserves a tremendous amount of credit, especially Chairman Greenspan and Bob Ball for the leadership that resulted in the reforms in 1983. But I think we are in a very different situation today.

In 1983, the checks were not going to go out on time. Within weeks, tens of millions of American's were not going to get their Social Security check. There was no option other than to succeed. That would have obviously been a politically unacceptable outcome.

That is not the situation today, but let us explain what is the situation today. First, the trust funds are an accounting device. They do not mean the same thing as Webster's Dictionary. You cannot trust them. They are not funded. There is no fiduciary responsibility, all right. If they were a trust fund in the private sector—and I used to be Assistant Secretary of Labor for the Employee Retirement Income Security Act (ERISA)—people would be in jail. There would be all kinds of fiduciary breaches, prohibited transactions, whatever.

So let us talk about the reality. The reality is, we are negative cash flow in the Hospital Insurance Trust Fund. We are negative cash flow in the Disability Insurance Trust Fund for perpetuity, all right, without reforms. We are negative cash flow in the Retirement and Survivors Income Trust Fund at least for 2 more years. The Medicare program Part A will not be able to pay bills within 10 years. The Social Security Trust Fund does not go dry for a while, but again, what are we doing? We have to end up borrowing from the public, mainly from foreign lenders, in order to deal with the negative cash flow situation.

Within 12 years, according to GAO, which I headed for 10 years—within 12 years, without an increase in interest rates, and Chairman Greenspan has talked about the risk there—without an increase in interest rates, the single largest line item in the Federal budget will be interest on the Federal debt—not defense, not Medicare, not Medicaid, not Social Security. And what do we get for that? As we say in the South, shineola. Nothing. Now, that is without an increase in interest rates, and these numbers are getting worse every second of every minute of every day.

So what does it take for people to understand that we are approaching an abyss? Remember Harry and Louise for health care? We face Thelma and Louise. We are headed for a fiscal cliff and we need to change course before we go over it. It is as simple as that.

Senator VOINOVICH. Thank you.

Chairman LIEBERMAN. Thanks, Senator Voinovich. Senator McCain.

OPENING STATEMENT OF SENATOR MCCAIN

Senator MCCAIN. Well, thank you, Mr. Walker. You have given me some great lines. [Laughter.]

I will not give you any credit, either. [Laughter.]

I am entertained, too, when I see these advocacies for, we are going to stop all this spending. We are going to really knuckle down here. Two days ago, we passed a bill, six appropriations bills, three of them never considered on the floor of the Senate so they could be amended, a conference report with a 14 percent increase in spending, and they all voted for it, or the majority of them voted for it, loaded down with pork-barrel projects—$2.9 million to study performance of surgery in outer space. Trekkies are happy all over America. So you might as well laugh about it.

But, we are going to have this commission, but yet we can vote at these times for appropriations bill that have a 14 percent increase in spending. Meanwhile, the consumer price index (CPI) is minus 1.3 percent. Does anybody have any shame, I wonder? And now we have a bill on the floor of the Senate that I am going to go and debate today that has $2.5 billion to buy C–17s which everybody knows we neither need nor want—$2.5 billion.

Let me just ask you a question really quickly, and I know we have not got much time. How much difference does this earmarking—by the way, in that last bill, it was $4.3 billion worth of earmarks and pork barrel projects. I will not comment on the money that was being spent on irritable bowel syndrome. But you were here. You saw it. And you saw it grow out of control. Everybody says, well, it is sort of the standard way we do business. It is not the standard way we do business. We did not used to have these earmarks and pork barrel spending. So what is your view, Mr. Walker.

Mr. WALKER. Senator, several things. One, in a typical year, over time, earmarks are about 1 to 2 percent of spending.

Senator MCCAIN. So, therefore, they do not matter?

Mr. WALKER. No, they do. That is a lot of money. One to 2 percent of Federal spending is a lot of money. They do matter. I personally think that we need reforms there. There is no question about it.

The other thing is a lot of these earmarks do not have a Federal purpose and a number of the earmarks avoid competitive bidding. So there are a lot of reasons why they are a problem.

I think there is more than a little bit of—I could use a lot of words, I will say irony—there is more than a little bit of irony that people are now wanting to try to get tough when last year, discretionary spending went up 8.3 percent, the Congress's budget went up 10 percent, this year you have already talked about discretionary spending is going up over 10 percent, we have zero inflation over that period of time, and now we are going to get tough. It is one thing to spend money on the stimulus or financial rescue plans or whatever if they are properly designed, but this is the base of government. This is government that will be here for years and years.

I think we not only need a Fiscal Future Commission, which is what this hearing is about, I think we need a rebaselining commission. I think we need a separate commission, not comprised of elected officials, but of people formerly from the private sector or government who have transformational success records to relook at the base of government on the spending and the tax side and to basically start repositioning things, because you cannot sustain——

Senator MCCAIN. Let me ask you three quick questions. One, do you see any of this in this health care bill that really means significant cost savings?

Mr. WALKER. Well, I think there are several things in the health care bill that are laudable. One, pilots. There are a number of pilots, and if they prove to be successful, then the Secretary of Health and Human Services (HHS)——

Senator MCCAIN. So you have seen some?

Mr. WALKER. Second—but let me close up——

Senator MCCAIN. Let me get the second question for you and Mr. Greenspan. Do you believe that the returned or unused Targeted Asset Relief Program (TARP) funds and the unobligated stimulus funds should be spent for further economic stimulus or should be returned to the Treasury?

Mr. GREENSPAN. There are often appropriated funds which do not get spent and they automatically return to the Treasury. There is no distinction——

Senator MCCAIN. Well, as you know, there is a proposal to use the unused TARP funds.

Mr. GREENSPAN. I know.

Senator MCCAIN. Do you support that?

Mr. GREENSPAN. No, I do not.

Mr. WALKER. I agree with the Mr. Greenspan.

Senator MCCAIN. This is my final question, and you probably do not have an answer to it, but maybe you can help us out a little bit. In 1970, foreign investors held 5 percent of our debt. Now, it is over 50 percent. We have deficits, according to Mr. Walker and Alan Greenspan, of $38 trillion in Medicare, and I have forgotten the number in Social Security——

Mr. WALKER. It is a little over $7 trillion.

Senator MCCAIN [continuing]. $7 trillion, a $12 trillion deficit, and, of course, $1.5 trillion this year. Given the path we are on, in other words, let us say we do not really change anything, at what point, Mr. Greenspan, do we have a severe fiscal crisis which requires us to do what we did in the early 1980s, only in spades, debase the currency, inflation, etc.? And I know that is a very difficult question, but I think Americans really deserve to know when we are going to hit a wall here or at what point this is—we all know it is unsustainable, but at what point could we face a severe fiscal meltdown in this country?

Mr. GREENSPAN. Well, in one sense, it almost goes back to the very first question you raised today, namely the issue of spending seeming to get out of control. In my experiences, spending is contagious. I remember years ago there was a Congressman, H.R. Gross, from Iowa who used to get up and say, where is the money coming from?

Now, we also at that time had the, it seems sort of quaint, view that government finances should be like household finances. And my recollection of the period was such that I remember President Eisenhower apologizing to the American people for what would now be considered to be a minuscule deficit; indeed, it would not pay for the earmarks. And the reason he was apologizing is that the culture was that you did restrain. There is no way that I can conceive of that if you have huge amounts of monies being appropriated for anything that people do not want to get into the act with a little bit here and a little bit there, because rounding, you never see it.

And I think that we have to get back to a general view that this is not a bottomless pit. We have physical resources which cannot do all of the things that everyone wants to do. And unless we can get some means to go back to a view where it is not the most important thing when you are in Congress to find ways to spend money to help your constituents—I think that is critically important, but remember, we have had over 200 years of Congresses in which that did not happen.

I think this has become an extraordinary country, by far the most productive in the world. We have had a remarkable democracy. The system works. There is nothing in it which says we have to be profligate in spending and creating benefits for constituents. They are not really asking for it.

Senator MCCAIN. And how much time do we have?

Mr. GREENSPAN. I would say the time frame collapses very quickly if we do nothing. It is not going to be the next 2 years. There is no credible scenario. It is out there somewhere in the future. Somebody who says they know exactly when it is merely indicates that they do not have a clue what is going on.

The critical triggering point will be in the bond market, and we do not yet see that. But when we begin to see that, that is, in fact, the canary in the coal mine.

Senator MCCAIN. And could I just say for the record, what would we see in the bond market that would sound this alarm?

Mr. GREENSPAN. As I indicated earlier, it would show up largely in the longer end of the market, meaning 30-year Treasuries and 10-year notes. Yields would start to move up relative to, say, one-year Treasury bills so what we call the yield curve would tilt up very significantly. That is the first sign that something is emerging, similar to, as I said before, what happened in the City of New York.

Mr. WALKER. You mentioned inflation, Senator. This is very important. You cannot inflate your way out of this problem. You can inflate your way out of the burden associated with the $12 trillion in current debt. But the problem is not that. The problem is the $38 trillion in unfunded obligations for Medicare, the $7-plus trillion for Social Security, that grow faster than inflation, and in the case of health care, faster than the economy when the economy grows. You have to make tough choices on health care costs, on social insurance reforms, on spending constraints, on tax reforms. Tough choices are inevitable.

Senator MCCAIN. Did you see any of those choices made while you were here?

Mr. WALKER. No. That is why we need a special process. They will not be made, in my opinion, Senator, in the regular order because the regular order is dysfunctional.

Mr. GREENSPAN. I am just saying, unless you alter the day-by-day process of governing with our profligate fiscal propensities there is not a limit to spending. There is no limit because borrowing money to pay for something seems like a free lunch. And in a certain sense, it tends to be. However, there is obviously the physical world out there which is responding to all of this.

And what I like to do often when you talk about budgets is say, forget the finance. Think in real terms. How much in the way of resources do we have to start with and how do we allocate them amongst demands for those resources which exceed the total? Every single thing that appears before you are desirable things. In other words, you do not pass frivolous bills. What you pass is something for which there is a need. The trouble is, if you add up all the needs, all of which are exceptional needs, you have a physical requirement that is much larger than our capacity to produce it. So there has got to be some forum in which the total demand is constrained to the total available supply.

One of the points I made in my prepared remarks is that this notion that we can somehow just expand the economy at will or increase productivity is false. The history of productivity in this country, has been on the cutting edge of technology. That means you cannot go faster than we can think. And indeed, what we have seen since the data became realistically usable in 1870 is that there is a very narrow constraint on innovation turning into productivity and growth. We cannot do it any faster, which means we have no choice but to find a way to bring down the level of demand of otherwise exceptionally desirable needs of the society. We just do not have the resources to do that, and if we try to do it, the system breaks down.

Senator MCCAIN. So in the words of Chairman Mao, it is always darkest before it is totally black? [Laughter.]

I thank you, Mr. Chairman.

Chairman LIEBERMAN. Even I laughed at that, even though I have heard you deliver that line 100 times. [Laughter.]

It is very apt. If you have time for a few more questions——

Mr. GREENSPAN. Sure.

Chairman LIEBERMAN [continuing]. Because, actually, if Senator McCain can stay, you make a fascinating point in here, in your opening statement, and you just touched on a part of it, where you essentially said we cannot grow ourselves out of this problem, which is to say increase the size of the overall economic plan. You just mentioned that productivity has certainly historic limits. But you mentioned something else fascinating. Short of a significant increase in immigration, the size of our labor force in 2030 is fixed in a relatively narrow range.

So am I hearing you correctly? Forget all the politics of this. From an economic point of view, if we had a significant increase in America in, obviously, legal immigration, that would be one way to grow the economic pie.

Mr. GREENSPAN. It would be, but I would not have immigration policy focused on the economic need to finance a great number of things. I mean, I am very strongly supportive of H1–B expansion.

Chairman LIEBERMAN. Right.

Mr. GREENSPAN. I have also argued before Senator Schumer's subcommittee that there is a very unusual pattern of our immigration in which we have a very large number of immigrants who are high school or less well educated, a significant part of whom are illegal, and then we have a remarkably large number, relative to our domestic educational system, of Ph.D.'s and better who have come to this country and contributed immensely——

Chairman LIEBERMAN. Right.

Mr. GREENSPAN [continuing]. To our economic success. I argued that both groups were actually very importantly affecting the economy in a positive way. If we try to send all our illegals home, which one would think that is what we ought to do, obviously, with respect to upholding our laws, speaking as an economist, I will tell you, we will have a really serious problem. There are 12 million of them.

Chairman LIEBERMAN. It is very significant. I am not suggesting that we increase illegal immigration as a way to deal with the debt, but it does have those positive economic implications.

Mr. GREENSPAN. Oh, it certainly does, Mr. Chairman.

Chairman LIEBERMAN. Let me ask this final question of both of you, because we have talked a lot here about the horribles that would occur if we do not do anything, if we do not, for instance, set up a process such as we have talked about to begin to deal in an orderly way, to discipline ourselves with our national debt.

Let me ask you both to just speculate a little bit on the other side of this. Let us assume that we do create a commission. The commission does make bipartisan recommendations to Congress for the methodical reduction of our national debt down to a much lower percentage of GDP, or however we measure it. What are some of the positive responses, both within the American economy and the global economy, if we are able to achieve that result? Chairman Greenspan?

Mr. GREENSPAN. Well, we saw that when we were running surpluses a decade ago. Real long-term interest rates come down. The effectiveness of capital investment is enhanced. You have all of the reverse effects of rising real interest rates. And, in fact, the great irony is that one of the things that has created a huge difficulty for us was precisely that surplus, those surpluses, because they undermined pay-go——

Chairman LIEBERMAN. Yes.

Mr. GREENSPAN [continuing]. That was such an important and actually quite effective program. So I want to say there are obviously downsides, but having budgets in balance creates a stability for the future which enables people to invest over the longer run. It is not an accident, for example, at the turn of the 20th Century, we were selling bonds at under 2 percent for 30-, 40-, and 50-year maturities, and that was a consequence of having a stable fiscal system. But it enabled our infrastructure to be filled with longer-term assets. And the longer the average age of assets in a society, other things equal, usually the more productive that society is.

So whether or not we are talking about balanced budgets or whatever, fiscal stability and responsibility has very positive outcomes for a democratic society.

Chairman LIEBERMAN. And, Mr. Walker, I assume that what Chairman Greenspan has described also then feeds through the economy in very real and positive ways to individuals, to businesses, to families. I mean, it is likely to, within limits, stimulate more economic growth, less unemployment, etc.

Mr. WALKER. Correct. Simply stated, if we do the right thing, our future can be better than our past. If we do not do the right thing, our best years may be behind us. What is going on right now is that we are mortgaging the future of our children and grandchildren at record rates. At the same point in time, because most of the budget is on autopilot on mandatory spending, we are reducing relative investments in the future—basic research, critical infrastructure, other things—at a time where they are going to face increasing competition in the world. That is not right.

Last thing, on immigration, it is not just quantity, it is quality. We need to change our immigration policy to focus more on skills and knowledge. We cannot compete on wages. We do not want to compete on wages because our standard of living will go down. We have to compete based on skills, knowledge, productivity, innovation, quality, value added, and that means that we have to be more intelligent about our immigration policy and we need to rethink what the priorities ought to be as well as the numbers.

Chairman LIEBERMAN. Well said. Somebody around here suggested, and we have not actually acted on it, that, as you know, I forget the percentage, but somewhat close to half of Ph.D.'s, particularly in science, technology, mathematics, in U.S. universities are foreign born, foreign nationals, most of whom go home. Somebody around here said we ought to act on it. We ought to put a green card on their diploma, assuming that they pass all the other tests, security and all the rest, because it is in our interest to keep them here because they will contribute remarkably to economic growth.

I thank you. Senator Collins.

Senator COLLINS. Thank you, Mr. Chairman.

Just a couple of final questions. Chairman Greenspan, one measure that is looked at often is the percentage of Gross Domestic Product that our public debt is, and it is obviously going up. It is projected to exceed the level that it was at the height of World War II. But many of us wonder, what is the appropriate level? What do economists believe is a level of debt as measured by a percentage of GDP that is acceptable versus worrisome?

Mr. GREENSPAN. Well, Senator, I thought we did reasonably well when the percentage of debt was 20, 30 percent of GDP. I would prefer lower than that, but we can tolerate that. The major problem is not so much the level of debt relative to GDP, but what is the sustainable deficit, and that is a more complex calculation. But I would argue that the lower the debt, the better off we are, because to the extent that the Federal Treasuries are drawing off the savings of the society, which are scarce, it leaves less savings for the private sector to invest in far more productive investments than generally is employed using the savings of the society through government functions.

Senator COLLINS. Thank you.

Mr. Walker, do you have anything to add on that measure?

Mr. WALKER. The comment that I would say is there are two debt-to-GDP ratios, one of which that economists tend to use, which is the public debt-to-GDP. The other is total debt-to-GDP, which is what the debt ceiling limit is. We have got to keep in mind that the bonds that are in the "trust funds," are backed by the full faith and credit of the U.S. Government. They are guaranteed as to principal and interest. They will not be defaulted on, in my view. And when you look on that basis, total debt-to-GDP right now is about 85 percent. By the end of next year, it will be 95 percent and headed up.

We are the only ones that I know of that have these fictional trust funds. We did not have monies sitting in these trust funds back at the end of World War II at 122 percent. We were largely pay-as-you-go. So I think people ignore trillions of dollars worth of debt which is real. It may not be a current demand on the economy, a current crowding out effect, but we owe it and, therefore, I think we need to look at both debt held by the public and total debt and show both.

Senator COLLINS. Thank you.

Finally, Senator Conrad mentioned the importance of everything being on the table for the Fiscal Future Commission, and I agree with that approach as opposed to the more narrow approach recommended by some of our colleagues. On the other hand, the CBO has clearly warned us that to sustain the current projected spending levels would require a level of taxes never before seen in our country. I am interested in hearing both of your views on whether there is a limit to the level of taxation that can be imposed on our economy before it starts having very detrimental consequences. I will start with you, Mr. Chairman.

Mr. GREENSPAN. Well, there is clearly a limit in the sense that as tax rates go up, the tax base begins to shrink. And clearly, at 100 percent taxation, you are not going to have any tax base to speak of. So that clearly, you cannot raise revenues indefinitely through raising rates. It is not easy to calculate where that is, and indeed, when you get to the point where the additional revenues are very small as rates go up, you have already probably gone too far.

But it is very clear from the outlook that we have no choice but to work from both the spending side and the tax side. As much as I dislike the notion, I cannot visualize in any concrete way how we can bring down the level of spending to the capacity of our economy to function comfortably with it, and if we cannot do that, then clearly we have to go to the tax side. But again, we have to be very careful there, as well, because it is a different type of constraint. The constraint on the spending side is basically political. The constraint on the tax side is mainly, but not wholly, economic.

Senator COLLINS. Thank you. Mr. Walker.

Mr. WALKER. Well, a few numbers. For the last 4 years, average Federal taxation has been about 18.3 percent of GDP. The highest that it has been in history, in recent times, at least, is about 20.6 percent of GDP. If we do not do anything, it is going to go up to 40 percent-plus of GDP by 2040 if we all of a sudden continue to do what we are doing now and then want to try to balance the budget in 2040. If we do not extend the Bush tax cuts, in other words, if they all expire, taxes will be 24 percent of GDP within the next 10 years or so and moving up.

My view is that you can solve the problem for less than 24 percent of GDP, that everything has to be on the table, that the problem is primarily a spending problem, but that you are going to have to have more revenues because there is a new four-letter word that people have to deal with. It is called math. The math does not come close to working. You cannot grow your way out. You cannot tax your way out. You cannot just cut your way out. You cannot inflate your way out. You have to do a number of things.

We want to keep taxes as low as we can, but here is the key. The sooner we act, the lower they can be. So the miracle of compounding will work for us. As Albert Einstein said, the most powerful force on earth is not nuclear energy, it is the power of compounding. And when you are a saver, it works for you. When you are a debtor, it works against you. It also means that when you act sooner rather than later, the less draconian the changes have to be, the less the burdens have to be, the more transition time, the better ability to plan. So let us act sooner rather than later. Taxes are going up on a lot more people than those making $250,000 or more. Why? Math.

Senator COLLINS. Thank you.

Mr. Chairman, I want to thank you for an excellent hearing today and express my appreciation to our very distinguished witnesses. I have a feeling, if we do the model of the commission that had outside members, that we are looking at two people who could contribute enormously. So thank you very much, and I thank our witnesses.

Chairman LIEBERMAN. I agree with you, Senator Collins. This membership on the commission would be an appropriate punishment for your good behavior over the years and for your excellent testimony today. [Laughter.]

I think we are really on a verge of beginning to try to do something about this. That is a long way from doing something, but I think we have a reasonable opportunity here, a reasonable chance to begin the process that we are talking about that both of you have supported this morning, and then the hard work begins, of course. And your voices this morning and for a long time really bring us closer to beginning to deal with the problems and then ultimately dealing with it. So I cannot thank you enough for the time that you have given us this morning and for the content of your comments to us. We appreciate it very much.

We will keep the record of the hearing open for 10 days for any additional statements and questions, but with that, I wish you a good day.

Mr. GREENSPAN. Thank you very much.

Senator LIEBERMAN. The hearing is adjourned.

[Whereupon, at 12:35 p.m., the Committee was adjourned.]

APPENDIX

Opening Statement of Chairman Joseph Lieberman
Homeland Security and Governmental Affairs Committee
"Safeguarding the American Dream:
Prospects for our Economic Future and Proposals to Secure It"
Washington, DC
December 17, 2009

Good morning. With today's hearing we examine an economic time bomb that is quickly ticking toward catastrophe – our national debt.

I will keep my opening remarks brief because we have two stellar panels before us today and I'm eager to hear their thoughts – starting with my friends and colleagues, Finance Committee Chairman Kent Conrad and Ranking Member Judd Gregg.

Following them will be two leaders whose expertise is unquestioned – former Federal Reserve Board Chairman Alan Greenspan and former Comptroller General David Walker. Welcome to you all.

By New Year's Eve, the national debt will punch through the $12.1 trillion cap set by Congress. Obviously, we will have to raise the cap. But it's time for Congress to get serious about getting the debt under control and start reducing it.

I, like many of my colleagues on both sides of the aisle, believe that any effort to provide for a long-term increase of the debt limit must be accompanied by the creation of a special process, such as a statutorily authorized commission, to address the fiscal crisis our nation is facing and offer solutions that Congress must vote up or down.

I know Chairman Conrad is actively involved in discussions with the President's staff and House leaders to reach an agreement on a commission. It appears it may be necessary to pass a short term debt limit extension at this time so we have more time to hammer out a compromise to put in place a commission.

If we continue adding to the debt without putting in place meaningful measures to pay it back, we put at risk both our economic and national security; we place our nation's economy at the mercies of foreign creditors who don't always share our values; and we put in jeopardy generational promises we have made to ourselves and our children, like Medicare and Social Security.

Except for a brief period under President Andrew Jackson, this nation has always been in debt.

In fact, in 1790, our first Secretary of the Treasury, Alexander Hamilton, faced an economic crisis of falling property values, frozen credit and a plunging dollar – sound familiar? – and asked Congress to let him use debt to help stabilize the economy.

And his plan worked! But even back then Hamilton warned that while government debt could be, in his words, "a national blessing" we needed to be careful. The idea that "public debts are public benefits" [is] a position inviting . . . dangerous abuse," he warned.

Hammering the point home, Hamilton went on to say "the creation of debt should always be accompanied with the means of extinguishment" and "it is difficult to conceive a situation, in which there may not be an adherence to that maxim."

Well . . . difficult as it might have been for Hamilton to conceive, we have done it.

Consider the situation we now find ourselves in. Besides the more than $12 trillion in debt already outstanding, this nation's unfunded liabilities related to pension obligations, Medicare, and Social Security exceeds $40 trillion, according to information published by Mr. Walker's Peterson Foundation.

In total, America's liabilities come to $483,000 for each American household. Given that the median annual household income in the United States is around $50,000, you can see what a burden we are placing on the generations of Americans to come.

The financial ratings service Moody's put it even more starkly this week, warning that if the United States doesn't outline plans to better manage its debt we could face a loss of our AAA rating as early as 2013 – further compounding our debt problem as we would then need to offer higher interest rates on the riskier bonds.

Earlier this year I joined my colleague, Senator Voinovich, in introducing the SAFE Commission Act that would have created a panel similar to the Base Realignment and Closing Commission that would recommend to Congress policy changes to get our debt under control that would have to be voted up or down with no amendments.

Our bill is similar to legislation that Chairman Conrad and Ranking Member Gregg have offered in past Congresses.

And last week Chairman Conrad and Ranking Member Gregg offered the latest version of their legislation, called the Bipartisan Task Force for Responsible Fiscal Action Act of 2009, which has already gained the support of more than thirty Senators and of which I am also a cosponsor.

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While our bills differ somewhat, they are similar in their scope and purpose in that they both establish a panel to make recommendations on restoring fiscal balance, and call for fast track consideration of the recommendations without amendment.

Everything will have to be on the table – taxes, fees, loan programs, business and agricultural subsidies, discretionary spending and entitlement programs, like Medicare and Social Security.

This will mean finally facing the hard choices Congress has shown in the past it hasn't got the stomach for. No one wants to see their taxes raised, their benefits cut, or their federal services pared back. But if we fail to act, the global markets will do it for us and that will be far more painful.

We've mastered the art of running up the debt. Now let us be masters of our fate and return to the wisdom of our founders, make the hard choices and create the means of extinguishment of our nation's debts.

Opening Statement of
Senator Susan M. Collins

"Safeguarding the American Dream: Prospects for Our Economic Future and Proposals to Secure It"

Committee on Homeland Security and Governmental Affairs
December 17, 2009

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Thank you, Mr. Chairman, for conducting this hearing on a matter of such importance to our nation. I commend Senators Gregg and Conrad for their leadership and thank Mr. Greenspan and Mr. Walker for their service to our country and for their participation today.

Earlier this year, Mr. Walker brought the Concord Coalition's Fiscal Wake-Up Tour to Maine. Whether as Comptroller General or as President of the Peterson Foundation, he has worked tirelessly to sound the alarm regarding our nation's daunting long-term fiscal challenges.

To paraphrase the Senator for whom this building is named: a trillion here, a trillion there, and pretty soon we're talking about a real fiscal catastrophe. Nothing underscores the scope of the crisis we face more than the fact that the billions in taxpayer money that so concerned Senator Dirksen just a few decades ago pale by comparison to the prospect of annual deficits exceeding a trillion dollars that we confront today.

The dire consequences are found in innumerable charts, graphs, and spreadsheets. This debate is not, however, just about numbers and cold data. This is about our obligation, as policy makers and as citizens, to future generations of Americans.

The basic problem is that government has promised more than our citizens can pay. One columnist described this as the collision between the high and rising demand for government services and the capacity of the economy to produce the tax revenue to pay for those demands.

Historically, Americans have paid about 18 percent of GDP in federal taxes. But with the explosion in entitlement spending tied to the retirement of the Baby Boom generation, plus interest on the debt, Americans would need to pay taxes equal to 34 percent of GDP to keep pace with spending 25 years from now.

Even if it were possible to raise taxes in order to finance this rate of spending, that remedy would do tremendous damage to our economy. It would crush job creation, devastate our already-battered small-business community, and dash the aspirations and can-do spirit of our people. Thus, our decision-making must begin by reconsidering spending that, although popular, simply cannot be justified in this fiscal crisis.

It is wishful thinking to hope that we can simply grow our way out of this problem. Economic growth helps but is itself endangered by the enormous debt. Becoming more efficient and productive helps reduce our long-term financial challenges but is not also sufficient.

The SAFE Commission Act, introduced by Chairman Lieberman and Senator Voinovich, and the bill introduced by Senators Conrad and Gregg, are thoughtful approaches to addressing this crisis. Both create a Commission to examine thoroughly the fiscal imbalances between our long-term commitments and our projected revenues. The "Budget Commission" established by both bills would be charged with developing specific proposals to reform entitlements and to address the full spectrum of budget issues.

This examination is not merely necessary; it is urgently needed. We cannot continue business as usual. There is no better evidence of the need for change than the FY 2010 Budget Resolution. I opposed the budget because it accelerates our journey down the primrose path to fiscal ruin. It projects an enormous increase in spending that will double the public debt in five years. The resolution puts us on course to adding an average of more than $900 billion to the debt each year for the next decade, tripling the public debt in 10 years, and producing deficits totaling a staggering $9.1 trillion.

The current debate on health care is another example. It is about more than the health care of our people. It is about our nation's health as well. It is about the fiscal well-being and solvency of this great nation for decades to come.

This is the moment in history in which we must confront the conflict between what we want and what we can afford. It is time to reassess our national priorities, to make the hard decisions, and to set a new course.

The budget reform proposals presented by our Senate colleagues would begin to move us forward as a nation in facing our fiscal challenges.

I do believe, however, that the legislation could be improved. Instead of an unamendable legislative proposal, I believe that members of Congress should have some ability to amend the Commission's recommendations before finally voting on them. This ability should not, however, be unlimited. Any amendment proposed to the Commission legislation should be required to be revenue neutral.

We can put this country back on track. We can do what needs to be done to ensure that future generations of Americans enjoy what every American generation has proudly claimed as a birthright, and that is the promise of a better quality of life than the generation that preceded it.

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Statement As Prepared of Senator George V. Voinovich
Homeland Security and Government Affairs Committee
December 17, 2009
"Safeguarding the American Dream:
Prospects for Our Economic Future and Proposals to Secure It"

Thank you Mr. Chairman (and Ranking Member Collins) for holding this hearing on what I believe is, after National security, the most important issue Congress and our Nation faces. Mr. Chairman, I also thank you for your sustained attention to this matter and for your teamwork on our SAFE Commission bill.

I further want to thank our panel—the Chairman and Ranking Member of the Senate Budget Committee, Senators Conrad and Gregg, who have used their leadership platform to unite the efforts of Senator Lieberman, myself, and many other colleagues of ours in the Senate and House who understand what needs to be done. The two of you have launched this great idea into action. I was very happy last week to see our labor finally pay off at the introduction of the Bipartisan Task Force for Responsible Fiscal Action Act of 2009.

This bill would force Congress to finally address our Nation's fiscal crisis. This bill recognizes that despite all our good intentions, Congress has failed to balance our budgets and stop our rapidly climbing debt. We ran a $1.4 trillion deficit this year and have now reached our $12.1 trillion debt limit.

Senators Conrad and Gregg have both spoken eloquently for years about the need to reduce our Nation's debt and deficit and to reform our tax code because they understand how serious this crisis is. And, I think it is important to point out that the American people, as well as the international community, recognize the fiscal crisis our Nation faces. Our Nation stands on financial thin ice, as our credit and credibility are called into question.

Earlier this year, Chinese Premier Wen Jiabao said, "We have lent a huge amount of money to the United States and of course we're concerned about the security of our assets and, to be honest, I am a little bit worried. That's why here I would like to urge the US to keep its commitment and promise to ensure the safety of Chinese assets."

It doesn't take an economist to realize our course is unsustainable. The federal government is the worst credit card abuser in the world and we're putting everything on the tab of our children and grandchildren. At a time when American families are taking a close look at their own budgets and credit card statements, the federal government is turning a blind eye to the statements on our out-of-control federal debt.

Today, we are here to discuss Senator Conrad's and Gregg's Bipartisan Task Force bill, legislation I strongly support. I would like to note that since 2006, I have introduced the Save America's Future Economy Commission Act (SAFE Act)—to reform Social Security, Medicare, our tax code, and to provide a process for Congress's expedited consideration of legislation proposed by the SAFE Act's committee. My friends Congressmen Jim Cooper and Frank Wolf have proposed similar legislation in the House. And now, Senators Conrad and Gregg have taken the lead with legislation that has earned all of our support and more. The bill has 33 supporters, including Senators Lieberman, myself, and several other members of this committee.

I just heard yesterday that President Obama is considering an Executive Order to create a bipartisan debt commission—but the authority of such a commission could not mandate Congressional action. For that reason alone, we could not trust an Executive Order to tackle this massive problem. The beauty of your legislation is that it forces an up or down vote, rewarding the work of the Task Force members by ensuring that if their proposal gets 14 out of 18 votes, the bill will not be placed on a shelf.

I know that some Members question why Congress cannot pass this necessary legislation through regular order, and in an ideal world that is what we would do. Unfortunately, for my entire time in the Senate, we have not been able to address our fiscal crisis. Congress is simply not willing or not capable of enduring short-term pain for long term gain. This is precisely why we need a commission to provide solutions and an expedited procedure for an up or down vote so that reform proposals don't die in Committee or become an exercise in political messaging, which frankly I am tired of after almost 11 years in the Senate, and so are the American people. They want action.

The Conrad-Gregg Fiscal Task Force bill is an example of bipartisan compromise to achieve a productive process to tackle an enormous problem, and I hope that this Committee and my colleagues do not make the mistake we too often make around here of letting the perfect be the enemy of the good. I cosponsored a similar bill in the 110th Congress, and frankly, I have stood ready to support any reasonable bill that gains strong bipartisan support and sends a strong message to President Obama that we must act now.

The President and OMB Director realize we have a crisis that needs to be addressed. And this is both a policy and a political issue. The undertow pulling down on the health care and climate debate is the debt. The American people are asking "What are you doing?" Some are saying "We are losing America," and many believe that this generation of Americans will be the first whose standard of living will be less than that of those before them. Our failure to act now on meaningful fiscal reforms will guarantee that they are right.

So, I am encouraged by the bipartisan step forward we took last week and by this unique opportunity we have right now to get something practical and effective done. I look forward to the testimony of all our witnesses today, and to hear their perspectives on moving forward at this historical moment.

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Statement of Senator Kent Conrad

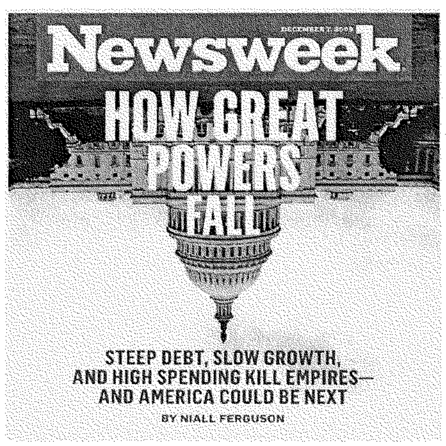
Thank you, Senator Lieberman and Senator Collins, for your invitation to appear before this Committee. And it is, as always, an honor to join my friend and the distinguished Ranking Member of the Senate Budget Committee, Judd Gregg, to discuss the critical issues we face concerning the long-term fiscal health of our country.

Senator Lieberman, you have been a leader in the Senate bringing attention to our long-term fiscal crisis. Along with Senator Voinovich, you have introduced "Securing America's Future Economy Commission Act" or "SAFE Commission Act," which would establish a special process to develop legislation to significantly improve the federal government's long-term fiscal imbalance. I believe that a special process is absolutely necessary to secure our economic future.

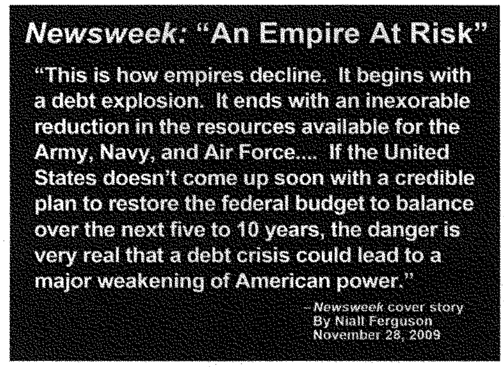
As you know, just last week Senator Gregg and I reintroduced our proposal for a similar special process, the "Bipartisan Task Force for Responsible Fiscal Action Act of 2009." That bill already has the support of a bipartisan group of 33 Senators – 19 Republicans and 14 Democrats – including you, Senator Lieberman. I thank you for your support. 33 co-sponsors is truly remarkable. It shows how many of us in this body have come to the conclusion that the regular legislative process is incapable of making the changes needed to put our nation on a sound long-term fiscal course.

Before I discuss the specifics of the Conrad-Gregg Task Force, allow me to take a moment to discuss how I see our economic future and why I think some sort of special process is so important.

Nothing short of the economic future of our nation is at stake. Here is *Newsweek's* cover story from December 7, 2009: *"How Great Powers Fall: Steep Debt, Slow Growth, and High Spending Kill Empires – And America Could Be Next."*

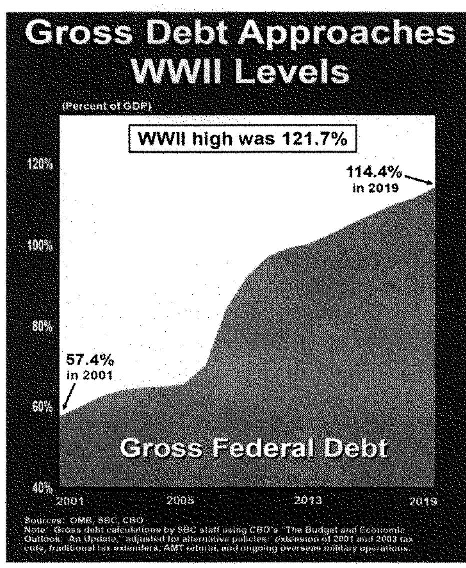


And here is what the article says:



We can't allow that to happen.

The debt explosion in our country has already begun. Under one ten-year scenario, gross federal debt could rise to more than 114 percent of GDP by 2019. That is approaching the record 121.7 percent of GDP debt level reached at the end of World War II.



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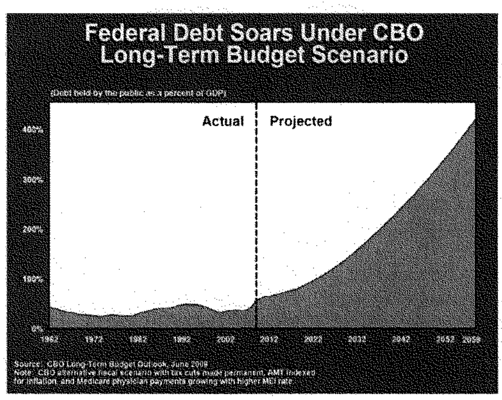
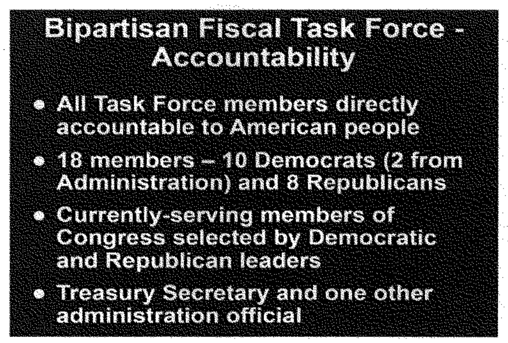
And the long-term debt outlook is even worse. According to CBO's long-term budget outlook, over the next 50 years, with rising health care costs, the retirement of the baby boom generation, and the permanent extension of all of the 2001 and 2003 tax cuts, federal debt could climb to more than 400 percent of GDP. That is a completely unsustainable course.



We believe our Task Force proposal will work because it is based on several key principles.

First, it is based on the principle of accountability. This means the bipartisan leadership at the highest levels of the government would be responsible for the panel's outcome.



Second, the Task Force would have broad coverage. We can't solve this problem by looking at only one side of the ledger.

Bipartisan Fiscal Task Force - Broad Coverage

- Everything on the table
- Spending and revenues

Third, the Task Force would follow an expedited process.

Bipartisan Fiscal Task Force - Expedited Process

- Recommendations to be submitted after 2010 election
- Fast-track consideration in Senate and House
- No amendments
- Final vote before 111th Congress adjourns

Fourth, and most importantly, the Task Force would ensure a bipartisan outcome.

Bipartisan Fiscal Task Force - Bipartisan Outcome

- 14 of 18 Task Force members must agree to recommendations
- Final passage requires supermajorities (3/5 vote) in both Senate and House
- President must still sign – retains veto power

This is the best way to accomplish the changes that are needed and to maintain them over time. No one party can or will do this on its own. Both parties must be invested in the outcome and committed to its success.

This is the formulation Senator Gregg and I came to after many months of negotiating. It is very similar to your SAFE Commission. Both of our proposals require bipartisanship, in the Task Force and in Congress. Both require that everything be on the table. And both guarantee that the Task Force's recommendations get a vote in Congress. These elements are crucial.

Your proposal would have some private citizens serve on the SAFE Commission and require the Commission to hold public town hall meetings. These are worthy ideas. We held a Budget Committee hearing on this topic in November and you testified about the SAFE Commission. And as a result of that hearing, Senator Gregg and I made changes to our Task Force that would allow it to benefit from the assistance of knowledgeable and reputable citizens as part of an advisory panel. These same people could help the Task Force engage the public and build support for their ideas.

One area where our proposals differ is in the use of alternative ways of budget scoring to evaluate the long-term effect of Task Force recommendations. The discussion about whether there are better ways to evaluate the budgetary effects of legislation is complicated. I prefer traditional, CBO scoring.

Senator Lieberman, the work of any Task Force like you and I have proposed will not just be formidable, but it is critical to our country and must begin as soon as possible. Thank you and Senator Collins for the opportunity to discuss this issue, and keep it squarely before the Senate and the American people.

Statement of U.S. Senator Judd Gregg
Before the Senate Committee on Homeland Security & Governmental Affairs
Thursday, December 17, 2009 10:00 a.m.
"Safeguarding the American Dream:
Prospects for Our Economic Future and Proposals to Secure It"

Mr. Chairman and Ranking Member Collins, thank you for holding this hearing today. It is an honor be testify before this committee with an esteemed group of colleagues on this critical issue that threatens the future of our nation. I would like to thank the Chairman of the Budget Committee for his hard work and commitment on introducing last week S. 2853, the Bipartisan Task Force for Responsible Fiscal Action Act of 2009.

As evidenced by this hearing, there is growing and monumental support for the creation of a task force or commission to get our nation's long-term fiscal imbalance under control. The Conrad/Gregg Task Force that I co-sponsored with Chairman Conrad already has 33 co-sponsors, with 19 Republicans and 14 Democrats. Senators on both sides of the aisle acknowledge that our country is on an unsustainable path.

Next to terrorism and weapons of mass destruction, the single biggest threat that we face as a nation is the fact that we're on a course toward fiscal insolvency. You can't get around it. If we continue on the present course, this nation goes bankrupt, which will cause cataclysmic damage to our economy. Moody's put the U.S. and England in a specially watched category (only "resilient" to the effects of the economic crisis and the resulting debt load) relative to the rest of the industrialized world ("resistant" to the effects of the economic crisis and the resulting debt load) because of a more rapid growth in debt. This is a signal to the U.S., with our creditors and the rest of the world watching, that says "You're not planning for fiscal responsibility."

The Federal Government has already promised far more on entitlement programs than it can deliver. It has amassed a staggering $70 trillion in unfunded liabilities over the next 75 years, including $38 trillion in Medicare, $16 trillion in Medicaid, $5 trillion in Social Security, and $11 trillion in other programs. The $70 trillion in unfunded liabilities equals a burden of roughly $600,000 per American household.

Medicare poses the largest problem. Congress saw this coming in 2003 when, in the Medicare Modernization Act of 2003, it created a trigger to address Medicare's unsustainability. If more than 45 percent of Medicare expenditures are projected to come from general revenues (as opposed to dedicated revenues such as payroll taxes and beneficiary premiums) within a seven-year period, the Medicare Trustees must issue an "excess general revenue Medicare funding" determination. This past spring, for the fourth year in a row (2006, 2007, 2008, 2009), the Medicare Trustees projected that the program will soon cover more than 45% of its expenses out of Treasury's general fund (beginning in 2014). Therefore, they have issued a "Medicare funding warning" for the third year in a row (2007, 2008, 2009), requiring the President to propose legislation to alleviate the crisis and the Congress to act on that proposal. But Congress has not enacted legislation to remedy the problem cited in these warnings.

Instead, Congress is considering legislation that would make Medicare's problem worse. The "Doc Fix" could add $2 trillion to Medicare's unfunded obligation if it isn't fully paid for. We just received an actuarial summary of Senator Reid's original substitute to the health bill that says the bill increases national health expenditures by $235 billion. Alternatively, looking ahead to the next Reid amendment, if you let people buy into Medicare at age 55 instead of going on Medicare when they qualify for it at the age of 65, you're going to definitely get the people who are the sickest buying in, and therefore the cost of Medicare is clearly going to go up. Expanding the government and putting more people into Medicare is simply going to accelerate the bankruptcy of the program, which under current law happens in 2017.

The demands of demographic changes caused by the retirement of the Baby Boomers and rapidly increasing health care costs will soon outstrip our capacity to either tax enough to pay for it or borrow enough to pay for it. The over-65 population will eventually double, and 77 million Baby Boomers will enroll in Medicare in 2011. Medicare and Medicaid alone are projected to grow at a rate of 7% - 8% per year, far faster than the rate of inflation or GDP. Spending on Medicare, Medicaid and Social Security will more than double in the next 40 years and will consume all federal revenues by 2052.

Congress' continued failure to address the nation's entitlement crisis is inexcusable, especially given the reckless new spending in the works. The crisis is getting closer and closer, and trying to kick the can farther down the road will not make it go away; meaningful action is needed now.

This is not a problem that is 30 or 50 years down the road. We're already seeing the early signs of the uncertainty of our fiscal future. We're hearing it from the people who lend us money. We're hearing it from the rating agencies. And we know it from intuition and common sense. Most Americans know this problem is extraordinary. In less than ten years, our country will reach a point we're going to have to resort to extraordinary measures to cover our current obligations, such as inflating the currency or raising taxes to a level that reduces productivity.

When you've spent so much more than you've taken in and your debts get to such a level you only have two choices: you inflate the currency and destroy the quality of people's lives by destroying the value of their savings and putting in an inflation economy, which is one of the worst things that can happen to a country. Or you have to radically increase your tax burdens to levels which are simply going to choke off the capacity of a nation to create prosperity because people aren't going to be able to be productive. And you'll start to lose tax revenues as a result of that.

It is very obvious that regular order is not an adequate environment to make these difficult choices. Due to the political realities that exist, when substantive good ideas are proposed, those ideas that affect a large number of people are immediately attacked, savaged, and misrepresented by the interest groups which populate this city for the purposes of making their political agenda move forward or their money-raising agenda move forward. Time after time when substantive, good ideas have been put on the table to try to correct this fiscal imbalance by dealing with the questions of Social Security and Medicare, the ideas get clobbered from the right and the left.

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The recommendations of the task force we have proposed would receive fast-track consideration in the Senate and the House. There would be no amendments. It would be a straight up-or-down vote. A supermajority of the House and the Senate would have to vote for it, and the President would retain his ability to veto.

Broad bipartisanship is essential to reform and required to move anything forward. Tough decisions need to be made by both sides of the aisle. The task force is comprised of 16 members of Congress, eight Republican and eight Democrat members, with two members from the Administration. The task force is headed by two co-chairs, one from each party. Fourteen out of the 18-member task force constitute a quorum, which is required to vote out recommendations, hold meetings, and hearings.

The task force is designed to achieve results in an expedited manner given the current state of our looming debt and deficit. Task force members are appointed by the majority and minority leaders 14 days after enactment, and the first meeting is to be held no later than 45 days after enactment. The task force is required to report its recommendations to Congress no later than November 15, 2010 for an up-or-down vote no later than seven days later.

The task force is created to be open, transparent and accountable to the American people. The task force will have the authority to establish an advisory panel comprised of outside experts, at the election of the bipartisan co-chairs. All options must be considered by the task force and everything must be on the table, including spending reductions and revenue increases. No programs or revenues would be off-limits.

We cannot afford to take the risk that this task force ends up as a commission that writes a report with no further action. We have seen too many commissions write a report that ends up on a shelf. Something has to happen under this task force, which is why it gets a guaranteed vote in Congress after a supermajority vote on the report. When this commission reports with a supermajority, it comes to the Congress and by supermajorities, it must be voted up or down. There is an absolute right to a vote, and the vote occurs on the policies proposed. It's much along the lines of what we did with military-base closures, for much of the same reasons – politically, we couldn't close bases through the regular order of Congressional law-making, so we created a process of a BRAC commission whose recommendations would take effect unless Congress disapproved. The fiscal task force we are proposing ensures that the recommendation, with legislative language, goes immediately to an up-or-down, supermajority vote.

It is critical that no amendments be offered. Amendments allow Senators to hide in a corner. Somebody throws up an amendment, even if it is well-intentioned, and if it doesn't pass, people say, "the amendment didn't pass, so I'm not going to vote for a bill."

If it's a policy that is bipartisan, recommended by a supermajority, therefore it's a fair policy or it's not. If it doesn't attract a bipartisan supermajority in Congress, clearly it wasn't well thought out. Beginning at end of the Vietnam era, and continuing through most of the 1980s, there were no major military base closures in this country. Congress had established such burdensome procedural requirements that it ensured a state of total inertia. The only thing that broke the logjam was base closure legislation that presented the recommended closures as a package, with the option of an up-or-down vote. As a result, there were 5 base closure rounds, with Congress accepting all of them. Once the 2005 BRAC round is fully implemented, the net recurring savings from all 5 base closures rounds will be about $10 billion per year. So there is solid historical evidence that the commission system can work as a means of breaking legislative paralysis.

As we near the end of the year, we're simply running out of time. If we don't accomplish this fairly soon, the outcome is very simple. We will pass on to our children fewer opportunities, a lower standard of living, and a weaker nation than we received from our parents. No generation in American history has done that. But that's exactly what's going to happen if we don't take action. The task force is paramount to the long-term health and sustainability of our country, and I hope that it will move forward. So, I challenge my colleagues to focus on the next generation, and not just the next election.

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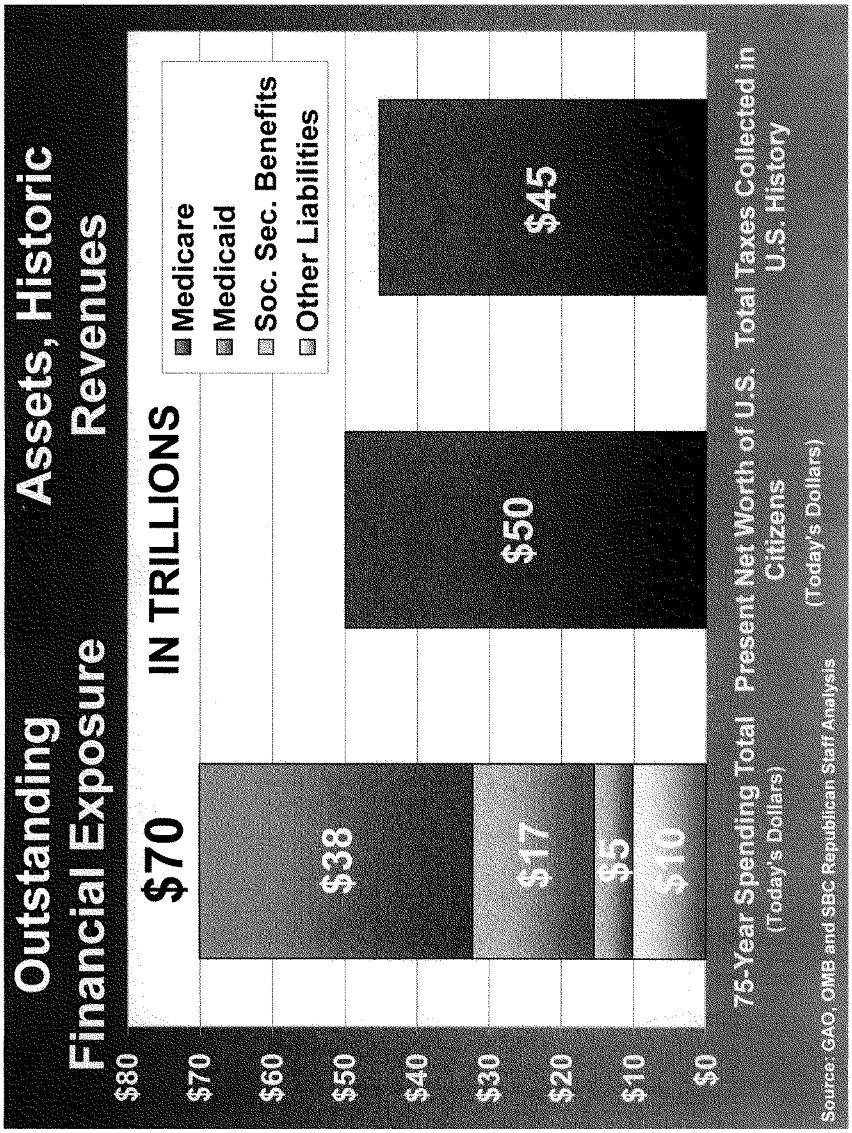
Outstanding Financial Exposure
Assets, Historic Revenues
$70
IN TRILLIONS
Medicare
Medicaid
Soc. Sec. Benefits
Other Liabilities
$80
$70
$60
$50
$40
$30
$20
$10
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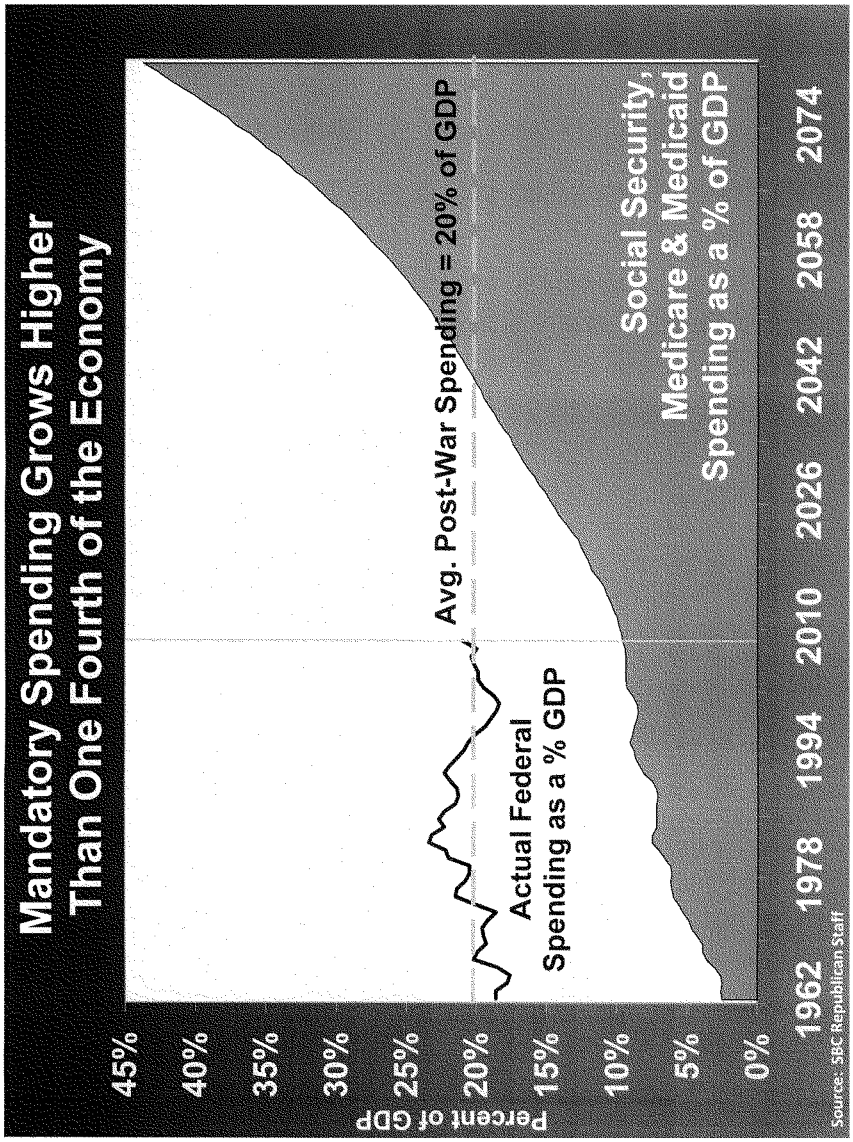
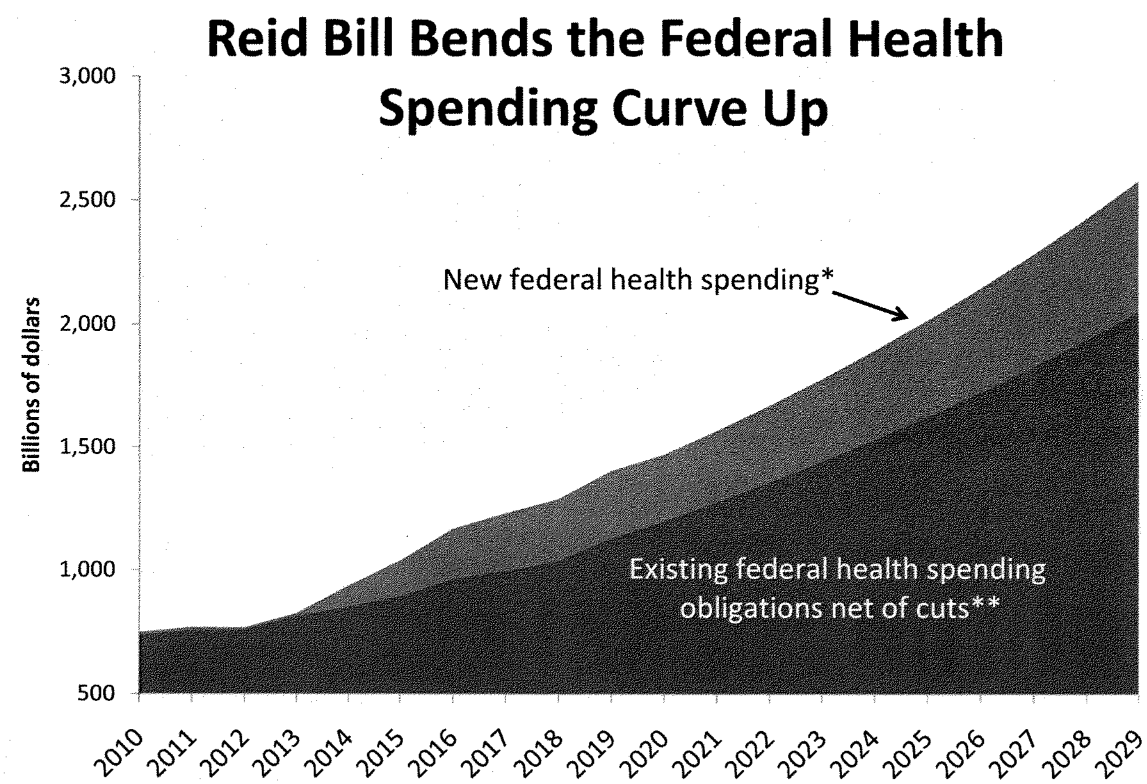
$38
$17
$5
$10
$50
$45
75-Year Spending Total
(Today's Dollars)
Present Net Worth of U.S. Citizens
(Today's Dollars)
Total Taxes Collected in U.S. History
Source: GAO, OMB and SBC Republican Staff Analysis


Mandatory Spending Grows Higher
Than One Fourth of the Economy
Percent of GDP
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
1962
1978
1994
2010
2026
2042
2058
2074
Avg. Post-War Spending = 20% of GDP
Actual Federal
Spending as a % GDP
Social Security,
Medicare & Medicaid
Spending as a % of GDP
Source: SBC Republican Staff



SOURCES: *Senate Budget Minority; **CBO - includes needed spending to maintain current CHIP benefits, Medicare, and Medicaid and effects of cuts in Baucus bill; spending after 2019 is projected forward based on average growth rates; Senate Republican Policy Committee

Dr. Alan Greenspan
Testimony before the Senate Homeland Security and Governmental Affairs Committee
As of December 17, 2009
Final, edited version of 12/15/09 submission

For more than two centuries, we have been able to hold the level of U.S. federal debt to well below our long-term capacity to borrow. But for the next decade or two, on some reasonable sets of assumptions, our borrowing cushion shrinks significantly, threatening to test our capacity to raise funds to finance unprecedented deficits.[1]

The challenge to contain this threat is more urgent than at any time in our history, in part because of today's limited flexibility of adjustment, especially of entitlement spending whose constituencies are well entrenched.

Compounding this concern is our inability to accurately forecast current services spending. Projecting Social Security ten or twenty years into the future is not too difficult. It is a defined benefit program whose payments, in real terms, are narrowly defined by law. Similarly, owing to long experience in forecasting nonmilitary discretionary budgets, outlay projections in this area are also narrowly defined.

Projections of Medicare and Medicaid, however, are far more daunting. Unlike Social Security, these are in-kind entitlements whose levels are determined by individuals' particular medical needs. The number of future beneficiaries in, say, 2030 is readily predictable, since they are already born. But future per capita benefits are subject to very wide uncertainties. Medical technology and pharmacology are advancing rapidly to previously unimagined heights. With no meaningful restraint on our subsidized fee for

[1] Our borrowing capacity and cushion are ill-defined and little understood since they have never previously been an operational consideration.

service medical care system, demand for advanced technologies and drugs is largely without limit. Medicare Trustees' forecast assumptions especially beyond ten years are, of necessity, assumptions, not forecasts.

Short of some form of market price or administrative rationing (a political third rail), ever rising medical services will eventually strain the physical capacity of our economy. Since demand for medical services by its nature is highly inelastic, medical services' share of GDP has no credible immediate upside restraint. The simple fact is that we have promised resources which by any reasonable projection we will not have—a morally untenable position. Those who will retire in the years ahead depend on government's promises to plan their future.

We are not dealing with a simple problem of finance, solved with the addition of appropriated dollars. It is a physical resource crisis. If the dollar share of GDP devoted to medical services is rising, so is the share of medical workers in our labor force and medical hardware in our capital stock. Importantly, a dollar of the nation's scarce saving employed to finance a new medical technology investment is a dollar not available to fund other critical non-medical cutting-edge technologies that enhance our material wellbeing.

The health of the population, of course, must take precedence over material considerations; an unhealthy population will not be productive. But there has to be a point where diversion of real resources to medical services no longer measurably enhances longevity or reduces morbidity.

* * *

Our scope for increasing the size of the overall economic pie to resolve our pending crisis is limited by the growth of our labor force and growth of productivity. Short of a significant increase in immigration, the size of our labor force in 2030 is fixed in a relatively narrow range. And, if history is any guide, so is long-term productivity growth. Since 1870, nonfarm productivity gains over fifteen-year periods has rarely strayed outside the range of 1% to 3% annually, averaging slightly more than 2%. We and the rest of the developed world are at the cutting edge of technologies. Accordingly, we apparently cannot exceed 3% productivity growth for a protracted period, presumably because there is a limit to human intelligence, the source of all innovation.

The recommendation of Senators Conrad and Gregg for a bipartisan Fiscal taskforce is an excellent idea. I trust any such taskforce will address the very thorny issue of the asymmetrical consequences of too much or too little fiscal restraint. In the former case, too much restraint is not a risk, and would, in any event, free resources for other initiatives. The dire consequences of a failure to tighten sufficiently to balance our books, however, calls for policies that err significantly on the side of restraint. I understand that this is politically very difficult to do. But our nation has never before had to confront so formidable a fiscal crisis as is now visible just over the horizon.

CENTER FOR THE STUDY OF THE PRESIDENCY AND CONGRESS

HEARING ON SAFEGUARDING THE AMERICAN DREAM: PROSPECTS FOR OUR ECONOMIC FUTURE AND PROPOSALS TO SECURE IT

Speaker: The Honorable David M. Walker
Center for the Study of the Presidency and Congress

Chairman Lieberman, Ranking Member Collins, Members of the Committee, it is a pleasure to appear before you this morning to talk about this issue of great national importance.

I testify before you today on behalf of the Strengthening America's Future Initiative at the Center of the Study of the Presidency and Congress funded by the Peter G. Peterson Foundation.

I would like to first commend the previous panel of Chairman Conrad and Senator Gregg for their public calls to action to ensure the stability and sustainability of our nation's finances. They are right to be concerned about the need to address our nation's weakening financial condition, and that only an extraordinary structure will achieve the types of actions necessary to put our federal financial house back in order. We are all well aware of the economic challenges our country has faced in the last 16 months. The bursting of the housing bubble coupled with the near collapse of the financial services sector led to an adverse ripple affect across the economy—leading to a dramatic increase in levels of unemployment and under-employment.

For many Americans, the consequences of this downturn cannot be overstated. While the federal government has taken some action to prevent unemployment and the contraction of the economy from reaching depression levels, our current economic conditions are only the tip of the iceberg. Our nation faces serious structural challenges in financing our government. These challenges are quite real and time is short. If we do not take strong measures to right our course, a far greater crisis waits below the surface and threatens to sink our ship of state. It is important to place blame where it belongs—on ourselves. Fortunately, as our damage is self-inflicted, the solution is still within our control. We must, as a nation and as a government, change our behavior.

Next month, I will be publishing a book entitled *Come Back America: Turning the Country Around and Restoring Fiscal Responsibility* that states simply "The American way of life will go downhill, steadily and inexorably, unless we do something about our growing fiscal imbalance – and do it now." President Obama has, time and time again, emphasized that we are currently on an unsustainable fiscal course. The American people are calling for help. Unemployment reached a 26 year high in October. Our debt is over $12 trillion and climbing. Healthcare costs are rising. America's youth are the first generation that is forecasted to have a worse education, lower level of health, and overall lower standard of living than the previous generation.

In September 2008, I became involved with a major national initiative at the Center for the Study of the Presidency and Congress, a non-partisan, public policy organization in

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Washington headed by David Abshire. The project, appropriately titled the Strengthening America's Future Initiative, is a comprehensive assessment that has identified the critical challenges and connections between them, and is developing a strategic roadmap to ensure overall sustainability. I serve as one of three co-chairs of the project's steering committee, made up of a bipartisan group of 24 prominent Americans.

I think it is worth looking at the organizing principle of the group, which was taken from the unique way that President Dwight Eisenhower organized what he called "the long haul strategy to fight the Cold War." Eisenhower said that the key to our success during the Cold War depended more on the fiscal solvency of the country than our armies and military forces, and thus every decision had to maintain fiscal responsibility. Today, we not only face escalating deficits and debt; we also face a growing dependency on foreign lenders. We have made China our principle banker, a dependence that this nation has never had in its history.

I have the December 7th issue of *Newsweek* in my hand. When I saw the cover, I concluded that America has been understating the challenge. It shows the U.S. Capitol upside-down and the words, "How great powers fall." The classical statue of the Lady of Freedom points towards the lines of the cover story article by renowned historian Niall Ferguson, "Steep debt, slow growth, and high spending kill empires—and America could be next." Fortunately, there is hope. I like to think that it comes from what the great reformer, and one of my personal models T.R. Roosevelt, called "movement politics."

Roosevelt recognized the necessities of his time, requiring a breakout from normal party structures and demands for reforms from entrenched interests. In any such movement, there are acolytes, catalysts, inspirers. Years ago, my current boss, Pete Peterson, took on the cause in his book, *Running on Empty,* and then, by working with a range of others, including Paul Tsongas and Warren Rudman, formed the well regarded Concord Coalition, a non-partisan, grassroots organization dedicated to educating the public about the causes and consequences of federal budget deficits, the long-term challenges facing America's unsustainable entitlement programs, and how to build a sound foundation for economic growth. Educating and activating the American people is a key part of the Peter G. Peterson Foundation's mission. As we educate the nation about the fiscal challenge, there is growing concern about the sustainability of the nation's current fiscal policy and path.

In late November, the Peter G. Peterson Foundation released key findings from a national survey conducted by Hart Research and Public Opinion Strategies. Surveying a statically valid sample of 700 registered voters, the poll found that eight in ten voters say dealing with our growing budget deficit and national debt should be a high or absolute top priority for the President and Congress. The survey also reflected that roughly two-thirds of voters say our leaders in Washington are not paying enough attention to our federal budget issues. Lastly, and perhaps most importantly, 70% of voters support the proposal to create a bipartisan fiscal future commission. This seventy percent is evenly split among all sub-groups, garnering nearly the same level of support from Democrats, Republicans and Independents. To emphasize the growing concern among Americans, these numbers are all up sharply from a similar poll conducted in February. The bottom line in this study is that voters are abundantly clear about how important they think it is to grapple with the nation's growing budget deficit and debt.

At a glance, as of September 30, 2008, the United States Government's liabilities and unfunded promises stand at a whopping $56.4 trillion. Broken down, $36.3 trillion related to promised Medicare benefits not covered by taxes and other contributions; $6.6 trillion related to promised Social Security benefits not covered by taxes and other income; and $13.5 trillion related to various federal liabilities, commitments and contingencies. How does this divide out among Americans? $184,000 per person living in the US, or $483,000 per American household. It's worth noting that in 2007, the median income per household was only $50,233. It doesn't take an economist or mathematician to realize that this is unsustainable. The final numbers for 2009 will be available soon, and current projections estimate that the United States Government's unfunded liabilities will rise to the $63 trillion range.

Regardless of these numbers, many in Washington want to increase the size of government, despite the fact that we have already promised way more than we can deliver, especially in the area of healthcare. I just mentioned that Medicare was underfunded by over $36 trillion, but Congress is currently debating the creation of more federal health care entitlements without properly addressing the unfunded health care promises we already have.

Do not get me wrong; we need to eventually achieve comprehensive health care reform that is appropriate, affordable and sustainable in the long run. However, first, we need to gain control over health care costs or else we will run the risk of putting a countless amount of more Americans into a fundamentally flawed and unsustainable healthcare system.

In order to create a fiscally responsible health care system, four tests must be met. First, it should pay for itself over ten years. Second, it should not add to federal deficits beyond 10 years. Third, it should result in a significant reduction in the tens of trillions in federal unfunded health care promises that are currently on the table. Fourth, it should result in a reduction in the total health care costs as a percentage of the economy as compared to the status quo.

In achieving these tests, we have to be realistic regarding the assumptions that are used to meet them. Specifically, relying on historically unsuccessful and unsustainable approaches to control provider payments or generate additional revenues may make the numbers work on paper, but they are very unlikely to be sustained over time. In the last four years, I have been to 46 states participating in town hall meetings and conferences, and those travels have helped me to see close up that Americans are tired of creative accounting approaches, unrealistic promises, government bailouts, partisan bickering, and ideological divides.

Unfortunately, our nation's fiscal challenges go beyond our own borders. As I noted previously, our nation is becoming increasingly dependent on foreign lenders to finance our deficit. The numbers are shocking compared to our nation's history: after World War II, America had virtually no foreign held debt, and by 1990, the number had only grown to 19%. Today, over 50% of our nation's public debt is held by foreign lenders, and that number is growing. Not only is America being mortgaged at an alarming rate to foreign holders, but it begs the question of how this situation affects our foreign policy, national security, and even our domestic tranquility over the long term.

On every front, there is a rationale for putting our fiscal house in order. Fortunately, there is available, close-at-hand, a remarkable reform mechanism for immediately sounding a certain trumpet that we will change our course. The best way to do this is to create a new type of Commission designed to accelerate action rather than to continue with the status quo. The Commission should be enacted into law, properly designed and staffed, and sufficiently funded to operate. Most importantly, its recommendations must be guaranteed a full vote in Congress.

Ideally, this would be a bipartisan, independent body comprised of leaders from the legislative and executive branches, as well as selected non-governmental experts. The Commission would engage the American public and other various key stakeholders to review the nation's budget process, entitlement programs, savings rates and tax policies. In other words, everything must be on the table. This is essential for the commission to have a real chance of success. This Commission would propose reforms that, over time, would reduce the nation's deficits, relative debt burdens and our dependency on foreign lenders.

Such a Commission would be granted roughly one to two years to do its job. This includes engaging the American people, analyzing options to confront the nation's financial crises, and issuing legislative recommendations to the Congress. The Commission should engage representative groups of Americans and hold at least one town-hall style meeting in each Federal Reserve District. This would allow those serving on the Commission to brief the public on the nation's fiscal crisis while simultaneously providing the public an opportunity to voice its opinions and concerns. In addition to public meetings, the Commission would hold national hearings to understand the concerns and potential solutions offered by various interest groups. While these groups are maligned by some, it is important that as the Commission addresses our fiscal unsustainability it accounts for the positions, viewpoints and ideas for solutions offered by a wide range of groups.

There are several advantages of designing the commission in this manner. First, the Commission would be able to avoid the political pressures that have doomed previous attempts to reform the nation's budget process, entitlement programs, spending priorities and tax policies. By their very nature, entitlement reform and tax reform are politically charged issues, and many Members have been reluctant to vote on them. Second, the Commission would be able to provide a comprehensive solution to the nation's fiscal problems, as opposed to piecemeal solutions that tackle problems in a more narrow area while ignoring others. Only a fiscal future commission would be able to address the issues of entitlements, other spending, taxation, savings and budget controls in a holistic manner. Such comprehensive reform would prevent the government from battling this issue four, or even ten years from now. Third, the Commission would indicate a timeframe by which the nation can move away from short-term stimulus spending towards reform that reduces deficits and related debt burdens, and increases national savings. Establishing such a timeframe would not only send a message to the American people, but it would let our foreign holders of debt know that the United States Government is committed to putting its fiscal house in order.

Commissions are designed because the standard Constitutional policy-making process cannot always handle particularly divisive partisan disputes. This Commission is unique in that it is not simply a study and analysis of the current problems with our nation's finances. Rather,

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this Commission's findings will include proposing specific legislation that will receive guaranteed Congressional consideration and a vote. Its bipartisan nature and guaranteed vote process will enable both partisan and institutional compromises to work.

Some have argued that using the commission to address these issues is the wrong way to go, as the Congress should handle these issues in the regular order. This ignores the fact that the regular order is not working in these critical areas. Some have also argued that this special commission would have too much power. This argument ignores the fact that in the final product, elected Members of Congress and the President must act on any commission recommendations before they can become the law of the land. The Congress and the President still have the final say, which is as it should be under our system of government.

In closing, our current fiscal path is extremely irresponsible, immoral, and totally unsustainable. Our children and grandchildren will end up picking up the bill while we are forced into reducing investments in their future. We are at a tipping point in American history, and we must take steps and make hard choices to address our large, and growing, fiscal challenge. We cannot allow America to fail, as many great nations in world history have. We owe it to ourselves, our country, and our families to do no less.

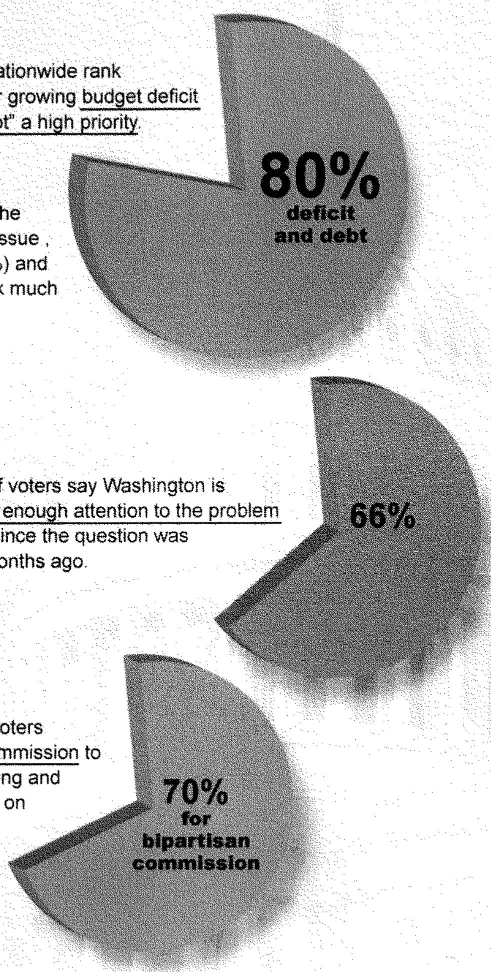
In Washington, the deficits and debt are increasing. And Americans know it.

80% of voters nationwide rank "dealing with our growing budget deficit and national debt" a high priority.

To give you a sense of the importance of the debt issue , health care reform (56%) and cutting taxes (51%) rank much lower as a priority.

Fully 2/3 of voters say Washington is not paying enough attention to the problem - up 10% since the question was asked 7 months ago.

And 7 out of every 10 voters support a bipartisan commission to develop budget, spending and tax reforms to be voted on by Congress.



Americans know the current process isn't working.

See the facts for yourself at *www.KnowtheDebtFacts.com.*

Peter G. Peterson Foundation
Our America. Our Future.

Details: The non-partisan national survey of 700 registered voters was funded by the non-profit Peter G. Peterson Foundation and conducted from November 16th-18th. It was conducted by Hart Research and Public Opinion Strategies.

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