WHY DEBT MATTERS

HEARING

BEFORE THE

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U.S. HOUSE OF REPRESENTATIVES

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WHY DEBT MATTERS

Tuesday, March 25, 2014

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:07 a.m., in room 2128, Rayburn House Office Building, Hon. Jeb Hensarling [chairman of the committee] presiding.

Members present: Representatives Hensarling, Bachus, Capito, Garrett, Neugebauer, McHenry, Bachmann, Pearce, Posey, Fitzpatrick, Luetkemeyer, Huizenga, Duffy, Hurt, Grimm, Stivers, Stutzman, Mulvaney, Hultgren, Ross, Pittenger, Barr, Cotton, Rothfus; Waters, Maloney, Capuano, Clay, Lynch, Scott, Green, Cleaver, Ellison, Perlmutter, Himes, Carney, Foster, Kildee, Delaney, Sinema, Beatty, and Heck.

Chairman HENSARLING. The committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time.

This hearing is entitled, "Why Debt Matters," and is the first of a series of hearings I expect our committee to hold on the subject of the pending national debt crisis.

I have one short announcement. If Members have not seen the announcement, Secretary Lew was scheduled to testify before our committee tomorrow on his annual state of the international financial system testimony. His office has announced that he is having minor surgery today. We wish him well. He expects to recoup for the rest of the week and be back at Treasury next week, so it is our hope that we can reschedule Secretary Lew sometime in the next several weeks prior to the Easter break.

I now recognize myself for 4 minutes to give an opening statement.

Recently, I saw in the newspaper a headline that read, "Debts, deficits, once a focus, fade from the agenda." Shame on us if we allow that headline to prove accurate.

In the last 6 years, we have accumulated more national debt than we did in our Nation's first 200 years. We are experiencing debt-to-GDP ratios not seen since the aftermath of World War II. That level of debt was episodic and temporary. Today's is structural and unsustainable.

As a veteran of the supercommittee, Simpson-Bowles, and now Chair of this committee, my laptop is regrettably full of reports describing our debt as unsustainable. Yet denial, justification, and inaction continue to rule the day.

We have had many sobering warnings that our Nation is headed for a crisis. Renowned economics writer Robert Samuelson has written that our failure to solve this dilemma could "trigger an economic and political death spiral." Erskine Bowles, co-chairman of President Obama's fiscal commission said, "This debt is like a cancer. It is truly going to destroy the country from within."

We need not look much further than Detroit or Greece to see just how hurtful and harmful a debt crisis can be. In Greece, according to the latest official report, the unemployment rate is almost 30 percent. With unemployment so high, according to press reports, many college graduates have had to turn to subsistence farming in the country. Closer to home, a report from Detroit last year indicated that approximately 40 percent of the City's streetlights did not function. Only a third of the City's ambulances were working. And approximately 78,000 buildings were vacant.

Will our Nation as a whole ever experience a debt crisis comparable to Detroit or Greece? I do not believe so, but I do not know for sure. And I am greatly troubled by the fact that there are few instances in world history of republics existing much beyond 200 years, and most most met their demise through some type of fiscal crisis.

But unsustainable levels of debt are not just the stuff of apocalyptic nightmares for some yet to be born and unknown future generation of Americans. No, unsustainable levels of debt are harming our country today as we speak. Just look at our lackluster economy.

Bernie Marcus, former chairman of Home Depot, spoke for many job creators when he said, "If we don't lower spending and if we don't deal with paying down the debt, we are going to have to raise taxes. Even brain-dead economists understand that when you raise taxes, you cost jobs."

Small business owners all over America feel likewise. As one of them told me, "Jeb, I know somehow, someway, I am going to have to pay for all this debt, so now is not the time that I am going to buy a bunch of new equipment or hire a bunch of folks."

The national debt is clearly keeping people unemployed and underemployed. And it is estimated that we will spend $233 billion this year on interest payments alone. That $233 billion is more than 7 times larger than the requested annual budget for the National Institutes of Health. Let us reflect upon all of the childhood cancer studies going unfunded today because of the national debt.

Regrettably, the situation will get worse. The Congressional Budget Office projects as much as $630 billion a year of additional interest payments to be added to the debt. And interest payments on the debt are cannibalizing our discretionary budget, including our national defense.

As interest rates rise, it is not just the Federal budget that will be squeezed. It will be the family budget, as well, especially as more Federal borrowing crowds out private borrowing on everything from credit cards to mortgages to student loans. In short, it has an adverse impact on almost every issue within this committee's jurisdiction.

And that is why, as chairman, I am launching a series of hearings to be focused on our pending debt crisis. There is much at stake. We can no longer allow the debt-deniers among us to mask the threat or to change the subject. I believe any reasonable examination of history and economics will show that we are, indeed, headed for a debt crisis. It is the most foreseeable crisis in our Nation's history.

As Members of the House of Representatives, we can certainly disagree about the solutions to avert the crisis, but we should unanimously agree that debt matters and that debt matters today.

I now recognize the ranking member, Ms. Waters, for 5 minutes for an opening statement.

Ms. WATERS. Thank you, Mr. Chairman. I ask for unanimous consent to speak out of order for 1 minute to recognize—

Chairman HENSARLING. Without objection.

Ms. WATERS. —the distinguished services of a member of the committee staff. Thank you very much.

I would like to take this time to express my sincere gratitude for the dedication offered by Lawranne Stewart to our committee since 2001. She has offered her expertise in all facets under the committee's jurisdiction to members of this committee, including Ranking Member LaFalce. Then, we had Chairman Barney Frank and myself.

Over the course of her service, she has played a lead role in crafting key reforms, not the least of which is the Dodd-Frank Wall Street Reform and Consumer Protection Act, and I am pleased to say that she will be continuing her excellent record of public service at the Commodity Futures Trading Commission.

Lawranne, we wish you all the best. Please stand for a moment so everybody can see you.

[applause]

Ms. WATERS. Thank you very much, Mr. Chairman, for scheduling today's hearing to discuss the important role that fiscal policy plays in contributing to full employment and economic growth.

As we continue to climb out of the worst recession since the Great Depression, it is essential that we get our fiscal policies right and that we hold firm our commitment to promoting growth and reducing economic inequality. And while my colleagues on the other side of the aisle endlessly use the national debt as an excuse to slash funding for important government programs, the fact remains that putting America back to work in an economy that works for everyone is undoubtedly the most effective and efficient way to reduce our debt and deficit.

With that in mind, I am pleased to see that many of the witnesses here agree that Congress can best tackle the long-term deficit and national debt by pursuing short-term increases in discretionary fiscal stimulus. I similarly urge such an approach and would suggest the chairman consider similar proposals in the President's Fiscal Year 2015 budget request.

As we have learned in recent years, both at home, as well as in Europe, government austerity during a recession such as the sequester impedes growth. Unfortunately, we have learned this lesson the hard way. In contrast to previous recessions when the government provided much-needed fiscal stimulus, the recent drastic cuts to discretionary programs have been a headwind to our full recovery.

Regardless, our progress toward shrinking the deficit in recent years leads me to believe that the timing of this series of hearings seems to be more inspired by politics than enhancing good policy. Especially given the fact that since President Obama took office, the budget deficit has fallen from 10 percent of GDP in 2009 to 3 percent, which is the average size of the deficit over the past 40 years. President Obama's new budget proposal will help grow the economy even faster, reducing the deficit to 1.6 percent of GDP by the year 2024.

As further cuts are made to the deficit they must be balanced with spending priorities that boost growth and fulfill our moral obligation to those in need. The social safety net has proven to be a crucial tool in lowering poverty rates by half. Pretending that cutting these programs would somehow magically lift people out of poverty is neither sensible nor fair.

This committee should also advocate for a strong and stable financial system that protects consumers and safeguards the savings of working Americans. Doing so requires full funding for our Nation's regulators, the Securities and Exchange Commission (SEC), and the Consumer Financial Protection Bureau (CFPB), to ensure that the financial services industry adheres to the rules of the road. And we should provide stability to our Nation's business community by quickly reauthorizing the Terrorism Risk Insurance Act, known as TRIA, and the Export-Import Bank, both of which increase employment and investment.

We should support initiatives to reduce poverty by fully funding HUD's programs that provide public housing, work to end homelessness, and preserve access to affordable rental housing.

And this committee should focus on sensible housing finance reform, not the radical remake of our housing finance system as called for by the PATH Act.

And finally, Mr. Chairman, this Congress must avoid self-inflicted wounds that have become all too commonplace, like the recent Republican shutdown of the government, threats of defaulting on our debts, and the sequester, all of which hurt economic growth, slowed job creation, and widened the gap between rich and poor. I think we can do better.

I thank you, Mr. Chairman, and I yield back the balance of my time.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the chairman emeritus of the committee, Mr. Bachus, for 1 minute.

Mr. BACHUS. Thank you. I appreciate the panelists being here.

I think we all agree that some of the measures that Congress has taken have helped in the short term in funding our deficit, but in the long term I think we would all agree that the debt is a threat to our economic growth, that it is not sustainable, and that it actually is, as the Chairman of the Joint Chiefs of Staff, Michael Mullen, says, a threat to our national security.

Now, I would say that Chairman Bernanke probably has come up with the best advice, and he says we have to reform our entitlement programs—Social Security, Medicaid, and Medicare—and that is probably the biggest step, and he said that if we act immediately, with long-term structural changes that don't even have to take effect now, that it would pay immediate benefits. He has also said that has to come from Congress and the Executive Branch. That is not monetary policy by the Fed.

I think my time has expired, but I think it is simply whether Congress and the President have the will to act on our entitlement program. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch, for a minute and a half.

Mr. LYNCH. Thank you, Mr. Chairman.

The focus of today's hearing, "Why Debt Matters," is certainly an important topic, and I thank the chairman for raising it. If the purpose of this hearing is to make the point that our national debt is on an unsustainable long-term trajectory, and we need to craft reforms to address the main drivers of that debt, I think you would find unanimous support for that proposition on this committee, in the House, and, indeed, in all of Congress.

What makes this a challenging topic is not that we disagree about whether debt is a serious threat. It is that we fundamentally disagree about the best way to reduce our long-term debt. Sequestration, which was the result of a deal cut to defuse a debt limit showdown in August of 2011, has significantly slashed domestic discretionary spending, slowing the growth of the U.S. debt, and our deficits have correspondingly declined from $1.4 trillion to a projected $514 billion in this fiscal year. And Congressional Budget Office projections show that our deficit will be about 2.6 percent of GDP in the next fiscal year.

But while this deficit reduction is important, it has been accomplished in a way that is in itself unsustainable and dangerous over the long term. We cannot simply cut ourselves to prosperity, and we certainly can't achieve a sustainable fiscal path when we attempt to balance our budget by slashing programs that invest in our future, programs like Head Start, medical research, housing programs, and infrastructure.

I look forward to working with my colleagues on both sides of the aisle to find a solution to our fiscal challenges. And I look forward to hearing the thoughts of the witnesses about how we can best reach one of those solutions. Thank you, Mr. Chairman, and I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Jersey, the chair of our Capital Markets Subcommittee, Mr. Garrett, for 1 minute.

Mr. GARRETT. Thank you, Mr. Chairman. I would like to begin by thanking you for holding this hearing on our Nation's unsustainable fiscal path. I would also like to thank all of the witnesses for appearing today, as well.

It is fitting that this hearing takes place as the House Budget Committee is preparing the Fiscal Year 2015 budget blueprint. Basic math dictates that you cannot fix the debt problem until you get your budget under control. As many have long said, we need a balanced budget plan to prevent further dipping into the red.

Our Nation has long enjoyed something akin to an ultra-platinum credit card status. Our credit limit is continually increased.

Interest rates remain very low, at so-called introductory promotional levels. However, we know this deal is too good to be true. At some point, if we remain on our current course, reality will set in, and the bill will become due.

So it is my hope that this hearing will underscore the fiscal threats on the horizon, that the horizon is not too far away, so that the American people will recognize the urgency of the situation and, most importantly, this Congress will, as well.

With that, I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Colorado, Mr. Perlmutter, for 1 minute.

Mr. PERLMUTTER. Thanks, Mr. Chairman.

I think today's hearing should be titled, "Why Revenue Matters." And there are two sides to a balance sheet—we all know that—the expense and revenue. And this requires us to consider both of these, not just the expense side, and we know that when President Clinton left office, we had a budget surplus. Revenues exceeded expenses.

But due to two wars, two tax cuts, and a crash on Wall Street, all under the Bush Administration, we added trillions to our national debt. Now, thanks in large part to the efforts of the Obama Administration, our economy is recovering from the depths of the worst recession since the Great Depression.

So I appreciate the panelists being here today, and I thank you for your work on trying to look at both sides of the ledger, not just the expense side or the debt side, because it takes both things. Our revenue is lower now than it has been in 40 years in terms of a percentage of GDP. We need to have both sides in sync. We have to watch our expenses, but we have to have revenue for the priorities of this Nation. And I thank you for your service and your testimony today.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Texas, the chairman of our Housing and Insurance Subcommittee, Mr. Neugebauer, for 1 minute.

Mr. NEUGEBAUER. Thank you, Mr. Chairman, for holding this important hearing titled, "Why Debt Matters," talking about the Nation's excessive spending and debt, and how it impacts and impairs the Americans' confidence in the future.

One of the things that I do as I travel around the country and around my district is, when I am in the audience, I ask everybody in the room this question: How many people in here are living a bigger, more prosperous life than their parents and their grandparents? And almost everybody raises their hand.

The next question I ask them is, how many people in this room think that if we keep spending and borrowing at these excessive amounts that your children and your grandchildren will have a bigger and more prosperous life than you do? Nobody raises their hand.

You see, what is going on right now is with all of this spending and borrowing, we are mortgaging the future of our children and our grandchildren, and the people who are in this generation today realize it. And it causes a lot of uncertainty, uncertainty with families, uncertainty with businesses, and so debt does matter.

And, Mr. Chairman, I am so glad that you are holding this hearing, because I think it could be one of the most important hearings going on, on the Hill today. And with that, I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Connecticut, Mr. Himes, for 2 minutes.

Mr. HIMES. Thank you, Mr. Chairman. And thank you for holding this hearing. I would like to thank the witnesses who are here who have spent years now, I think, advising this Congress on the challenges that we face with respect to our fiscal sustainability.

I am actually very hopeful that we might have a good hearing today in which we discuss this in an honest fashion, where we acknowledge that very significant progress has been made in the last 5 years against an unsustainable budget. Almost $4 trillion by some estimates found that we will acknowledge that has not come free, that the workers at Sikorsky in my district, that people who rely on food stamps, that our infrastructure in this country has suffered dramatically because of those choices. And I hope that we will acknowledge that the fix here is actually not that challenging mechanically, that if we just find some targeted cuts and some egregious preferences in the tax code, we could get there on the current budget, and that if we are willing to do the hard work to make Medicare, Social Security, and Medicaid sustainable in an equitable way in the future, we will have solved this problem.

No topic, of course, activates the moral high dudgeon of my colleagues quite as much as this one, and I would like to just offer a couple of thoughts, having spent a lot of time in rooms with the witnesses. Number one, if you can't agree that defense, where we currently outspend all of our conceivable enemies combined by a factor of 4 to 1, if you don't see that as an opportunity to reduce spending, you are not serious. If you can't find a single tax preference in the code to eliminate, you are not serious. If you voted against raising the debt ceiling and preserving the full faith and credit of this country, you are not serious. If you don't acknowledge that Medicare and Social Security in the long run need some equitable reform, you are not serious about this conversation we are having today.

I hope we can be serious, because this is important. Let's use this to continue this discussion, not to pillory the President, not to score partisan points, not to suggest that it is my way or the highway.

Mr. Chairman, if I may close with a quote from your editorial this morning in the Dallas News: "This is America. We can and must do better."

I yield back the balance of my time.

Chairman HENSARLING. I am always happy to yield the gentleman more time if he wishes to quote the chairman.

[laughter]

The Chair now recognizes the gentleman from Illinois, Mr. Hultgren, for 1 minute.

Mr. HULTGREN. Thank you, Mr. Chairman.

Our Nation faces a massive debt crisis, as our debt surpasses $17.5 trillion, as we can all see, or around $55,000 per person, and that is not to mention my home State of Illinois' debt of almost $25,000 more per person.

Unfortunately, many of our Nation's policymakers are ignoring this crisis, despite its real consequences for Illinoisans and Americans. This crisis translates into higher interest rates as we spend more money on interest to service the Federal debts and less, for example, on national defense and vital services.

It also hurts working families, as mortgage costs go up and companies pass their increased borrowing costs onto consumers who pay more for daily staples of life and life becomes less affordable.

And make no mistake. This debt crisis is a spending crisis. I have four children, and I refuse to stand by while Congress sacrifices their future and that of my constituents because it didn't address our spending addiction or place our entitlements system on a sustainable footing. That is why I am looking forward to this hearing.

Thank you, Mr. Chairman. I yield back.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now yields 30 seconds to the gentlelady from Ohio, Mrs. Beatty.

Mrs. BEATTY. Thank you, Mr. Chairman and Ranking Member Waters. And thank you to the witnesses for being here.

Today's debate, as you have heard, is about how to balance the budget, spending, and taxation with that of future obligations and expectations. Although it seems that Democrats and Republicans agree that increasing the public debt is unsustainable in the long term, the disagreement always comes back to how to achieve the same goal of reaching a balanced budget.

I tend to believe that there is a need to address this problem from both sides of the equation by increasing the revenue and cutting where appropriate.

Thank you.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Florida, Mr. Ross, for 1 minute.

Mr. ROSS. Thank you, Mr. Chairman, for calling this important hearing.

In these discussions, we toss around a lot of numbers, like the fact that we are over $17.5 trillion in debt, but what do these numbers really mean for Americans? Let me tell you.

Young families in central Florida are struggling and sacrificing to make ends meet under the burden of high taxes and slow economic recovery. Every day I receive letters and phone calls from constituents I serve telling me about their financial struggles in this economy.

The average family, in my home of Polk County, makes $37,000 a year. Yet if you divided up the country's debt, the amount of debt that each taxpayer owes would be $151,000 a year. That is more than 4 times their annual salary.

These families are struggling already, struggling to get jobs, struggling to make ends meet for basic necessities like food and electricity. In 10 years, these same families will continue to struggle, even more so if we fail to enact meaningful spending reforms. Federal programs have been arbitrarily expanded without improving the efficiency or effectiveness of taxpayer dollars. The solution isn't spending more money. The solution is spending money more wisely.

Republicans aren't looking simply to eliminate lifetime programs. We are looking to solutions and reforms to very real problems with potentially large consequences for inaction.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr, for 1 minute.

Mr. BARR. Thank you, Mr. Chairman. I want to thank you for calling this important hearing and refocusing all of us on the consequences of our massive and growing Federal debt. Like you, I reject the premise that concern about the debt is fading. As I travel my district in central and eastern Kentucky, people consistently tell me that restoring fiscal responsibility is their top priority.

And the reason is simple: People in my district are smart. They know it is a problem that the Federal Government spends significantly more than it takes in. They know that Washington's spending problem only gets worse the longer we delay honestly confronting it. And they know that future generations will have to work longer and harder in order to receive less as they shoulder the burden of debt that our Federal Government is now creating.

In addition to reforming unsustainable mandatory spending programs, which are crowding out critical investments in education, medical research, transportation, and national security, our focus needs to be on durable, long-term economic growth and job creation. And we cannot create that job creation and growth if we are in a debt crisis that automatically imposes austerity on the American people.

I yield back the balance of my time.

Chairman HENSARLING. The time of the gentleman has expired.

We will now turn to our panel of witnesses. First, Mr. David Cote is the chairman and CEO of Honeywell International, where he has served for 12 years. Prior to his tenure at Honeywell, Mr. Cote held positions at other manufacturing companies, including 20 years at GE.

Mr. Cote was appointed by President Obama to serve on the National Commission on Fiscal Responsibility and Reform, also known as the Simpson-Bowles Commission. He serves on the Steering Committee of the Campaign to Fix Debt, a bipartisan effort. He serves as the vice chairman of the Business Roundtable, and holds a bachelor's degree from the University of New Hampshire.

Second, Dr. Alice Rivlin is clearly no stranger to our committee or Capitol Hill. She is a senior fellow in the economic studies program at the Brookings Institution. She also served on the Simpson-Bowles Commission. Prior to that, Dr. Rivlin has served in a number of very important roles in public service, including Director of the Congressional Budget Office, Director of the Office of Management and Budget, and Vice Chair of the Federal Reserve Board of Governors. She holds a Ph.D. in economics from Harvard.

Third, Dr. Douglas Holtz-Eakin serves as the president of the American Action Forum. Like Dr. Rivlin, Dr. Holtz-Eakin previously served as Director of the Congressional Budget Office. He also served on the Financial Crisis Inquiry Commission in 2009. He earned his Ph.D. in economics from Princeton.

And last but not least, Dr. Jared Bernstein is a senior fellow at the Center on Budget and Policy Priorities. From 2009 to 2011, Dr. Bernstein served as Chief Economist and Economic Advisor to Vice President Biden. Dr. Bernstein currently sits on the Congressional Budget Office's advisory committee. He earned his Ph.D. in social welfare from Columbia University.

Without objection, ladies and gentlemen, your written statements will be made a part of the record. Each of you has testified before Congress before, so hopefully, you recall the green, yellow, and red lighting system, and I would respectfully ask that each of you observe the 5-minute rule. And due to the acoustics of our room and the less-than-desirable AV equipment, please pull the microphone very, very close to you as you speak.

Mr. Cote, you are now recognized for 5 minutes.

STATEMENT OF DAVID M. COTE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HONEYWELL INTERNATIONAL

Mr. COTE. Chairman Hensarling, Ranking Member Waters, and distinguished members of the committee, it is my pleasure to appear before you today to discuss the importance of our long-term debt, and thank you for doing this.

As a country, we have a lot of strengths, but the world isn't standing still. We need to recognize: one, that we are in a different global economy than we were 20 years ago; two, that the global economy will change substantially over the next 20 years; and that three, it will move forward with us or without us.

The chart above shows that in 1990, the United States represented 27 percent of world GDP. By 2010, it was 26 percent. And over the next 20 years, the percentage declines to 24 percent. Other developed countries—Western Europe, Japan, Canada, et cetera—declined from 50 percent in 1990 to 41 percent in 2010 and will decline further to 29 percent of by 2030. And importantly, high-growth regions, or what some call developing economies, have grown from 23 percent of world GDP to 33 percent in 2010 and will continue growing to 47 percent of world GDP by 2030.

In other words, what we think of as developing countries in 20 years will account for almost half of world GDP. That is a big deal. If we are going to compete and win in this new world, we need to have an American competitiveness agenda.

There are eight areas where we can make a difference now to ensure our future competitiveness: long-term debt; infrastructure; math and science education; immigration; tort reform; patents; energy; and free and fair trade. And for the purpose of today's hearing, I am going to focus on the long-term debt.

We should look at our debt, our spending, and our tax profile in terms of increasing global competitiveness. While we can put our heads in the sand for a few years and talk about declining deficits, the demographic freight train caused by Baby Boomers is still coming. If we just focus on this decade, on this chart, we can probably argue there is no issue, even though we are at a debt level comparable to some of the troubled European countries. If we expand this to the next decade, though, we can see it doesn't look as bright.

And, remember, this doesn't predict any recessions. In the course of the next 20 years, there is a good chance of at least 2 or perhaps 3 recessions that will worsen this picture. Additionally, in 2025, we will be spending $1 trillion a year just in interest.

So how do you put a trillion dollars into perspective? You can see on this chart, if you had spent a million dollars a day since Jesus Christ was born 2,013 years ago, you still would not have spent a trillion dollars. And that will be our annual interest bill. It is unconscionable.

To put our debt in further perspective, our debt as a percentage of GDP is about the worst in our history, only eclipsed by World War II, when we had a really good reason to borrow.

Now, for those who think this is just a Wall Street problem, look at it this way: When 10-year Treasury notes go to 7 percent, and as a result home mortgages go to 10 percent and car loans to 13 percent, families will have fewer dollars, and that is a Main Street problem.

In addition to the amount of spending, the composition of spending changes over the next 10 years, with mandatory spending on autopilot, going from about two-thirds to three-quarters of our total budget. Another way to think about it is that government spending overwhelmingly focuses on transfer payments, not investment. Transfer payments help perhaps to equalize distribution, but investment is what grows the pie.

Changes made now can have a big effect in the second decade and allow people and systems time to adjust so it is much less onerous. Entitlements need to be reformed and a revenue increase is needed as a reasonable compromise. Revenue should be approached through tax code simplification. And Congressman Dave Camp's efforts to get this effort going should be applauded.

If we had set out to create a system that was unfair, confusing, and globally uncompetitive, we couldn't have done this good a job. We need to rid ourselves of tax expenditures and significantly reduce rates. Then, we can raise revenue through a slight increase in those rates.

To compete effectively in this increasingly competitive stage, we have to have a strong balance sheet. We don't have a strong balance sheet today. If you want another way to think about the impact of our debt in this new world, think of it this way: In 25 years, at current rates, China will eclipse the United States as the biggest economy in the world. At that same time, at current projections, U.S. debt will be over 100 percent of GDP. Is that the legacy we want to leave our kids and grandkids?

There is an economic Olympics going on right now. We can't just focus on beating the other Americans on the team. We need to look at all the other teams that are competing, and we have to beat them. It is important to have a vibrant democracy. At the same time, we can't let our commitment to democracy evolve into an excess of discordant pluralism and infighting that incapacitates our ability to make a collective decision.

I do believe our form of government is the best there is. We shouldn't wait for a crisis to act on our long-term debt. We should start acting now.

Thank you.

[The prepared statement of Mr. Cote can be found on page 65 of the appendix.]

Chairman HENSARLING. Dr. Rivlin, you are now recognized for 5 minutes.

STATEMENT OF THE HONORABLE ALICE M. RIVLIN, SENIOR FELLOW, ECONOMIC STUDIES, THE BROOKINGS INSTITUTION

Ms. RIVLIN. Thank you, Mr. Chairman.

I, too, am very glad you are holding this hearing. A couple of years ago, we all seemed obsessed by deficits and debt, and now the issue has dropped from conversation. People sort of say, "Oh, didn't we solve that?" Well, no, actually, we didn't.

We still have a very high level of debt in relation to the size of our economy, and that ratio is increasing, and we still have a practical problem looming at us. I like to think of it as a practical problem rather than a crisis. We have the number of old people increasing dramatically in the next couple of decades. We have to figure out how to pay for commitments to older people, especially in health care, and provide other essential services of government at the same time. We have to figure out how to increase the productivity of younger people, people who will be in the workforce, so that it is easy to pay for government, as well as all the other things we want. I believe strongly that this practical problem will be solved only by bipartisan compromise and cooperation across party lines.

Now, admittedly, the projections look better than they did back in 2010, when Dave Cote and I were serving with you, Mr. Chairman, on the Simpson-Bowles Commission. Then, we had a very fragile recovery, unemployment close to 10 percent, and deficits around 10 percent of the GDP. Those deficits were necessary, and we knew they would come down. But the scary part was that as the economy recovered and resumed normal growth, this demographic surge would start driving Federal spending up by the end of this decade.

We were especially worried about Medicare and Medicaid, because historically, health spending has grown much faster per capita than GDP. Multiplying those rates of health spending by more older people would widen the wedge between spending and revenues, the revenues from our creaky tax system.

Debt was on track to rise faster than the economy could grow. And all the bipartisan groups, including Simpson-Bowles, had the same prescription: Don't emphasize austerity right now, because the economy is fragile, but put in place reductions in the rate of growth of entitlements and raise more revenue from our creaky tax system by reforming it.

Now, we have a short-run and a long-run budget outlook that is a little less scary. The economy is recovering. Deficits have plummeted. But looking ahead, we still see the rise in the 2020s of the debt faster than the GDP can grow. We bought time in this recent agreement to work on this practical problem.

But we also have to remember that the improvement in the projection is due to two factors that may not last: cuts in nonentitlement spending, especially discretionary spending, which account for most of the smaller projected debt increase; and slower assumed increases in health care costs. Both of those may be temporary.

Yes, debt matters. We have to pay interest on it. We have been living in a fool's paradise with low interest rates. Debt, high debt, and high interest payments make us more vulnerable to foreign holders. They constrain our fiscal policy flexibility in the future.

And if we don't do something, we might have a debt crisis—ably described by my colleague on the left—a spike in interest rates. I don't think that is the most likely consequence. More likely is slower growth squeezing out public and private investment.

The practical problem of an aging population is that we have more dependents and fewer people in the labor force. So we have two choices, and we have to do both. We can grow the labor force with immigration and encouraging people to work longer, or we can invest in productivity of the labor force, modernize our infrastructure, and upgrade skills. We have to do both.

And I think, Mr. Chairman, it is time to end the blame game. Stop pointing at the Bush tax cuts or the Obama stimulus. Those may have played a role in the past, but going forward, the problem is managing our way through this aging population. We need both higher growth and a declining ratio of GDP to debt. That is going to take delivering on slower growth of entitlements and more revenue from a reformed tax code.

Our system requires compromise and bipartisan cooperation to get anything serious done. The parties have common long-run objectives—higher growth and lower debt. The budget truce buys us some time to work together on how to solve those problems.

[The prepared statement of Dr. Rivlin can be found on page 97 of the appendix.]

Chairman HENSARLING. Thank you.

Dr. Holtz-Eakin, you are now recognized for 5 minutes.

STATEMENT OF DOUGLAS HOLTZ-EAKIN, PRESIDENT, THE AMERICAN ACTION FORUM

Mr. HOLTZ-EAKIN. Thank you, Mr. Chairman, Ranking Member Waters, and members of the committee, for holding this hearing and for the privilege of appearing before you today.

In my opening remarks, I will be brief and repeat some of the dire things that are true about the fiscal outlook and then emphasize that inaction on the long-term fiscal outlook is not costless. It harms the structure of the U.S. budget. It threatens the financial stability of this Nation. It leads to a situation in which the policy actions necessary to fix it are more draconian and undesirable. And ultimately, it visits great costs on the American people, and I would urge the Congress to begin addressing this problem immediately.

As everyone knows, there is a brief window of stability in the debt as a fraction of GDP and the deficit as a fraction of GDP for the next couple of years, but that the fundamental problem remains and that, as we move forward over the 10-year budget window, the debt-to-GDP ratio rises continuously and dramatically in an unsustainable fashion upward.

This is driven primarily by the large mandatory spending programs, in particular the health programs that Dr. Rivlin mentioned, and even with above-average revenue, we are going to have the deficits and debts rise. That is the core problem, and it leads to some real costs.

The first, which has already been noted, is that mandatory spending and interest costs rise dramatically. Mandatory spending rises to be 62 percent of the budget. Interest costs rise from about 6 percent now to about 15 percent of the budget in 2024. So now you have 77 percent, almost 80 percent of the budget locked up in those, and that crowds out everything else which is in the discretionary accounts, which is everything our founders would have recognized as the role of government: national security; infrastructure; and basic research. And the structure of that budget fundamentally has the legacy programs of the past crowding out our future. It is unfair to the next generations, and it is a disservice to those trying to be more productive in the labor force.

The second thing that happens is that it harms economic growth right now. This is a contentious issue in the economics literature, but if you look at the U.S. budget as an investor thinking about whether to build a factory in the United States or hire in the United States or expand in the United States, you have a trajectory that says there are three possible futures: one, a crisis; two, draconian tax increases to close the budget gaps; or three, control the mandatory spending programs.

The first two of those are decidedly anti-growth. It is simply not a pro-growth strategy to sail straight into a crisis or to promise the kinds of tax increases that are necessary. The third is something that needs to be done.

If investors come to the conclusion that number three is off the table, it will make the United States a completely inhospitable place to invest and expand. It will harm our competitiveness, as has been noted, but the chance of that happening is harming our growth now. How big it is, we don't know. But taking action can improve the economic outlook and improve growth in the near term. That is really important.

Failing to do it puts us in a very undesirable situation. No one knows when such a crisis would actually rise, but for purposes of illustration in my testimony, we said, what happens in 2024? Suppose credit markets send the signal to the United States that this is it, we are going to downgrade you, we have had enough. Simply to keep the debt-to-GDP ratio constant, not to get it to come down, but just keep it at 78 percent means that in that year we have to get about $885 billion in deficit reduction.

Now, that is not going to come out of the programs that are the problem. We can't change Social Security, Medicare, Medicaid, or the Affordable Care Act that fast. It is going to come out of discretionary spending and sharp tax increases. That means a 9 percent across-the-board increase in taxes, if that has half of it. It means a 30 percent across-the-board cut in discretionary spending, if you put half of it there. These are draconian policy moves that would harm the structure of our government and harm the people in the economy.

And that would just keep it there for a year. You would need another $8 trillion of such actions over the succeeding decade just to stabilize debt-to-GDP. Waiting puts us in a very untenable position. It also raises the chance that we get the sharp spike in interest rates, which turn a mortgage from a 4 percent interest rate to a 14 percent. That means monthly mortgage payments go from something like $1,200 to $3,600. It means that car loans go from $350 to $450. Student loans go from $350 a month to $641 a month.

These are the kinds of things we cannot risk imposing on the U.S. economy and the families who live and work there. It is time to take action now to reduce the costs we are seeing in our budget structure, the drag on the economy, and the risk we run of financial instability coming from the Federal Government.

Thank you for the chance to be here, and I look forward to your questions.

[The prepared statement of Dr. Holtz-Eakin can be found on page 89 of the appendix.]

Chairman HENSARLING. Thank you.

Now, Dr. Bernstein, you are recognized for 5 minutes.

STATEMENT OF JARED BERNSTEIN, SENIOR FELLOW, THE CENTER ON BUDGET AND POLICY PRIORITIES

Mr. BERNSTEIN. Thank you, Chairman Hensarling and Ranking Member Waters, for the opportunity to testify before you today. As we have heard today, it is common for some policymakers to label our debt as unsustainable. This is only the case if policymakers fail to undertake further steps to put the debt on a sustainable path, reinforcing the significant improvements in recent years. Those steps must involve a balanced fiscal policy that includes both new revenues and spending cuts, as well as building on recent progress in slowing the rate of growth of health care costs.

Increases in the national debt do not automatically signal a fiscal problem and, in fact, are necessary in special situations. There have been numerous times in our Nation's history, times of war and of large market failures like the recent Great Recession, where temporary expansions of deficit and debt have been essential to meet the challenges we faced.

In fact, austerity measures that seek to reduce deficits and debt too quickly undermine the economy's ability to recover from the downturn, leading to reduced job and wage growth for the vast majority of households. Historically, the last time the debt was falling consistently within the latter 1990s, when strong growth and more balanced fiscal policy contributed to low deficits, declining debt ratios, and ultimately budget surpluses. In the 2000s, large tax cuts and weak growth reversed these fiscal gains. Those tax cuts, most of which were made permanent in 2012, are clearly implicated as a major factor driving deficits and debt since they were enacted.

Now, since 2010, policymakers have legislated considerable financial consolidation, and the budget deficit has fallen very quickly in historical terms, as we have heard from Representative Waters.

This decline, however, has led to fiscal headwinds that have significantly slowed economic growth and hampered the expansion.

In fact, projected 10-year deficits have decreased by $5 trillion since 2010. Now, a bit more than $4 trillion of those deficit savings have come from legislation, including the Budget Control Act and other measures. Importantly, 77 percent of that $4 trillion in deficit savings has come from spending cuts, meaning only 23 percent are from higher revenues.

Now, these facts have at least two important implications for policy. First, the oft-cited notion that the current Administration has been profligate spenders is demonstrably wrong. Outlays adjusted for inflation and population growth are up 3 percent relative to 2008, 3 percent, thus including the significant anti-recessionary ramp-up in 2009. If we go from 2009 to 2013, outlays are down 12 percent.

Second, future fiscal consolidation much be more balanced with significant contributions from new revenues. The optimal time to reduce the budget deficit is when private sector economic activity is generating enough demand to fully utilize our economic resources, including human capital. With elevated unemployment, particularly long-term unemployment, weak labor force participation, only moderate job growth, and large holdings of investment capital on the sidelines, the economy still needs fiscal support, not fiscal consolidation.

Expanding unemployment insurance to the long-term unemployed is warranted as the expiration of extended benefits at the end of last year occurred, even though the long-term unemployment rate was significantly above its level at past expirations. But considering this committee's jurisdiction, a number of programs that support low- and middle-income families, as well as the broader economy, have been cut through the various budget deals noted above, including the sequestration cuts from the Budget Control Act.

These programs include regulatory functions of the Consumer Financial Protection Bureau, the government-sponsored enterprises supported the secondary mortgage market and the backstop for an affordable 30-year fixed-rate mortgage, financial oversight to avoid systemic risk, housing support for veterans, the elderly, and the disabled, rental assistance for low-income households, and neighborhood stabilization programs that remove blight, while creating jobs.

Finally, turning to the long term, it is clear that our long-term debt picture has significantly improved in no small part due to the deficit savings that have been legislated since 2010 as I referenced. Also, one of the main factors driving the long-term debt is the intersection of our aging demographics and the growth of health care costs.

However, in recent years these costs have slowed significantly thanks, in part, to measures introduced by the Affordable Care Act, and that, too, has lowered our debt projections, although as Dr. Rivlin says, we don't know if these are here to stay.

However, while our debt forecasts are improved, they still reveal significant pressures with debt projected to exceed 100 percent of GDP before 2040. This projection strongly supports the need to continue to implement the efficiency-enhancing measures of the Affordable Care Act, continue to monitor and build on the recent progress we have seen in health care costs, and to pursue the balanced fiscal measures that I have discussed so far.

Thank you very much.

[The prepared statement of Dr. Bernstein can be found on page 56 of the appendix.]

Chairman HENSARLING. Thank you, Dr. Bernstein. And I thank all of the panelists.

The Chair now yields himself 5 minutes for questions. Dr. Holtz-Eakin, we have heard much discussion today about a balanced approach to dealing with the pending debt crisis. I was struck by your testimony about—assuming GDP levels and CBO's baseline, the balanced approach in the fiscal consolidation split evenly between tax increases and spending cuts would require a 30 percent discretionary spending cut. Do I read that correctly?

Mr. HOLTZ-EAKIN. That is correct, in 2024.

Chairman HENSARLING. Within the 10-year budget window. Dr. Rivlin, I read a piece recently—perhaps you saw it—from Robert Samuelson in the Washington Post. Let me quote from it: "Something strange is happening in Washington. We are slowly dismantling the Federal Government, even as spending is growing larger. An aging population and higher health spending automatically increase budget outlays, which induced the President and Congress to curb spending on almost everything else, from defense to food stamps."

So we have heard many argue about a dichotomy between addressing the unsustainable debt and spending on certain discretionary programs, Section 8, LIHEAP, WIC. Is entitlement spending going to be the blob that ate discretionary government, Dr. Rivlin?

Ms. RIVLIN. Mr. Chairman, I think it already has been. In my opinion, we have cut discretionary spending to unsustainable levels, from 8 percent of the GDP, if you believe where it is going in the CBO projections, to 2.3 percent. I don't know that we can run our government and do the things that we need to do, all the things we are agreed we need to do, national defense and national parks and all that—

Chairman HENSARLING. So you would say the national debt today, as we speak, is harming discretionary government, including national defense?

Ms. RIVLIN. I think that the measures taken to control the debt have focused on discretionary spending and some other mandatory programs, which are not the big part of the problem. We haven't addressed either entitlement reform or tax reform. We need to do both.

Chairman HENSARLING. Mr. Cote, in my opening statement, you heard me quote the former chairman and founder of Home Depot about the connection between the debt and jobs and economic growth. I know the CEO of AutoNation has also said, "The best thing that this town could do to help economic recovery become sustainable is to deal with the deficit and to see tax reform."

In my very unscientific survey of speaking to small businesspeople in the Fifth Congressional District of Texas, when

I ask them what is impeding the growth of your small business, what is preventing you from hiring more people, frankly, Obamacare comes up number one, but this is not the place or the time to have that debate. Other regulations in general use comes in number two, but I can always tell you, the debt certainly makes the top five and also comes in three.

I am not asking for you to speak on behalf of Honeywell and what you do on behalf of the shareholders of Honeywell, but given your vast business experience from your position at the Business Roundtable, is the size and unsustainability of our debt impacting current hiring decisions in America today?

Mr. COTE. The way I would describe it—

Chairman HENSARLING. Could you pull the microphone a little bit closer?

Mr. COTE. The way I would describe it is, I pulled together our top 300 global leaders at Honeywell every year. And for the fourth year in a row, the theme of the conference was growing in a slow-growth economy. And I just don't see us taking the actions that we need to as a country to get growth above that 2.5 percent to 2.8 percent range. And so far, despite forecasts from a lot of economists, that is the way it has pretty much worked.

And when we plan for our own company, we look at it and say, over the next 3 years, this is the right way to think about it, because something like the debt, which I think is an overwhelming issue, just isn't being addressed. So, yes, it does have an impact, because that is how we plan for a slower growth economy.

Chairman HENSARLING. My time is winding down, and I occasionally attempt to set a good example, but in the few seconds I have remaining, if we don't change the course we are on—and I understand, Dr. Bernstein, I thought it was an interesting choice of words to say we are not on an unsustainable path if we basically fix it, again, something is not broken if we fix it, something isn't dead if we resurrect it, but at the moment, it is unsustainable.

If we do not change the path we are on, who will be hurt most, high-income individuals, middle-income individuals, or low-income individuals? I am already over my time, so, please, a one-word answer. Low, middle, or high?

Mr. Cote, do you have an opinion on the matter?

Mr. COTE. Yes. My view is it is low-income people who will be hurt the most.

Chairman HENSARLING. Dr. Rivlin?

Ms. RIVLIN. Yes, I agree with that.

Chairman HENSARLING. Dr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. Yes, low.

Chairman HENSARLING. Dr. Bernstein?

Mr. BERNSTEIN. Probably middle- and low-income people.

Chairman HENSARLING. Middle and low. My time has expired.

The Chair now recognizes the ranking member for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman.

I certainly believe—and I think it has been either said or alluded to today—that recent increases in the debt held by the public reflect costs associated with the Bush-era tax cuts, the wars in Iraq and Afghanistan, and the economic downturn following the financial crisis.

However, I really don't want to dwell on that. I want to talk about how we stimulate the economy. Republicans have been highly critical of the ability to grow the economy through fiscal stimulus, even in response to a recession. Similarly, my Republican colleagues have been highly critical of any effort by the Federal Reserve to stimulate growth.

If we took their advice and eliminated both of these tools, how would you expect the economy to fare through the business cycle or through a devastating downturn, such as the one we experienced in 2008? Mr. Bernstein?

Mr. BERNSTEIN. I think the economic outcomes would have been considerably worse than they have been. And, in fact, one of the things that I mentioned in my testimony is the extent to which fiscal headwinds—that is, this very quick decline in the budget deficit from 10 percent of GDP calendar year 2009 to 3 percent calendar year 2013, is widely agreed upon to have created fiscal headwinds that have slowed the economy's growth. Chairman Bernanke has made that point many times testifying before Congress, because when the private sector is still down on the mat, has yet to recover fully from the expansion, the gap in aggregate demand needs to be replaced by fiscal policy on one hand and by stimulative monetary policy on the other hand to lower the cost of borrowing.

Ms. WATERS. The Honorable Ms. Rivlin, would you respond to that? I am talking about stimulating the economy. Basically, I have said that the Republicans have been critical of the ability to grow the economy through fiscal stimulus even in a response to the recession and they have been critical of any effort by the Federal Reserve to stimulate growth.

What would happen if we took their advice and if we eliminated both of these two? How would you expect the economy to fare through the business cycle or through a devastating downturn such as the one we experienced in 2008? Yes?

Ms. RIVLIN. I agree with what Dr. Bernstein has just said. I think we have had too much near-term austerity and not enough attention to the long-run growth of debt.

What I would prescribe now is not so much more stimulus as more investment in future growth. I don't think it should be seen as a job-creation program as much as a productivity-creation program, maybe do some of both, but that involves infrastructure, research, and upgrading the skills of the labor force by major amounts.

Ms. WATERS. Thank you very much.

I have a little time left. Mr. Cote, would you weigh in on that question about stimulating the economy?

Mr. COTE. I would agree with Alice. The only thing I would add is that we should be taking the time now to address our long-term issue, which is very real. That demographic freight train is coming.

Ms. WATERS. You mention actions we need to take to stimulate the growth. Do you have any specific recommendations?

Mr. COTE. Yes. In my written testimony, I have eight areas, one of them being the debt, that I think we should focus on.

Ms. WATERS. Okay. What is the most important thing we should do?

Mr. COTE. In the short term, I think things like immigration and infrastructure. In the longer term—and I would refer to it as seed-planting—I agree with Alice on just basic education, specifically math and science.

Ms. WATERS. So you believe immigration reform is good for this country—

Mr. COTE. Yes.

Ms. WATERS. —that it would help stimulate the economy?

Mr. COTE. Yes.

Ms. WATERS. Oh, thank you very much. Does everyone agree that immigration is good for the economy and would help to stimulate? Ms. Rivlin?

Ms. RIVLIN. Yes, I do. And there is a good CBO report on that.

Ms. WATERS. Mr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. I do, and there is a good Holtz-Eakin report on that.

Ms. WATERS. And—

[laughter]

Mr. BERNSTEIN. I do, as well, and I like the Holtz-Eakin and the CBO reports on that.

Ms. WATERS. Okay.

Mr. BERNSTEIN. I think that these issues—by the way, when we were talking about infrastructure and education and immigration reform, what we are really talking about is improving the supply side of the economy, improving the economy's capacity to grow its labor force in terms of immigration and its productive capacity in the terms of investing in our public good infrastructure, widely agreed upon—

Ms. WATERS. Mr. Chairman, this is a good panel. Can we hold them over and keep talking?

[laughter]

Chairman HENSARLING. That works for me.

Ms. WATERS. Thank you very much. I yield back.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the chairman emeritus of the committee, Mr. Bachus from Alabama, for 5 minutes.

Mr. BACHUS. I thank the panelists. I think we all agree it is the calm before the storm. We have a short window of opportunity. I am going to go through something, and when I get through, I am going to ask if I have missed anything major.

First, reform our entitlement programs, Medicare, Medicaid, Social Security. That is at least half the battle. And I think that both sides should agree that we are not talking about cutting spending. We are talking about slowing the growth of spending.

And I also think that what Ms. Rivlin has said, and others, is that we can talk about job training, when we talk about Social Security, people on unemployment, people's Social Security, disability, because they are not—they don't have the skills, and I think because of the demographics, it is very important that we maximize the labor force we have.

Now, the second component is economic growth. Tax reform has been mentioned. Trade agreements hadn't been mentioned, but I think that is a tough one, and I think we have to address that. A third one, immigration reform—the Senate did pass something. I have been on record as saying that I am for a pathway to legalization. The demographics there are also key. We need young, highly skilled workers. And I think we have to come together, and that may be more of a problem for Republicans.

The fourth one is regulations. And Dr. Holtz-Eakin has done a lot of research on this. The Small Business Administration said that 14 percent of our national income is absorbed by complying with Federal regulation. Now, I think the first thing that we have to agree on is that all regulations aren't created equal. They are not all bad; they are not all good.

But surely—and, again, I have heard Mr. Cote and Ms. Rivlin talk about velocity. We are growing at 2.5 percent. We need to grow at 4 percent, 4.5 percent. If Federal regulations absorb 14 percent of our national income, surely we can find 2 percent—or one out of seven—of those regulations that don't have a good cost-benefit or actually are a drag on our economy.

And, recently, we sort of turned the corner on this energy thing, because of what has happened in the Ukraine, and I think that is going to be positive. But I would ask you, is there anything I have missed of a big nature. Is aging population going to overwhelm us if we don't solve these problems?

Mr. BERNSTEIN. Can I just give a quick answer? On the reforming entitlements, I agree with the points you have made. I wanted to add one point. The median income of the typical Social Security or Medicare beneficiary is about $24,000, $25,000. So I don't think there is much we can do in terms of slowing the growth of their benefits without hurting vulnerable retirees. I do think there is something to be done for wealthy retirees, in terms of slowing the growth of their benefits, but there is less there than meets the eye when you actually look at the economic circumstances of the median beneficiary.

Mr. BACHUS. Right, and I agree. Social Security, I think, is less—less savings than Medicare and Medicaid. Anyone else?

Mr. HOLTZ-EAKIN. Congressman Bachus, I agree with your list. Not on your list was education reforms. I think those are crucial. We have documented the failure of the U.S. K–12 education system down to the student, teacher, principal, school, district, county. We have the data, but we have yet to turn the corner and improve outcomes. We need to do that and improve, at the same time, lifelong learning and skills training. I think the quality of our labor in the end will be how we compete internationally, and we need to do that.

Mr. BACHUS. Education—I think maybe that should have been the first thing out of the box for the Administration. I agree.

Ms. RIVLIN. I would agree with the list, too. Let me make two quick points. One is, we need smarter regulation. Often, the goal of the regulation is a good thing; we just do it in an unnecessarily costly way.

And second, the biggest thing in slowing the growth of entitlements is delivering health care services more efficiently and effectively. That is hard to do, but it is where the money is.

Mr. BACHUS. Thank you.

Mr. COTE. And I agree substantively with everything you said. The trade point is one of the eight areas that I put in my written statement, and I agree on TPA.

The only other thing I would add is putting all of this into context. And I oftentimes say that in Honeywell, you can't formulate a strategy and not look at what your competitors are doing, what your markets are doing, what is happening in technology. And that is a thing that seems to be missing in a lot of our discussions, is looking at what is going on in the world around us.

And that first chart I showed is one that I show throughout the company that says this is how we need to start thinking. Our competitive world has changed. We need an American competitiveness agenda, and we ought to be thinking about all our actions in that context, because 75 percent of world GDP is outside the United States and it is changing rapidly.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Clay, for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman.

And let me start with Dr. Bernstein. Is it realistic to balance the budget in the next few years by cutting spending? Or do increases in revenue have to be a part of the equation?

Mr. BERNSTEIN. I think the latter. Increases in revenues have to be part of the equation, in part because of the $4 trillion in deficit savings accomplished thus far since 2010 in the various programs I mentioned in my testimony; 77 percent of those cuts—70 percent of those deficit savings have come from spending cuts, only 23 percent from revenues. There is a real imbalance there.

And as one of the Representatives said earlier—I believe it was Mr. Perlmutter—revenues as a share of GDP are historically low. Part of that is the economy, but part of that is the legacy of tax cuts that I think were irresponsible in the context of trying to achieve a sustainable path.

Mr. CLAY. Ranking Member Waters mentioned the comprehensive immigration reform. And just this morning, the CBO issued a report on it about—should not the—do all of you think that the Congress should be more proactive about pushing legislation and policies that help stimulate the economy?

The CBO said this morning that over the next 2 decades, if we pass H.R. 15, we would reduce the deficit by $900 billion, and $200 billion in the first decade. That would be significant, don't you think? And anyone can address it.

Ms. RIVLIN. I haven't seen this report, but, yes, clearly, that is significant.

Mr. CLAY. Let me ask Ms. Rivlin. At a recent Monetary Policy and Trade Subcommittee hearing, Josh Bivens, one of the witnesses, wrote in his testimony that it was too bad that the Fed's actions to stimulate the economy have not also encouraged higher levels of Federal spending. Do you share the view that it is unfortunate that lower rates have not resulted in more accommodative fiscal policy in recent years?

Ms. RIVLIN. As I said earlier, I think that in the last couple of years, Federal fiscal policy has been too austere. It is a mark of the resilience of the U.S. economy that we have survived this and the economy is growing. I think it would have been better to do less deficit reduction in the near term, especially on the spending side, and more in the longer term.

Mr. CLAY. Ms. Rivlin, what could the Congress do with respect to fiscal policy to complement the Federal Reserve's monetary policies and grow the economy? What productive steps can be taken to lessen the burden on the Federal Reserve?

Ms. RIVLIN. The Federal Reserve has been aggressive in easy money, and is now realizing that it can pull back a little bit. I think that is right. And the Congress, I think, needs to think about how to create jobs in the long run, which I think is investing in growth and infrastructure and skills development, and how to reduce the growth of the long-run debt, which requires tax reform and entitlement reform.

Mr. CLAY. And if the Congress and the Federal Reserve push stimulative policies at the same time, is there any inherent reason this would call the Fed's independence into question, as some have suggested?

Ms. RIVLIN. No, I don't think so. And former Chairman Bernanke has been very clear, it would have helped them if the fiscal policy had been less of a drag on the economy.

Mr. CLAY. Thank you for your responses.

And, Mr. Cote, what do you consider to be the major drivers of the current deficit today?

Mr. COTE. This is one where I think there are a lot of places to point to, and I would not point to any single item that has caused us to get to where we are today. The recession obviously had a huge impact. But instead, there is a phrase I use a lot in the company that says we are where we are, and I think it is more important for us to look at, what do we have to do going forward? And I completely agree with Alice's prescription.

Mr. CLAY. Thank you so much.

Mr. Chairman, I yield back.

Chairman HENSARLING. The Chair now recognizes the gentleman from Texas, the chairman of our Housing and Insurance Subcommittee, Mr. Neugebauer, for 5 minutes.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Dr. Holtz-Eakin, one of the things that concerns me is that the dirty little secret here is we have had historically low interest rates. And we have had the Fed basically printing money at a fairly rapid rate.

And so, one of the things that has kind of masked the consequence of these huge deficits is the fact that the Fed has bought down the yield curve to nearly zero and is furnishing about half the money to support these deficits.

The question I have is—and I think you kind of started down that road—what happens if we then go to a more typical rate period and the Fed starts to unload their portfolio? I have seen some estimates where at some point in time, here in about 10 years, the interest at more historic rates would eclipse what we are spending on discretionary spending.

Mr. HOLTZ-EAKIN. There is no question. The CBO baseline, for example, is a good—is illustrative of this. They show rates essentially normalizing to historical levels. The interest costs go to $1 trillion. It exceeds what we would be spending on the Pentagon, national defense, for example. Interest is by itself over 3 percent of GDP, so it is an unsustainable deficit all by itself.

And I think the important thing is not to focus on the numbers, right? It is the risks that you incur. And that is with normal interest rates—anything above that quickly may even double the interest costs, that gives you no flexibility in your budgetary activities and really hamstrings the Congress and the Administration in trying to execute any future policy.

It is a disservice in a democracy, quite frankly, to tie the hands of the future in that way. And that is the risk we are running with our current budget policies.

Mr. NEUGEBAUER. Yes. And I think to just kind of amplify on that, Mr. Cote, you pointed out the fact that the U.S. GDP portion of the global economy is diminishing, and that these emerging markets that—China and other countries. So if you have a country that is on the pathway that we have all agreed is on here, and you are looking at not only what percentage of the economy—of the global economy is produced in the United States, the question is, is what about investment—are people going to want to invest in a country that has these potential liabilities?

Because it is a deferred liability. If we are not recognizing those today, at some point in time, we have to pay for those. So how does that impact our global competitiveness to kind of stem the tide of the chart that you presented there, that is showing diminished activity in the United States?

Mr. COTE. To be clear on the chart, it is the percent of world GDP. We are still growing during that time. And for the next 20 to 25 years, we should still be the world's biggest market. If the growth rates continue, though, with us at about 2.5 percent, China at about 6 percent, in about 25 years, China is the world's biggest economy, and then things really start to change.

There are a lot of things we need to improve our competitiveness and to attract people to the biggest market in the world, and that includes infrastructure, math and science education, immigration, trade, and all of the stuff we talked about. But debt has to be one of the biggest items.

I just don't see how a company or a country competes if they have a bad balance sheet. And, again, if we take a look at the 20-year outlook, there is no assumption of any recessions in there, and we are not done with recessions, and my guess is everybody here would agree with that. There will be some other ones. If we don't have the firepower to address them when that time comes, I just don't know where things are going to go.

Mr. NEUGEBAUER. So is there a concern right now—we are the world's reserve currency, people want to hold dollars—that at some point in time people are concerned about, and has that already started?

Mr. HOLTZ-EAKIN. I think this is an important issue. People are starting to wonder about that. Having a reserve currency is good for international trade, and to have the United States no longer be a reserve currency would harm the global trading system. I think that is a real concern. The bad news has been, because we are a reserve currency, we are given more rope than other countries, and we have unfortunately used it and put ourselves in a very dangerous position.

Mr. NEUGEBAUER. Ms. Rivlin?

Ms. RIVLIN. I agree with that. It is sort of a fool's paradise, as I said in my testimony, that we have been living in, because we could borrow essentially without limit at very low interest rates, and we need to worry about what happens when that is no longer true.

But I think one can exaggerate the problem of China being the biggest economy—with all due respect, Dave—they have a lot more people than we do, and their per capita income is still quite low. We are doing pretty well as a developed economy. We just have to do better. We have to invest more and reduce our long-run debt.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Georgia, Mr. Scott, for 5 minutes.

Mr. SCOTT. Thank you. Thank you, Mr. Chairman.

Let me just say at the outset that I think we are really going to have to, as a Nation, understand that we just cannot cut our way out of this deficit and our debt problem.

The other thing is that we cannot solve our deficit and debt problem by omitting the very people who owe more to the greatness of the country and the sacrifice of this country, of the middle class, of the poor, of our veterans, and that is our multibillionaires and our multimillionaires.

And my good friends on the other side of the aisle—my dear Republican friends, many of whom I love very dearly; they are wonderful, wonderful people—we cannot solve this debt problem on the backs of the middle class, on the backs of the poor people, on the backs of our veterans, while not asking the very, very wealthy to just make a sacrifice.

The jobs deficit is part of the way out of this. But we have this overemphasis on cutting entitlements. We are a growing Nation. Social Security for our elderly is important. This is not so much an entitlement. These seniors paid into this. They sacrificed into it, many of them from when they were 9 and 10 years old working. Their paycheck was taken. This is no giveaway.

And when we look at unintended consequences, I think the best point I can make on this is the cutting of our military so haphazardly at this time, to cut our military below the manpower in the Army of below 430,000 soldiers, back at the time of the 1930s. Now, why do I say that? Because no thought has been given to the impact of what is going to happen to those veterans. What is going to happen to those who are going to be unloaded onto the system? Right now, 6,000 veterans are committing suicide every year; that is 17 every day.

The fastest growing group of food stamp recipients, one of those programs that the other side wants to cut, 1 million veterans are on food stamps feeding their families. No thought is given to that.

And when we dump all of these other veterans out of the Afghanistan war, and the Iraq war, we are coming home, is there any wonder, but nobody raises a question, where are we going to find jobs when the highest rate of unemployment in this country is on young veterans, 22 percent of whom can't find jobs?

My friends of the other side of the aisle, when we look at this, I want you to say, yes, these billionaires and millionaires who have made their billions on the backs of our veterans over there dying on the battlefield, to protect their wealthy interests, need to begin to pay their fair share, because, folks, we can't solve this problem of our debt without increased revenue. And you are going to get it from the poor lady on Social Security?

You are going to get it from the person who needs health care, while many right now can't get health care, because many of our Republican governors are stopping the Medicaid expansion? That would bring billions of dollars and jobs to the very people who need it the most.

So, this bothers me greatly. Three weeks ago, I think, when Ms. Yellen was in here, I asked her about the dual mission, about the Fed; 90 percent of the American people don't even know that the Fed has a dual mission, employment. Where is the emphasis on jobs? That is the way that we are going to solve this debt problem, putting our veterans to work, stopping them from having to commit suicide because they have lost hope, and then telling our billionaires to help pay the cost.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from North Carolina, the chairman of our Oversight and Investigations Subcommittee, Mr. McHenry, for 5 minutes.

Mr. MCHENRY. Thank you, Mr. Chairman. And this has certainly been an interesting hearing. I commend the ranking member for her words. She now sounds like a supply-sider. And I am grateful for that.

In terms of the discussion today, we have seen some columnists around the country, Dr. Rivlin, who say that debt doesn't matter, that we don't have a debt problem. What would you say to those who don't believe that we have a debt problem?

Ms. RIVLIN. I would say they are wrong. All of us today have emphasized that a debt rising faster than your economy can grow is a big problem.

Mr. MCHENRY. Can we just resolve this on the revenue side of the equation?

Ms. RIVLIN. No, but I don't think we can resolve it on the spending side entirely, either. And up to now, we have been doing more spending cuts than revenue increases. But I think of it as managing our way through the problem of the baby boom and retirement and longevity. We have to do that. We have to figure out how to pay for that and how to reduce the growth of the debt in the long run.

Mr. MCHENRY. Dr. Holtz-Eakin, do you agree? Can we do this purely on the revenue side of the equation?

Mr. HOLTZ-EAKIN. No. No, you cannot tax your way out of this problem.

Mr. MCHENRY. Okay. Now, in terms of Social Security, I believe—as the panel does, and most Members of Congress, as well—that Social Security is a very important program that we have to protect. We have to preserve it for those who are receiving the benefits today and those who are at or near retirement age, as well.

But for my generation, who have time to plan, look, I am due to retire long after the Social Security system is broke. And under current law, it is going to be my generation that receives a fraction of the benefits they have been pledged. And so, I believe the insolvency of Social Security in 2023 to be real. Dr. Rivlin, would you agree?

Ms. RIVLIN. Yes, and 2023 isn't so long from now. People who will retire in 2023 are not our great-grandchildren. They are already in their mid-40s and need to know that the system is there for them.

Mr. MCHENRY. Thanks. Dr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. I just want to emphasize that you can look—the debt is a real problem and the mandatory spending programs are driving that debt, but the programs themselves need to be fixed for the beneficiaries. It is a great disservice to run a pension system that says, we are going to keep it solvent by cutting benefits 25 percent across-the-board for people in retirement. No one runs a pension system that way. That is terrible. It should be fixed right now on behalf of those people trying to make retirement plans. And Medicare is worse. Right now, the gap between money going in and money going out, payroll taxes and premiums and then spending, is about $300 billion. We have 10,000 new beneficiaries every day. That is not a program that will survive.

And so, we have a big debt problem. It is hurting our competitiveness, but we have problems with our problems that are not going to serve these beneficiaries well. So, it is not just a matter of cutting. We have to fix their structure. We have to reform them so that they survive.

Mr. BERNSTEIN. Can I make a point to that?

Mr. MCHENRY. I have one final question for Dr. Holtz-Eakin. So in terms—moving back to the revenue question, you have written about the need for tax reform. You praised Chairman Camp's—the chairman of the Ways and Means Committee—tax reform draft. He has asked for feedback from Members. I have provided it, along with over 55 of my colleagues signing on to a letter pointing out one of the flaws of his proposal and asking him to fix it, and that is a new tax within this tax reform draft, the only new tax in the draft, and it deals with a quarterly excise tax on banks and financial institutions generally.

This is what I regard as an asset tax. And assets for banks are loans. So it runs counter, I believe, to our economic interest. Do you concur?

Mr. HOLTZ-EAKIN. I do. I have been supportive of the process of tax reform. It is very important that we get this done. Our tax system is harming us in both growth and competitiveness.

But this excise tax on the very large—on a handful of very large financial institutions is at odds with tax reform, which should treat all economic activity more equally and not single out an industry or a size for a special tax. That seems very bad to me.

This is going to hit the institutions that have about half the deposits in the United States. The implications are going to be found in households as much as anywhere else.

Mr. MCHENRY. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Capuano, for 5 minutes.

Mr. CAPUANO. Thank you, Mr. Chairman. I apologize for missing some of the hearing, but, well, we all have other things to do.

I have read the testimony, but I would like to hear from the panel. Does anybody here think that we can—first of all, I want to be really clear. I don't know who said the debt doesn't matter. Whoever said debt doesn't matter doesn't have a credit card, doesn't have a mortgage, never bought an automobile—a car is what we call it, but I figured I would say automobile so you would know what I was talking about—and didn't have any kids who went to college. Debt matters. Of course it matters.

For me, that whole issue is—I guess it is good politics, but it is a useless discussion. There are two questions. Number one is, what do we do about it? And the other part of that, I think history is important. How did we get where we are today so that we don't make the same mistakes or at least we know what the truth is?

And does anybody here think that we can handle our debt situation on—and, Mr. Holtz-Eakin, I look at you, because I presume you might be the closest who might say yes to this—can we handle the debt problem just on the spending side? You don't think we should look at the revenue side at all?

Mr. HOLTZ-EAKIN. I think we should look at the revenue side in tax reform, and it will generate more revenue. I think that would be great.

Mr. CAPUANO. Fair answer. We can always have the debate of what does and what doesn't, but I think that is a fair answer. So I think that kind of—and I assume none of the other panel would disagree with the concept that we have to look at the revenue side.

So that kind of gets that off the table. So now the question is, okay, details. First of all, how did we get here? And do people disagree that there are a million ways, but from what I see, the most important—if I had to pick one thing that put us in the situation we are here at the moment is the tax decisions we made in the early part of this century. Does anyone disagree with that?

Again, Mr. Holtz-Eakin, I look at you, because, again, you are the most likely to disagree with me.

Mr. HOLTZ-EAKIN. We were asked this question again and again and again during my tenure at the CBO, and if you look at the changes in the forecasted surpluses—that was what I inherited and that turned into deficits—the tax cuts are not the majority of that. It is, in the end, economic performance, which has been subpar, and the spending side, which are the dominant increases in the debt over that period.

Mr. CAPUANO. Okay, so you don't think that—you think it is the spending side?

Mr. HOLTZ-EAKIN. I don't think that is a fair characterization—

Mr. CAPUANO. Mr. Bernstein, what do you think, if you had to pick one item?

Mr. BERNSTEIN. I disagree on the facts there. And there is a chart in my testimony, figure three, which tries to answer that question by apportioning the growth in the debt to the wars, the Bush-era tax cuts, recovery measures, and the economic downturn, and if you look at figure three, you will see that, in fact, the Bush tax cuts are the primary factor there.

If I may, can I speak to your question?

Mr. CAPUANO. Hang on a second, Mr. Bernstein. I need to get to the others.

Mr. BERNSTEIN. Okay.

Mr. CAPUANO. Ms. Rivlin, what do you think is the single most important factor that got us to where we are at the moment?

Ms. RIVLIN. At the risk of disrespect, I don't think that is a good question. I think we are where we are.

Mr. CAPUANO. There are lots of bad questions on this panel.

Ms. RIVLIN. There is lots of blame to go around. Repealing the Bush tax cuts now is not an option, and we need to think about going forward.

Mr. CAPUANO. Why is it not an option?

Ms. RIVLIN. Because a big tax increase on everybody, including low-income people, right now would be a disaster.

Mr. CAPUANO. So, that is a political judgment. Very interesting, Ms. Rivlin.

Ms. RIVLIN. That would be an economic decision.

Mr. CAPUANO. Fair point. Yes, I think you are sitting a little too close to Mr. Holtz-Eakin. Maybe we should split you two up.

Mr. Cote, what do you think, if you had to pick one?

Mr. COTE. First, coming from New Hampshire, you sound like a very smart guy to me.

Mr. CAPUANO. There we go.

[laughter]

Mr. COTE. At the end of the day, I am not sure that it is a useful exercise. I am kind of with Alice on this one.

Mr. CAPUANO. Fair enough.

Mr. COTE. We are where we are, and we need to look at it as, where do we go from here?

Mr. CAPUANO. Fair enough.

Mr. COTE. And that is what we ought to be focusing on.

Mr. CAPUANO. I think those are fair answers. I do want to point out, me trying to figure this all out and trying to figure out—getting ready for today, I did run across one interesting study by the Heritage Foundation that kind of ranked both debt—and, again, I accept the fact that we have a debt problem, so that kind of becomes null and void to me, but I also—they ranked a whole bunch of things. They do it—they seem to do it regularly, an index of economic freedom, they call it. And they rank tax burden as a percentage of GDP, which to me is more important than actual numbers.

And they rank the United States of America as number 60 in taxes as a percentage of GDP. France is 65 percent, ahead of us. Italy is 58 percent. Germany is 51 percent, ahead of us, on and on and on. Russia has a higher tax burden. China does have a lower tax burden than we do.

So the question is, when we are talking about competitiveness, which I think is what is important when it comes to taxes, who are we competing against? And I don't mean to be rude about it, but I really don't think that, for the most part, the United States is competing against Mauritius or Panama or Kenya or Malawi. Those are not countries we are competing against. The countries we are competing against, other than China, all have—or pretty much all have equal or larger tax burdens.

And on China, the one thing nobody wants to talk about, the Heritage Foundation also ranks other things. And I don't get a chance to do it, because I let you answer my questions. I will have to come back to this. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Jersey, the chairman of our Capital Markets and GSEs Subcommittee, Mr. Garrett.

Mr. GARRETT. Thank you, Mr. Chairman.

I will start with Mr. Cote. In looking over your testimony, you draw the real connections between debt and interest rates and the impact on the economy, that more debt can mean less economic growth and fewer jobs at home on Main Street.

And when you look at our current job recovery, such as it is, CBO recently reported that the Nation is significantly lagging behind the average job recovery, and the most striking factor is rather than closing that gap, our job market is actually getting worse, relative to the average recovery.

Now, the President has been in office for 5½ years now. And we have seen during that time what some of us would call the tidal wave of spending. In light of all that, could you just comment on how does debt and spending, specifically entitlement spending, which brings us to, some of us would say, the brink of a bankruptcy, how does that affect a major corporation such as yours? And how does the fiscal instability that we have because of this looming debt affect you and your hiring decisions?

Mr. COTE. It affects the way I think about how we run the company and how are we going to hire going forward. And when I put all this together, including all the other things that we are not doing anything about, whether it is math and science, infrastructure, immigration. There is a lot of stuff where we are not doing anything.

As a result of that, I look at it and go, I need to plan for a low-growth environment. And when you look at a low-growth environment, we will say in the 2.5 percent range, companies generally don't need to hire, because they can be just that little bit more productive every year. And in a low-growth environment, you just don't need to bring any additional people on. In my view, we need to get growth up above 3 percent. And one of the ways to do that is to start addressing our debt now.

Mr. GARRETT. Thank you.

Moving on, Dr. Rivlin, when I was out of the room, you mentioned our need to do smarter regulation, right? So I want to ask you to elaborate on just one specific thing. We passed a bill that I spent a lot of time on to improve cost-benefit analysis over at the SEC.

I just want your opinion on that. We also introduced a bill that would require cost-benefit analysis over at the Fed on all of the regulations that they do now that they are encompassing the entire financial marketplace.

Is that the smarter type of regulation to which you are referring?

Ms. RIVLIN. I think cost-benefit analysis can be useful in figuring out where to go in regulation. It is very hard to do well, so I think just passing a bill to say we have to do it is just the beginning. It is really very hard to do well. But the basic spirit, yes, we need to look at, what is the cost of regulation compared to the benefits that we get out of it? That is important.

Mr. GARRETT. Yes, we are just trying to do the first step, just by getting the bill passed, and we are hoping that the SEC and then eventually the Fed will do the right thing.

So moving down, as I said, the President has been in office now for 5½ years, and you hear a lot of people outside this room and inside this room who say that the solution to the problem, the debt problem, is what, is just raising revenues, raising taxes, and if you do that, that will right the proverbial ship of state.

Wearing your former hat, I guess, or coming from where you did at the CBO, can you explain what the real-world impacts are once we get down the road, not too long from now, when we are going to hit over $800 billion in interest payments—and maybe you can estimate as to when we will be hitting that again—and what will be the impact on the economy when that day comes?

Mr. HOLTZ-EAKIN. When that day comes, you will have the Federal Government competing with the private sector for scarce investment funds. And we hope that we don't hit $800 billion until we are back at full employment, but from that point forward, those $800 billion in interest payments are going to—about a third of that is going to crowd out private investment. And that will hurt productivity. It will hurt the incomes and the job prospects of people in 2019, 2020, 2021, whatever year it is we hit that, and those are real-world costs.

It will also impede the flexibility of the Congress, which won't be able to spend the money on something else. It is locked into the budget. And if something untoward should happen, if we have another recession at some point, the ability to respond will be quite limited. And so it is a very negative, predictable impact. Plus, it impedes your risk management.

Mr. GARRETT. So hearing all that, but also hearing what some of the folks on the other side said during their opening comments, is it really credible to say that we are addressing our fiscal crisis, that we have been doing the right things over the last 5½ years, if that is the—what did you say—predictable pathway?

Mr. HOLTZ-EAKIN. We haven't addressed our problems in the past 5 years, not at all. Our problem is in the mandatory spending programs. And I have been saying the same thing for 10 years. This town loves to talk about tax policy. Great. Have a ball. Once you spend the money, you have to pay for it one way or another, and the spending is on the mandatory side. That is what we have to deal with.

Mr. GARRETT. Thank you. Thank you very much.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Texas, Mr. Green, for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman. I thank you and the ranking member for the hearing. I thank the witnesses for appearing today. And I would like to thank all of them, because some of your testimony, candidly speaking, has been a little bit surprising, but it has been pleasant to hear.

And, Ms. Rivlin, I would like to thank you for something that you said. You seem to have a little bit of consternation as to whether or not we will eventually do the right thing. And I want to assure you, ma'am, this Congress will do the right thing, after we have tried everything else. We will do it. So today, hopefully, will get us closer to the right thing.

Let me start with poverty prevention, if I may. There are programs, according to what the staff has accorded me, that have helped us prevent poverty from going to 29 percent compared to 16.1 percent in 2011. Let me pause and thank the staff, also, because the information that I have today is excellent, and I never want to neglect them, because they do outstanding work.

But I do want to ask this about poverty prevention. Do you consider Social Security as a part of the poverty prevention effort in this country? Has Social Security kept people out of poverty? Is Social Security a program, a safety net program worthy of maintaining because of the way it impacts poverty?

Mr. Bernstein, would you like to take that?

Mr. BERNSTEIN. Yes, very much so. If you took away Social Security from the elderly right now, their poverty rate would be 44 percent. That is a pretty scary thing to imagine. Adding Social Security back in, as we do in the real world, their poverty rate is 9 percent. Now, 9 percent seems high to me for our elderly population, but the fact that 44 percent of the elderly poor would be poor absent Social Security gets to the point that I was trying to make earlier, which is that while there is an appetite, I believe, from folks in this room today, and even some on the committee, to slow the growth of entitlement payments—and I share some of that appetite—it has to be done in a way that doesn't hurt economically vulnerable recipients, and most recipients are economically vulnerable.

This notion that you can balance these programs by significant benefit reductions is illusory, because once you go down that path, you are going to very quickly hit the very folks we are talking about right now.

Mr. GREEN. Thank you. Let's also talk for just one moment about the regulators. How important is it to fully fund the regulators, Mr. Bernstein? And what impact might fully funded regulators have on an economy?

Mr. BERNSTEIN. I think it is extremely important. And I noted in my testimony, as I tick through some of the areas that this committee oversees, talking about financial stability and consumer financial protection, I think we tend to have very short memories when it comes to regulation in this country. And as Alice said a few minutes ago, there are definitely costs, but there are also benefits.

And the reason we are here talking about large debt levels and climbing out of the deepest recession since the Great Depression is because we had a housing bubble that was driven by financial practices that were, I think, widely recognized at this point to be terribly underregulated and got us into this mess in the first place. So the notion of regulating systemic risk and consumer protection in financial areas under this committee's purview is essential.

Mr. GREEN. Thank you. And I will use the remaining time to make this brief comment, Mr. Chairman.

I think that when we sent our troops into harm's way, we did it off-budget and there was no question as to how we would fund it. I am picking up on something that Reverend Scott to my right said, with our veterans. When they return, it really is sinful to talk about, how are we going to fund the programs that are necessary to reintegrate them into society?

I am not saying that is not a good discussion to have, but if you are going to have it, you should have it when you send them and you should have it when you bring them home. To treat them with anything other than that level of respect, in my opinion, does not serve us well.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Mr. Cote, you have an international company, and you do business on an international basis, and I am sure you compete with other businesses around the world. How do you believe that whenever you are competing for business in other countries, they take our debt into consideration, when they are looking at doing business with you, doing business with other companies? Is that a factor in your business at all, do you believe?

Mr. COTE. Do you mean in terms of how other countries look at us?

Mr. LUETKEMEYER. Right.

Mr. COTE. At Honeywell as a competitor?

Mr. LUETKEMEYER. Right.

Mr. COTE. No, I don't think so.

Mr. LUETKEMEYER. Okay. You do business with them, though. Do you have a sense that they have a consideration of our debt as a concern?

Mr. COTE. That part they definitely do, not so much in, say, dealing with us, but I do get comments in other countries that I go to wondering when we are going to do something. They all recognize that it needs to happen.

Mr. LUETKEMEYER. Okay. Can you elaborate a little bit further? Okay. How many of them talked to you about this, all of them, some of them, just a few?

Mr. COTE. I think some of them. I travel extensively. In this job alone, I have been to over 100 countries over the last 12 years, so I end up in all kinds of conversations with all kinds of people. But I would say, it is certainly something that they are all aware of.

Mr. LUETKEMEYER. I know, sitting on this particular committee, we have the opportunity to meet with a lot of foreign finance ministers around the world, and these finance ministers, especially from Europe, sometimes come in and they—one of the questions I always ask is, when do you get your economies going? Because you can keep stretching out your debt forever, but until you get your economy going, you can't pay it down.

And we are in the same situation. We have to get our economy going so we start paying it down. But I think all of you this morning have sort of hit on what I believe we have to have—I don't necessarily like the words "balanced approach," but I think you have to both cut spending and you also have to generate revenues. That is pretty obvious.

But I think, as I go back home each weekend—and we have a district workweek each month—you talk to the small business people, even some of the larger businesses in my district, they are sitting on a lot of cash, but they are not going to do anything because the uncertainty that is in our economy right now. And most of it is caused by the Federal Government, either with our tax policy, our regulatory policy, some of them trade policy. For the bigger guys, it is trade policy. But for most of the small folks, regulatory policy is their biggest concern.

And as the chairman indicated in his opening remarks, Obamacare is a big part of it, but it is all of the regulation together, whether it is DOL, the tax situation, it just is continual intrusion into their business that causes a level of uncertainty.

And so until we get our heads wrapped around that and kind of stop this nonsense, I am not sure we are going to see any progressive improvement in our economy. The growth that we have experienced is basically all due to the energy sector of our economy. The rest of it has been flat over the last year, 2 years, 3 years.

So I am just kind of curious, Dr. Holtz-Eakin, you have a tremendous background in this area. Can you tell me, at what point do these regulations become so punitive that it drives everybody out of business? We are close to that already, I think. But do you think they can hold on for a while yet? Or where do you see us headed with the small businesses, especially?

Mr. HOLTZ-EAKIN. I am deeply concerned about the burden cumulatively on them from the spending that leads to the debt, the regulatory environment. I think Dr. Rivlin has it right. This is a very resilient economy. I am stunned again and again at the capacity of it to recover and grow, but you have to be respectful of the burdens that we are placing on it.

And so when I think of the idea of doing cost-benefit analysis, I applaud that. Even though it can't always be done as well as we would like, the discipline of sitting down and saying, "What are the costs and what are the benefits of this? And does it make sense to launch into this?" is very useful. The thing I would urge the Congress to do would be for the first time to look back at existing regulations and take off the books some things that don't merit inclusion anymore. We never get rid of regulations. And that is a problem.

Mr. LUETKEMEYER. If we don't get our economy going, at what point—whenever we passed our budget resolution back in December, a lot of the ratings agencies were ready to downgrade us if we didn't do that. And at what point do you believe that they will start downgrading us or the markets will stop buying our debt?

Mr. HOLTZ-EAKIN. I believe that our most likely scenario is we go out 10 years and we are a slow-growth economy still, low wage growth, a very, very frustrated populous. And at that point, 10 years from now, the rating agencies are going to have to be concerned about our ability to service our debts, no question.

Mr. LUETKEMEYER. But they are already raising alarms. We just need to be listening to them.

Mr. HOLTZ-EAKIN. Yes, I think the thing to worry about is not the apocalyptic crisis hitting in the next 10 years, but the consequences of doing nothing after a bad economic performance for a decade.

Mr. LUETKEMEYER. Very good. Thank you. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

And with all due respect to the earlier opinion of the gentleman from Texas, we will now yield to the real reverend in the room. The Chair now recognizes the gentleman from Missouri, Mr. Cleaver, for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.

Dr. Bernstein, in response to Congressman Green's question about Social Security, the number of elderly, was that 44 percent on top of the existing percentage of seniors or Social Security recipients? Or is that the total, 44 percent of—

Mr. BERNSTEIN. That is the total percentage of seniors, 65-plus, who would be poor if we took Social Security out of the picture. Instead, the actual poverty rate for them is 9 percent.

Mr. CLEAVER. Right, yes. Yes, that would include my 91-year-old father. My three sisters and I were trying to figure out if he ever missed a day at work that we can remember. He remembers too much. But one of the problems we are having is—I don't think people realize who we are talking about when we talk about the poor.

And all of them are Americans, but one of the interesting things—my district was changed with redistricting. I now represent three of Ike Skelton's former counties. And one of the things that I have discovered—in fact, there was a chart in Sunday's New York Times, the highest growing areas of poverty in the United States are the rural areas. And in my three rural counties, the percentage of individuals on some kind of Federal food programs, SNAP and so forth, the percentages are higher than in Kansas City, which is the largest city in my district.

I don't think people realize that there is a symbiosis with rural and urban. And so because we have in our heads decided that when we talk about poverty, we are talking about urban centers, I think it does some damage, some distortions to the conversation.

And prior to the 2008 expiration of the farm bill, the Department of Agriculture made 400,000 payments in terms of safety net payments, 400,000, and if they had had the money, it would have gone another $500 million. These are farming areas, rural areas. And so, I think we have to re-design the discussion.

Minimum wage is $7.25, $2.13 for tipped individuals. So I would like to hear from all of you—is there a need for—I really would like if we had more time for you to talk about the need to change the discussion to Americans, but I want to find out if you can—if you can talk about the minimum wage and the need for raising the minimum wage.

This year, the value of the minimum wage is scheduled to drop 1.7 percent. And if it continues to go in that direction, we are going to make more and more poor people who work every day. Can I just get a response from all of you?

Mr. BERNSTEIN. I think it would be very helpful to raise the minimum wage to boost the earnings of some of the very constituents you are talking about. A recent analysis by the Congressional Budget Office found that an increase of the type that you are describing would lift the pay of 24.5 million people. Now, it would also displace 500,000, but once those persons got a new job, that job would be a better job.

Mr. HOLTZ-EAKIN. I would just politely disagree. I think it is a case of someone's heart being in the right place, but it is a bad policy. The dividing line between poverty and non-poverty in the United States is having a job. And the minimum wage does not help people get jobs. It harms their chances to get jobs. It is also not targeted very well on poor people.

In the same CBO study, of the $31 billion that would be generated, only 19 percent went to people in poverty. So we can do better in worrying about the poor than to raise the minimum wage. I think it is a mistake at this point in time. The evidence is in the teenage unemployment rate that is over 20 percent. We continued raising the minimum wage through the Great Recession, and those workers are now priced out of the labor market. We can't do that again.

Ms. RIVLIN. I favor raising the minimum wage, which hasn't been raised in a long time, but I think even more important is to raise the Earned Income Tax Credit, which is a more effective, more targeted way of reaching low-income people. And I also think it is a mistake to think that anybody who is in favor of controlling future deficits is against poor people. That is not what this is about.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, for 5 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman. I appreciate that.

And if I could just revisit very briefly with Ms. Rivlin here, what you were just saying, a long-term—if you could just maybe repeat or repackage what you just said about long-term deficit restraint not being an attack on the poor. I don't want to mischaracterize. I just want to make sure I was clear and understood what you said.

Ms. RIVLIN. Yes, that is what I did say. I think we have a serious poverty problem in the United States which needs to be attacked by raising incomes of low-income people and the opportunities to get out of poverty, but also the bad effects on the economy, which we have been discussing here for a long time, of not addressing our long-run debt, the increase in debt faster than the economy can grow, will injure the low- and middle-income people most, much more than higher-income people.

Mr. HUIZENGA. All right, good. I just wanted to make sure I understood that, and I would wholeheartedly agree. And I had the pleasure and the opportunity to serve a former member of the Budget Committee, Peter Hoekstra. I served as his District Director for 6 years. It was early 1997 when I sat down with Pete and a guy named Mark Neumann from Wisconsin. John Kasich was Chair of Budget at the time. And I clearly remember Congressman Neumann at the time saying, "Pete, we are going to come into balance this year. And if not this year, it is going to be by the second quarter next year of where we are going."

And as these policy wonks were diving into the numbers and all those things, it came to light and it came very apparent that it was mostly based on two things. First, our restrained—not cut, but restrained—rate in the government growth. And second, economic activity. The economic activity that was being spurred along, some of—I remember the debate well. A lot of it was pent-up demand. A lot of the same things that we are even talking about now, seeing some of the economy going in, in where we are currently.

What I am concerned about is when we are using $230 billion, $240 billion to service our long-term debt, how long before we see interest rates go up—we have had Chair Yellen in those very seats. We had Ben Bernanke prior to that. Every person on the Fed has indicated which direction those interest rates are going, which is up. And I am concerned that with that level of debt that we have, as we see on the debt clock over here, servicing that debt, when we just go to where Germany is, much less Greece and Italy and Spain, that we are going to swamp the boat here. Is that not fair? A fair characterization, at least?

Ms. RIVLIN. No, I think that is a fair characterization, if we don't act, but we need to act sensibly and on both sides of the budget and to phase in reforms, in both taxes and entitlements, that will reduce the debt over the long term.

Mr. HUIZENGA. The other thing that I am very concerned about—and I just met with someone who is in the venture capital space and management space—and we were having this discussion about what is going to pull us out of this debt situation, what is going to pull us out in the long term? I have seen some projections that anywhere from a 6 percent to an 8 percent growth rate would need to happen here in the United States for us to take care of what our spending problem has created.

And I know China is going into a tailspin because they are going to drop to a 7 percent or 8 percent. We could only dream to be at that kind of growth rate. Dr. Holtz-Eakin, would you mind maybe addressing that a little bit? And, Mr. Cote, I would like to hear from you, as well, what that would mean for your business, really quickly?

Mr. HOLTZ-EAKIN. It is very simple, and it has been true for a decade. We won't grow our way out of this problem. We will not tax our way out of this problem. The problem is the growth in the spending programs driven by demography and health care costs, and you have to get that. That is it.

Mr. COTE. And I would agree. There is no way we can grow our way out of this. And getting back to your first point, with $20 trillion in debt and a 5 percent rate, which is not a crazy number, that is $1 trillion a year in interest, and it starts to feel more like a credit card where you just can't get ahead of it at that point. We are better off addressing it now.

Mr. HUIZENGA. I appreciate that. And my time has expired, but that is exactly where, when I talk to especially the younger generation, they are just starting to figure out that the math isn't adding up.

So thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has, indeed, expired.

The Chair now recognizes the gentleman from Delaware, Mr. Carney, for 5 minutes.

Mr. CARNEY. Thank you very much, Mr. Chairman. And thank you for having this hearing today. It is very interesting and very important.

The title is, "Why Debt Matters." We seem to have lost a little bit of focus on this issue recently, because of the agreement, the budget agreement for this year and for next, all the focus when we had deadlines, the deadline on the debt ceiling, the deadline on shutting down the government, kept a really, I thought, important focus on solutions to this issue, so now we don't—there is not a lot of discussion, so this has been very helpful.

I am fairly new to the body. I was elected in 2010, one of the few Democrats. And when I first arrived here, I learned pretty quickly that we had a big fiscal problem. I am a former secretary of finance for the State of Delaware. We had to balance our budgets every year, and we had to make the difficult decisions in order to do that.

We don't have to do that at all here, in terms of making those difficult decisions. There is a group—some of you are part of that or are aware of it, certainly—called Fix the Debt. And they have a spreadsheet of things that Congress could do to address some of these fiscal imbalances. I have been doing that as part of a group that I chair with Democrats and Republicans in going down the individual list.

It is not easy, particularly when you get people in the room who have different perspectives on taxing, on spending, on how to address the issue of the poor and the like. One of the things that struck me over the last couple of years, Ms. Rivlin, is your co-chair, I guess, former Senator Domenici, who said that it is really all about health care. And I remember in a session with Maya MacGuineas, I asked her, so what are the solutions for health care? And she didn't have any good ones. Do you? Does anybody at the table have any suggestions with respect to what we do to bend the cost curve down for health care?

Ms. RIVLIN. Yes. I think there are quite a lot of things that we can do. And some of them are in process already and I think are already having an effect. A really important thing is to move away from the fee-for-service system of compensating providers, which incents them to provide more services, rather than better services. And accountable care organizations—

Mr. CARNEY. We talk about that all the time, by the way, pay for performance and all that. It is hard to do.

Ms. RIVLIN. It is hard to do.

Mr. CARNEY. Practically.

Ms. RIVLIN. And that is why it is a work in progress.

Mr. CARNEY. Right.

Ms. RIVLIN. But I think payment reform and more competition in the health system are both part of the solution.

Mr. CARNEY. Thank you.

Dr. Bernstein?

Mr. BERNSTEIN. A few ideas that kind of hitchhike off of where Alice stopped. What seems to be helping so far—and, again, we don't know how deep this is, in terms of whether it will stick, but we have seen very notable progress in recent years in slowing the growth. We have actually bent the curve. Whether it stays bent remains to be seen.

Efficiencies have occurred in bundling care, reducing unnecessary testing, and reducing hospital readmissions. All of those have made a notable difference in moving, as Alice suggested, from quantity to quality. The one area where we haven't done nearly enough is in the price of medication. There have been some extremely, I think, compelling exposes of the amount that we spend on medicine that in other advanced economies is a fraction of ours. I think that is a rich area of pursuit, and it will be—

Mr. CARNEY. One of the targets, by the way, on that list, all the things that you mentioned are on the list that Fix the Debt is— Dr. Holtz-Eakin, did you have—

Mr. HOLTZ-EAKIN. I would just say two things. The first is, I think it is important to continue on this and not to get complacent. It is true that health care spending has grown more slowly recently, but that happened in the mid-to late-1990s for 4 years, and it came right back.

We are coming out of a recession. The Affordable Care Act is intended to have people spend more on health care, so there are a lot of things that could go the other direction.

The second is, the strategy cannot be just cutting reimbursements to providers. We have done that before. It has always failed and been unwound. And then I think in the things that the Congress is looking at right now, there are two places where we are making a mistake.

One is too aggressively cutting Medicare Advantage payments. It is the one thing that is not fee-for-service. It is not perfect. A lot of things are wrong that could be fixed, but it is not fee-for-service. We need to move people in that direction. And home health, where it is the one place with a very elderly and frail population, we get the care coordination that keeps people out of the hospital.

Mr. CARNEY. Mr. Cote, last word, really quick?

Mr. COTE. Yes, Erskine Bowles and Alan Simpson issued Simpson-Bowles 2.0 specifically for this, and that is about 20 line items, and I would be happy to forward them to you.

Mr. CARNEY. Great, thanks very much.

Thank you, Mr. Chairman.

Mr. HUIZENGA [presiding]. The gentleman's time has expired.

And with that, we go to the gentleman from Wisconsin, Mr. Duffy.

Mr. DUFFY. Thank you, Mr. Chairman.

I thank the panel for coming in today and, frankly, to see the bipartisanship, all agreeing that we have a problem with our debt is nice to hear.

Many people on this committee have a majority of their constituents who are not millionaires and billionaires. Most of them are middle-class Americans. Many of them are poor Americans. And so, I think there is a consensus that we want to look out for those who are less fortunate in our districts and middle-class Americans in our districts.

So I just want to get all of your opinions, that if we stay on the current course, we don't change, no modifications, can we just raise taxes on millionaires and billionaires, bring in enough revenue, and sail on our merry way? Is there enough money with millionaires and billionaires to fix our problem? Can we fix the problem there, Mr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. No.

Mr. DUFFY. Mr. Bernstein?

Mr. BERNSTEIN. No.

Mr. DUFFY. Ms. Rivlin?

Ms. RIVLIN. No, but that doesn't mean that we shouldn't reform our tax system in a way that gets rid of a lot of special privileges for upper-income people. If we do that, we can lower the rates.

Mr. BERNSTEIN. It is a good place to start. But you can't finish there.

Mr. DUFFY. Mr. Cote?

Mr. COTE. I would say the answer may not always be as credible coming from me, but the answer is still no. It is not.

[laughter]

Mr. DUFFY. Point well made. And I think—my point for bringing that up is, we can't get a consensus about changing the drivers of our debt, modifying it, and I think some who don't want to change the current system continue to argue that we just go after millionaires and billionaires and we are fine. And I think the point that you all are agreeing to is that you can go there, but you can't get all the money there if you don't change. You are going to go for middle-class Americans, aren't you? You are going to go for poor Americans, correct? Mr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. Yes, I think it is very important to recognize that if you sort of follow that line of reasoning, so you go get the millionaires and billionaires first, that staves off a little bit of the problem, the deficit narrows, you put off fixing the spending program, but the problem hasn't been solved, so now the mandatory spending ramps up and you have a big deficit again. What are you going to do?

As I pointed out in my testimony, in the end, you are going to raise a lot of taxes. You have already used up the rich people.

Mr. DUFFY. Who is next, right?

Mr. BERNSTEIN. Can I just say, I don't disagree with that analysis. Actually, I agree with it. The one thing I will say, though, is that if you look at where all the growth in this economy over the last, say, 4 or 5 years, even going back further has accumulated, it has been at the top of the scale. Middle-class people, the folks you are talking about, really have gotten very little out of the economy's growth going back a few decades. And so in that sense, there is a logic to that is where you start. That is all.

Mr. DUFFY. Sure. And I am not going to go there, because I could talk about what is happening to our forestry industry in Wisconsin, what we are doing with energy exploration, what we are doing with mining, rules and regulations that impact manufacturing in my community. We will stay away from that. We are having a debt hearing here.

And, Ms. Rivlin, you are not considered a rabid conservative, are you?

Ms. RIVLIN. I hope not.

[laughter]

Mr. DUFFY. I would think not. And you agree that—listen, if we are looking to fix this problem, it is not inconsistent to say we are looking out for poor Americans and fixing a future debt crisis, right? As a nonconservative, you would agree with that statement? And you have made it here, right?

Ms. RIVLIN. Absolutely. We all have a stake in this, especially people who don't earn enough.

Mr. DUFFY. And, Mr. Bernstein, you are making comments about what happens to our seniors today who make $24,000, $25,000 a year. I have a lot of those people in my district. I am concerned about what happens with these programs for them.

But 15 years from now, there will be another group of seniors who are going to retire, right? And they are going to be making $24,000, $25,000, $27,000 a year. And if this system isn't fixed, these programs won't be available for them, will they?

Mr. BERNSTEIN. No, they will be 75 percent available to them, but that is not adequate. So, I agree with your point.

Mr. DUFFY. So we are cutting our future poor seniors, if we don't fix—

Mr. BERNSTEIN. My only point is, don't break Social Security to fix Social Security. In other words, if someone says, fix Social Security, I am not sure what they are saying. If they are saying, let's broadly cut benefits across the scale or slow the growth rate of benefits across the scale, you are going to end up hurting people who actually depend on that income. That is the point.

Mr. HOLTZ-EAKIN. Can I—

Mr. DUFFY. And by not fixing the problem, you are going to hurt poor people and those who haven't saved as much as they should have either way? Mr. Holtz-Eakin, you have—

Mr. HOLTZ-EAKIN. I think that is unnecessarily alarmist. There have been a lot of Social Security reform plans. Dr. Rivlin is the author of some of them. All of them involve raising the minimum benefit. People are very cognizant of the need to fix the system and take care of poor people, but I don't think this is even on the table.

Mr. BERNSTEIN. I think it is on the table, because it is not just the minimum benefit. Remember, I am talking about the median recipient.

Mr. DUFFY. And just—I have to yield back in one moment, but when—maybe we have—

Mr. HUIZENGA. Or right now.

Mr. DUFFY. Or right now. I think—

[laughter]

Willie Sutton said he robs banks because that is where the money is. I think, as you said, Ms. Rivlin, in health care, that is where the money is, and I think that is where the conversation has to start. I yield back.

Mr. HUIZENGA. The gentleman from Wisconsin kindly yields back.

And with that, we go to the gentleman prepared for the snow today in his sweater, Mr. Himes from Connecticut.

Mr. HIMES. Thank you, Mr. Chairman. And let me thank you all again. We are deep into hour number 3, and I really appreciate your work.

I sometimes joke that in the last 5 years, I have put on probably 10 pounds in various dinners with Maya MacGuineas and Alan Simpson and Erskine Bowles and others. You have been in those rooms, too, really helping to educate us, and thank you for that commitment and for your time today.

I have actually been encouraged by the fact that the conversation, I think, has been pretty real today. We have minimized the partisanship and the politicking. So I want to just ask three categories of questions. The first is, one of the things that I think has actually set us back, perhaps more on this side of the aisle than the other, is that for the last 5 or 6 years, we have heard these constant sort of apocalyptic warnings that we are 1 week from being Greece, that we are, as Alan Simpson—and don't get me wrong, I have an immense amount of respect for him—labeled it, the moment of truth, the possibility that we are months away from skyrocketing interest rates. I understand this is a difficult question, but I think it is important.

The kind of specter of skyrocketing interest rates, a loss of faith in the U.S.'s credit, is anybody willing to sort of offer a projection? Are we weeks, months, years, decades? How long do we have? Because I actually do think we will address this problem. How long do we have?

Ms. RIVLIN. I think we are quite a long way from an apocalypse of a sovereign debt crisis, but that doesn't mean we can wait to fix the problem, because the things you need to do to fix it take so long to phase in, if you do it sensibly, that we needed to start 2 years ago or 20 years ago to do them right, and now it is the time to start.

Mr. COTE. I find it interesting, with a prediction of a crisis, that there is oftentimes a feeling that you can just start from where you are and then start drawing the line. Then it is just a linear growth of what the explosion possibility is, when in reality you can't predict when the herd turns. And when the herd turns, it is too late.

And to the extent that you wait to find out when that is, that is going to be extremely painful for everybody, so it is not predictable. The specter is there, but none of us knows exactly where it is and when that herd turns against you. And when it does happen, it is too late.

Mr. HIMES. I appreciate that. So it is fair to say—and I completely agree—it is better to have addressed it long ago or now than to postpone. But it is fair to say that we are not a year or 2 away from skyrocketing interest rates—and, Ms. Rivlin, you said apocalypse, but this is not a next week or a next month problem?

Ms. RIVLIN. Yes, I agree with that.

Mr. HIMES. Okay, all right. Let me—one of the really disheartening things that occurred in the last couple of years was the President, at great cost to his own standing with his party, in his last budget offered meaningful and uncomfortable entitlement reform, so-called entitlement reform, in offering up the chained CPI. It is real. That is real money. It hurt him with his party. It hurt him with progressives, because, of course, chained CPI means that some of our least wealthy seniors will get a little less money in their Social Security checks in the months and years to come.

That good-faith and costly attempt at entitlement reform was met with the head of the RNCC saying, "We will attack the President for hurting seniors." So that gives you a sense for the challenge that we face when partisanship torpedoes costly and good-faith efforts at entitlement reform.

So my question is, I do actually believe that most people in this room want to see Medicare and Social Security reformed for the long run in a way that insulates the disenfranchised and the vulnerable. I only have a minute. But I am wondering if you could each perhaps give us 2 or 3 thoughts on those actual initiatives within Social Security and Medicare that we should be willing to embrace on both sides of the aisle to achieve this.

Mr. HOLTZ-EAKIN. I would say just one thing. I think both sides of the aisle have to be very clear to the American people that these programs need fixed. And until we stop pretending they are fine—you can keep Medicare as you have and Social Security as we know it—then any attempt to change it proceeds to be either partisan or pernicious in its foundations. We have to explain to them that the changes are necessary, the number-one—

Mr. HIMES. No, I hear that. I asked for specific measures. And I hear you. And, look, it is a tiny minority of my colleagues who actually will stand in front of anybody and say this is fine into perpetuity. I think it is a little bit of a straw man.

I am asking, what two or three things should we embrace across the aisle to address this problem?

Ms. RIVLIN. I think it is a package. And the mistake of the President was to pull out that one thing. I would favor chained CPI as part of a Social Security reform that included an increase in the minimum benefit and the benefit for people who live a very long time, but a reduction in the revenues over time—in the benefits over time of very high-income people, not to zero, but phase it down, and increase in revenues. I think we should raise the cap on the Social Security payroll tax going forward.

Mr. BERNSTEIN. I was going to agree with raising the maximum cap, as well as another idea that was in Rivlin-Domenici, which had to do with taking some revenue from the employer tax exemption for health insurance. It is worth looking into. It is a little more than we can get into right now—

Ms. RIVLIN. Yes, that is very important.

Mr. BERNSTEIN. —but I think it is a good idea.

Mr. COTE. Chained CPI is one that always made sense to me. On the other side, I have always wondered—20 years ago, I was saying, I can't count on Social Security being there for me, yet I am going to receive it. Great.

Mr. HIMES. Thank you for your forbearance, Mr. Chairman.

Mr. HUIZENGA. Yes, it is a rookie Chair mistake.

[laughter]

I got caught up in trying to make sure that we were equitably distributing our time here, and you snuck one past me. I guess maybe that was a make-up for the sweater comment.

So with that, we go to Mr. Mulvaney from South Carolina for 5 minutes.

Mr. MULVANEY. I thank the chairman, and I thank the participants. I always enjoy the opportunity to do this. I always enjoy the opportunity to sit down and talk about these very important issues. Obviously, it is a pleasure to have a chance to listen to Ms. Rivlin and Mr. Holtz-Eakin, for whom I have a great deal of respect.

I don't know you, Mr. Cote. It is the first time I have met you, but I have enjoyed what you have had to say today. Mr. Bernstein, you know that you and I don't agree on many things. And as someone who is trained in economics, not in music and social welfare, as you were, to hear your comments on economics is sort of like listening to somebody scratch a blackboard, but, still, I appreciate the opportunity.

And then I sit here and I wonder, does it really make a difference? Are we really accomplishing anything? We are sitting here today. We are trying to make our points. The other side is trying to make their points. And we are not going to fix this. We have a leader in the White House who refuses to engage, someone who doesn't even—many members of this committee don't even know who the White House liaison is.

You are not going to solve this problem without leadership. They are not going to convince us that Mr. Bernstein is right. We are not going to convince them that Dr. Holtz-Eakin is right. That takes leadership and the type of leadership that traditionally in this country has come from the White House. Whether it be Ronald Reagan or Bill Clinton, we have had a President who was willing to engage on the difficult issues to try and drive some sort of resolution to these very, very complicated issues.

And if we don't get that, then the really important thing is something entirely different we haven't discussed here. The really important thing then is, if we don't fix it, all that really matters is, who is in charge when it breaks, us or them? That is what it comes down to. That was the issue in 2008, when we had the Great Recession, and the other side was entirely in charge and we had stimulus and bailouts and monetary policy that makes many of us pull our hair out.

So the question becomes, who is going to be in charge the next time the system breaks? Who gets to fix it, us or them? So I think it is important that everybody knows who we are and what we stand for, who they are and what they stand for, and then they can decide.

So with that, Dr. Bernstein, if I utter the phrase to you, "From each according to his abilities, to each according to his needs," do you look upon that generally favorably or generally unfavorably?

Mr. BERNSTEIN. Generally favorably.

Mr. MULVANEY. Thank you, sir. I have no further questions.

Mr. HUIZENGA. The gentleman yields back in a very unusual move, giving up time, but I appreciate it.

With that, we go to Mr. Foster from Illinois for 5 minutes.

Mr. FOSTER. Thank you, Mr. Chairman.

And, let's see. I believe I had a slide coming up on the monitor, which maybe we caught the monitor operator golf cart. This is the graph that I hope—there it is. This is Peter Orszag's graph of the year, which shows the bending of the cost curve. The fraction of GDP devoted to Medicare spending both current to the current law projection and according to what is—what you would anticipate according to the measured growth rate from 2008 to 2012.

As a scientist, I am very data-driven, and so I think it is very interesting to look at this and to see that, instead of rising from 3.5 percent to roughly 7 percent, that actually if you look at the data for the last 4 years, you will see that it affects—it bumps up slightly as the boomers retire and need the Medicare, and then goes back to 3.5 percent.

And so my question, if this is, in fact, the way things play out, if we have, in fact, bent the cost curve, with a combination of the stimulus spending and medical health records and everything in Obamacare, the restructuring of the medical industry simply to be more—you can argue about what the reason is, but if this is the truth, this is the way things play out, is it broken? Is it a crisis?

Mr. BERNSTEIN. If costs truly grow in the health care system at 3.5 percent instead of 7 percent for all those years—

Mr. FOSTER. This is not a—this is the fraction of GDP, right? The—

Mr. BERNSTEIN. Oh, okay.

Mr. FOSTER. The Y axis is the fraction of GDP currently—roughly 3.5—

Mr. BERNSTEIN. Same comment. As a fraction of GDP, if those costs stay there, Medicare spending stays there as opposed to the blue line, we have successfully bent the cost curve, which is—as I think all of us have said—an essential goal of achieving a sustainable budget path. I actually think there is no sustainable path that doesn't pass through that gateway.

The question is, the gains that have been achieved, 2008 to 2012, are assuming to continue to 2085. That is a very broad assumption. I very much hope it is correct, and I also very much—and I am a student of Peter's work on this—believe that he is on the right track when he identifies the very mechanisms, some of which you ticked off, that appear to be working.

So what I have said in my testimony and what I come from—and what I take away from that graph is that we have to monitor these gains and make sure that they stick. The last thing you would want to do is to repeal measures that have helped to generate them.

Mr. FOSTER. Okay, thank you. Ms. Rivlin?

Ms. RIVLIN. I agree with that, but I think we need to work very, very hard to make sure that curve doesn't start accelerating again, because there are extreme upward pressures. Doctors are learning every day how to do more things and extend life, and some of those things are very expensive. So we have to keep working on, how do we keep that curve bent?

Mr. FOSTER. All right. But if we succeed at bending the medical curve like this, then can we solve it much less painfully on the revenue side?

Ms. RIVLIN. Yes. If health care spending isn't going up faster than GDP, we have a much smaller problem to solve.

Mr. FOSTER. Mr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. I would just worry about the timescale on that. You will notice that it keeps going up through—it looks like 2035, and we are already at 78 percent debt-to-GDP at the end of the budget window, Social Security is going up, this is going up, all the other health programs go up. I am not sure you get to the part where it goes down. We have a big fiscal problem, and we need to fix it.

Mr. FOSTER. Yes, Mr. Cote?

Mr. COTE. Yes, from my perspective, given the 30 years of history prior to that, I don't know that I would bet on this unique 5-year period following the Great Recession as indicative of what the future is going to be. So I have all the same cautions that the other witnesses expressed. I hope it works out this way. It will clearly make it better. But I sure wouldn't bet on it.

Mr. FOSTER. Yes. In fact, it is my belief—this is only through 2012—that 2013 numbers are, in fact, lower, so that we are, in fact, better off than the dashed red line. This plot is about a year old.

Let's see. If I could change subjects a little bit, there was some discussion about uncertainty. And there are several things that have come through this committee having to do with uncertainty generated by government. And one of the big things that people come to me with is the business of terrorism risk insurance and that there are a number of contracts that have this written into it. If it is not reauthorized, there is a big problem with a very large number of commercial agreements.

And I was wondering if you agree that this is a significant contributor to uncertainty when these key programs, like terrorism risk insurance, like the Export-Import Bank, and whether even a 30-year mortgage will exist, if this also contributes to uncertainty.

Mr. BERNSTEIN. Absolutely. I would argue even more so than some of the other factors discussed today.

Mr. FOSTER. Okay. Thank you, I will yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr, for 5 minutes. Oops, I'm sorry. Excuse me. Too quick. I recognize the gentleman from Illinois for 5 minutes, Mr. Hultgren.

Mr. HULTGREN. Thank you, Mr. Chairman. I appreciate that. Thank you, Mr. Barr, too.

Thank you for being here. This has been a very interesting hearing for me and an important start, and I think we would all agree that this is such an important start. So, Mr. Chairman, thank you for doing this. I look forward to these next months that we can hopefully really dig into this and see some significant steps.

Mr. Cote, I want to start with you. First, I want to thank you for your great work. Another thing I am passionate about is STEM education and I appreciate you, I think, being recognized as one of the 100 CEO leaders on STEM education. Thank you for your great work there. That is very important for all of us, as well.

I want to ask you—I know, with your role at Honeywell, you have had a great opportunity to meet with other business leaders around the world, world leaders. I know you have touched on this a little bit, but I wonder if you could talk a little bit more about how you hear for them, their perspective of our debt, impacting our competitiveness on the world stage.

Mr. COTE. I think the way to think about it is that when you look at developed economies, everybody is looking to us to provide leadership for how we are going to get out of this thing. And I am struck by a comment that the ambassador from Romania told me at one point, and this is when I was on the Simpson-Bowles Commission. His comment was, "We really hope you address your debt."

And I said, "Well, yes, I understand, and it is important for us." And he said, "No, no, it is not just important for you. It is important for us, because in a lot of our countries, we look at it and say, if even the United States can't figure this out and we count on them being the people to provide leadership, then what are we going to do?

That really struck me at the time. And I said, that is a very good point. We need to provide leadership to the world. If you take a look at, whether it is Europe, the United States, Japan, or India, everybody is dealing with these big debt problems. This is an opportunity for us to provide leadership to the world.

Mr. HULTGREN. Thank you. I agree.

Let me—Mr. Cote, in your testimony, you talked about how this isn't just a Wall Street problem, but also a Main Street problem. In my opening remarks, I mentioned something that I hear all the time from my constituents, that life is less affordable these days. Even people who have been working, haven't lost their job, to them, life is less affordable.

I wondered if you could—I would open it up to any of you for a quick comment on, how do you see this impacting costs of goods, daily goods that people use, the fact that the debt is as significant as it is? Is there a connection of it really flowing down and impacting consumers? And I would open it to any of you.

Mr. BERNSTEIN. I don't see a clear connection between consumer prices. One of the things that tends to happen in the history of these variables, the economy slows down, the debt increases, and because of the economic slowdown, inflation tends to taper off, and that is what we have seen. So certainly there are longer-run stories where pressures could occur on interest rates and on prices, but in the near term, no.

Mr. HULTGREN. Does anyone else have any thoughts on this?

Ms. RIVLIN. I suspect—though I don't know—that many of—when many of your constituents say life is less affordable, they mean they aren't earning as much as—their incomes haven't gone up as fast as they expected them to. It is not so much the prices. It is the slow growth in wages.

Mr. HULTGREN. I am hearing both. Certainly, filling up your gas tank is one of those things that people feel. Like going to the grocery store, you just don't get as much, and I think all of this ties back together.

Dr. Holtz-Eakin, did you have—

Mr. HOLTZ-EAKIN. I think this is the key point. This has been a bad recovery from a jobs perspective, but it has been even worse from an income perspective. And so for those who have jobs, real wages aren't rising. And then, when you get spikes in food and energy prices, it feels bad. I don't think that is any—I think that is the key.

Mr. HULTGREN. Let me cover one last thing. I have just a minute left. But Dr. Rivlin mentioned the idea that part of the problem we have in getting this on the national agenda is our short national attention span. I wondered if you have any suggestions for us of how—what is one message that Americans need to hear from their Members of Congress so that they will focus more on this problem?

Ms. RIVLIN. I think the message is, we can get together across the aisle and fix it, rather than just talking about it. We need to be working on solutions.

Mr. HOLTZ-EAKIN. In my experience, no one cares about the Federal budget or the debt. They do care about the economy. And this is about better economic performance.

Mr. COTE. I agree on the economy. And what I would love politicians to be doing out there is talking about this as a holistic issue, not just a tax issue, not just a spending issue. Not just, "They are trying to take advantage of you. These guys ate your lunch." Rather, it should be a discussion about, "Look, we really have an issue here, and we have overextended ourselves, and we need to work together to figure it out."

Mr. HULTGREN. Yes, and my time is winding down, so I appreciate, again, all of you. Thank you for being here. And I do hope that this can be something we can come together on and find real solutions.

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

Chairman HENSARLING. The Chair now recognizes the gentleman from Maryland, Mr. Delaney, for 5 minutes.

Mr. DELANEY. Thank you, Mr. Chairman.

And, Mr. Cote, I liked the way you just talked about the holistic issue, because it seems to me that—and you touched on this, I think, beautifully in your comments—the issue we have is a competitiveness issue. And that competitiveness issue is informed by the big macro trends in the world, which are globalization and technology.

Unless we position ourselves as a country to spread out the benefits of globalization and technology more broadly around our society, we will continue to have the kind of economic picture we have today, which is very barbelled.

And that is really the central issue. Our debt is a problem. Our debt ultimately, we all know, threatens the republic, but it is a particular problem in that context, it seems to me. It is not a problem in terms of today, does it affect—and you have obviously—you are closer to this than I am, but does it affect hiring decisions? Or does it affect the cost of living of average Americans? Because the data would probably suggest that it doesn't, because our interest rates are so low, so even though the number is really big, the actual cost of the debt that is trickling down to consumers is not a big number.

So it seems to me this problem is, in part, being described incorrectly. And I used to say in, when I was in the private sector, that you can't solve a problem unless you can describe it well. We are not necessarily describing this problem well, because the problem with the debt is, number one, it does now and it will prevent us for a long time from doing the things we need to do to get our economy growing.

And it also puts us in a position that if something really bad were to happen at the same time rates were going up, and those things could actually correspond, we have very little financial flexibility, and that is just a risk factor that we are carrying with us as a Nation that we don't fully appreciate. In other words, we have no margin of safety right now.

You want to run the country with a margin of safety. I am sure you think about the balance sheet of your—you don't run at your maximum leverage all the time, because you never know what is going to come up, but part of the issue is I think we look at the $17 trillion number and we say, we have to get that to zero, right? And that is just a totally unrealistic way to look at this problem.

I am just interested in the panel's opinion on whether we are actually thinking about this the right way, because it seems to me what we should be focusing on is the ratio between our economic growth and our debt as a percentage of our GDP. If we could have economic growth at 3 percent, like, Mr. Cote, you optimistically mentioned earlier, and if we get our debt down to 1.5 percent of GDP, if we could do that, we are done, right?

Because it seems to me, over 20 years, if our economy grows at 3 percent, it will go from like a $17 trillion economy to a $30 trillion economy. And if we have 1.5 percent debt as a percentage of GDP over 30 years, it will go from like $12 trillion to $18 trillion, and so these ratios will go from 72 percent to 60 percent. That should be our goal.

Do you all agree that is the way we should be thinking? Because we don't actually have to have zero deficit as a country. And I think to think that we are going to have a deficit of zero in light of the demographics of our Nation right now, I just think is almost an unrealistic goal. And if you set an unrealistic goal, you can't achieve it, because people kind of give up before they start.

I am just interested—maybe I will start with Mr. Cote, and go quickly down the line—if that is the right framing for us to be thinking about this question.

Mr. COTE. I would have to run the math. Conceptually, what you said sounds interesting to me. My concern, though, would still be that we never forecast recessions.

Mr. DELANEY. Right.

Mr. COTE. And as I understand it, CBO is actually asked not to forecast recessions.

Mr. DELANEY. Right.

Mr. COTE. The thought that over the next 10 years there won't be another one and how bad might it be and what kind of firepower we need and what kind of hole does that dig for us, over the next 20 years with the demographic bubble really hitting us in the second decade, not this one, and the prospect of at least two recessions during that time, that needs to be factored into our consideration. And I am just fearful that it isn't.

Mr. DELANEY. Right. Ms. Rivlin?

Ms. RIVLIN. I agree with the general spirit of your remark, which is what matters is the ratio of the debt to the GDP. And, remember, we have run this experiment. After World War II, that is exactly what we did. We grew the economy faster than the debt. It was a big success.

Mr. DELANEY. But it seems to me, if we do what we all know we have to do—there is a screaming need in this country for us to reform the entitlement programs and the mandatory spending programs. We cannot get the debt as a percentage of GDP down to that kind of 1.5 percent level, unless we do that. And we need to do things, Mr. Cote, you spoke about, in terms of a competitiveness agenda.

And whether the number is 2 percent, 2.5 percent, or 3 percent economic growth, because you are right, 3 percent is good years, you get a couple of recessions along the way, it averages down to 2.5 percent, that math still works, if we can get 1.5 percent to 2.5 percent.

Dr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. I am just going to agree with what has been said. The key indicator is debt relative to GDP. Our goal should be to stabilize it as quickly as possible and then send it south. And the—

Mr. DELANEY. Where do you think across, say, the next 10 or 20 years, the deficit as a percentage of GDP is a reasonable target for us?

Mr. HOLTZ-EAKIN. I wouldn't target the deficit. I would target the debt. Get the debt down, by either growing rapidly—

Mr. DELANEY. To what percentage of our economy?

Mr. HOLTZ-EAKIN. Get it back down to 30 percent, please, quickly.

Mr. DELANEY. You think the—

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr, for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman. And I appreciate my friend, the gentleman from Maryland's, comments and questions relating to competitiveness and relating to the screaming need for entitlement reform, as he suggested. I agree with him, and I appreciate his perspective.

To the point of competitiveness, Dr. Rivlin, I have a question for you. I wanted to ask whether you believe that raising taxes is a solution from a competitiveness standpoint or whether raising taxes would be a self-defeating effort.

And I would reference a couple of observations about this, one from former CBO Director Peter Orszag, who said that tax rates would have to be raised substantially to finance the level of spending that we are projected to pursue on the baseline. The tax rate for the lowest tax bracket would have to be increased from 10 percent to 25 percent. The tax rate on incomes in the current 25 percent bracket would have to be increased to 63 percent. And the tax rate of the highest bracket would have to be raised from 35 percent to 88 percent. And the top corporate income tax rate, which by the way is the highest in the world right now, would also have to increase from 35 percent to 88 percent.

And then, also, a second observation—the Third Way Foundation, which is, I believe, a liberal-leaning think tank in a 2012 report indicated that relying on taxes alone to hold long-term deficits at 3 percent of GDP would require phasing in a 60 percent tax increase on median-income families, raising their annual tax burden $6,200 in 2012 dollars.

So with that in mind, is raising taxes a sound deficit reduction strategy? Or would it compromise American competitiveness and be self-defeating as we look to reduce the deficit?

Ms. RIVLIN. I think all of us have agreed that we can't solve this problem by revenues alone or by spending alone or by growth alone. That is not controversial. And I am not personally in favor of raising tax rates at all. I think we can reform our Tax Code, and Chairman Camp has a good example of how to do this, by broadening the base, by getting rid of spending in the Tax Code or reducing it drastically, and that will allow us to lower the rate—

Mr. BARR. Republicans often—

Ms. RIVLIN. —and get us more revenue in the bargain.

Mr. BARR. Dr. Rivlin, Republicans often talk about tax relief and Democrats often talk about focusing on raising revenue. Are there tax cuts, are there tax relief proposals which would also produce the kind of growth that would raise revenue? And could you identify those for us?

Ms. RIVLIN. Yes, I think that the plan in Simpson-Bowles, and the plan in Domenici-Rivlin, which was even better, are examples of such an approach.

Mr. BARR. Okay. And to Dr. Holtz-Eakin, Keynesians regularly and accurately, in my opinion, describe fiscal restraint as austerity. They criticize spending cuts as harmful to growth. Two questions. One, are the Keynesians right? Do spending cuts necessarily impair economic growth? And, two, are all spending cuts equal? And which spending reforms are the kind of reforms which would have less negative impact on the economy?

Mr. HOLTZ-EAKIN. I will take the second one first. Not all spending cuts are created equal. Some are truly investments, and we genuinely need better infrastructure programs in the United States. I was on a commission that recommended some. I would be happy to get you the report. Those are very different—cutting those is very different than cutting a transfer program. And so, that is point number one.

And the spending cuts we need to worry about. The spending we need to focus on is where the money is, in the mandatory spending.

Mr. BARR. Mandatory spending. Thank you. And for any of the panelists here, I wanted to ask you about the impact that the national debt could potentially have on our foreign policy decisionmaking in this country. In an article in Barron's last week on Russian holdings of U.S. Treasuries, an adviser to President Putin said that they hold a decent amount of Treasury bonds, U.S. Treasury bonds, more than $200 billion, and if the United States dares to freeze accounts of Russian businesses and citizens, they can no longer view America as a reliable partner, and they will encourage everybody to dump U.S. Treasury bonds, get rid of dollars in an unreliable currency, and leave the U.S. market.

In evaluating possible responses to Putin, Putin's aggression in Ukraine, how much weight should be put on the fact that Russia owns a material amount of U.S. Treasuries?

Mr. HOLTZ-EAKIN. I don't think you should look at that incident in isolation. The point is that the United States is a reserve currency, which helps us in all aspects of our international affairs. The U.S. Treasuries are the foundation of the global financial system. And liquid Treasuries are important.

Preserving that, the reserve currency and the liquid Treasury, means getting our fiscal house in order. If we do that, we negotiate in all circumstances from the high ground.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Pennsylvania, Mr. Fitzpatrick, for 5 minutes.

Mr. FITZPATRICK. I thank the chairman for calling the hearing. Chairman Hensarling has really had a laser focus on the issue of the national debt since he took the chairmanship, which is really important, given the challenges in this town. And I agree that, when I came here in the class of 2010, there was an awful lot of focus on spending, debts, deficit, and the like, not so much anymore as issues sort of evolve around us, as Dr. Rivlin said in her opening comments.

There is not as much attention today, although earlier this morning, the Peter G. Peterson Foundation issued a press release that says Americans remain troubled by the long-term fiscal outlook. Only 29 percent of Americans say the country is headed in the right direction in addressing our national debt, with 59 percent believing the country is heading in the wrong direction. It goes on to say that voters are deeply concerned about America's long-term fiscal challenges.

And although I don't hear it as much as I used to, I still hear it when I go back into my district in Bucks County, Pennsylvania. Mr. Chairman, these letters have all been received in my office since January of this year. And they are all about the national debt. I would ask unanimous consent that they be submitted as part of the record, if I could.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. FITZPATRICK. I appreciate that.

The interesting thing about these letters is that every one of them was written by a teenager concerned about the national debt. Alex Frischmann of Newton, which is in Council Rock School District, a great school district in south-central Bucks County, wrote to me in February. He said, "This enormous debt that our country is experiencing is depressing growth right now. For Americans, this means fewer jobs, lower incomes, and depressed behavior/attitude. I believe if our nation continues to go deeper into debt, unemployment rates will continue to increase, and businesses in our country will feel the effects."

Tia Farese, in January, wrote that, "I am worried because interest costs on debt takes away from the United States Government spending on important programs like education. I am especially worried about how increasing the national debt will affect future generations, including mine, because we will be paying off the debt and the interest for the spending by others today. I believe forcing future generations to pay for debt created today is not fair, because we were not the ones to cause our country to go into debt."

And we have had a great discussion here today in the hearing about debt-to-GDP and ratios and baselines. But there is a whole moral question, as well, that all of us need to address and need to think about as we go about making the important decisions.

And I would ask each of you, if you would, if Alex were here or Tia were here, what would you say to them about the future of their country?

Mr. COTE. I would say their letters are right on the money, and I wish they would write to all the other teenagers in the country to do the same thing, because they are absolutely right. They are the ones who are going to be the most affected by this and the ones who are going to inherit all the problems that we are creating.

Mr. FITZPATRICK. Dr. Rivlin?

Ms. RIVLIN. I agree. And I do think it is a moral issue. But it isn't a simple issue. We really have to work through this problem in a bipartisan way.

Mr. HOLTZ-EAKIN. I am deeply concerned that we will default on the traditional commitment to leave behind an economy that is larger and stronger and a Nation that is more secure, because we will not take care of these problems. And I think that is a tremendous immorality visited on future generations.

Mr. BERNSTEIN. I hope that they maintain that level of insight as they grow up. Those are some very precocious constituents you have there.

Mr. FITZPATRICK. Elyse McMenamin suggests removing baseline budgeting from annual Federal budgets permanently. The theory is that you just—you start with a baseline, and you increase each and every year. Any thoughts on removing baseline budgeting? Dr. Bernstein?

Mr. BERNSTEIN. I think baselines are—we have a couple of former CBO Directors up here. I think it has become incredibly confusing. There are numerous baselines, and I think the average person, even if they wanted to, would have a very hard time making sense of this, so somehow we have to do a better job of explaining it.

Sometimes I think it would be good if we occasionally thought about zero-based budgeting, where we actually built the budget from the ground up and looked at every piece of it with a more careful eye.

Mr. FITZPATRICK. Dr. Eakin?

Mr. HOLTZ-EAKIN. I am not a big fan of zero-based budgeting, because realistically that is almost impossible to do. There are lots of improvements that can be made to the baseline budgeting, so build a better baseline. Don't throw it out.

Ms. RIVLIN. I agree with that. You have to start from where you are, and you need to know where you are.

Mr. FITZPATRICK. I yield back. Thank you.

Chairman HENSARLING. The time of the gentleman has expired. There are no other Members in the queue.

I would like to thank our witnesses for their testimony today. And the Chair would note, notwithstanding the compelling nature of the testimony, the national debt clock increased roughly $385 million during your testimony.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing stands adjourned.

[Whereupon, at 12:53 p.m., the hearing was adjourned.]

A P P E N D I X

March 25, 2014

Why Debt Matters

Jared Bernstein
Center on Budget and Policy Priorities

Chairman Hensarling and Ranking Member Waters, I very much appreciate the opportunity to testify before you and the committee today on this important and highly germane topic.

Key Points:

There are, of course, many reasons why the debt of the federal government matters, and the following testimony briefly examines these reasons in the context of the history of debt and deficits, with an emphasis on recent decades, the current economy, and future challenges. Here, I summarize general principles that I believe should guide policy makers' thinking about this critically important fiscal issue:

-- It is common these days for some policy makers to label our debt as "unsustainable." This is only the case if policy makers fail to undertake further steps to put the debt on a sustainable path, reinforcing the significant improvements in recent years. Those steps must involve a balanced fiscal policy that includes both new revenues and spending cuts, as well as building on recent progress in slowing the rate of growth of health costs.

--Increases in the national debt do not automatically signal a fiscal problem and in fact are necessary in special situations. Comparisons of our current fiscal situation to Greece or any other such suggestions of insolvency or excessive fiscal recklessness are ahistorical and misleading. There have been numerous times in our nation's history—times of war and of large market failures, like the recent "Great Recession"—where temporary expansions of deficits and debt have been essential to meet the challenges we've faced.

--In fact, austerity measures that seek to reduce deficits and debt too quickly undermine the economy's ability to recover from the downturn, leading to reduced job and wage growth for the vast majority of working households.

--In other words, rising debt is not by itself an obvious fiscal problem. What's problematic is rising *structural* debt, meaning debt that increases (or fails to fall) as a share of the economy when a true expansion is solidly underway.

--Historically, the last time the debt was falling consistently was in the latter 1990s, when strong growth and more balanced fiscal policy contributed to low deficits, declining debt ratios, and ultimately, budget surpluses. In the 2000s, reckless fiscal policy—particularly large tax cuts—and weak growth reversed these fiscal gains. As I show below, the Bush tax cuts, most of which were made permanent in 2012, are clearly implicated as a major factor driving deficits and debt since they were enacted.

--Also in the 2000s expansion, financial excesses and underpriced risk inflated a housing bubble. Its implosion led to deep recession from which we are still recovering. The "Great Recession" required significant fiscal expansion to at least partially offset that demand contraction, yet by dint of their temporary nature, these interventions, unlike the tax cuts just noted, are not at all driving the growth of the longer-term debt.

--Since 2010, policy makers have legislated considerable fiscal consolidation and the budget deficit has fallen very quickly in historical terms. In fact, the decline in the deficit as a share of GDP from about 10% in 2009 to 4% in 2013 (fiscal years) is the largest four-year decline since 1950. As noted above, this decline has led to fiscal headwinds that have significantly slowed economic growth and hampered the expansion.

--In fact, projected 10-year deficits have decreased by $5 trillion since 2010. A bit more than $4 trillion of those deficit savings have come from legislation including the Budget Control Act, the American Taxpayer Relief Act, and related measures. Importantly, 77% of that $4 trillion in deficit savings has come from spending cuts, meaning only 23% are from higher revenues.

--Those facts have at least two important policy implications. First, the oft-cited notion that the current administration has been profligate spenders is demonstrably wrong. In fact, outlays adjusted for inflation and population growth are up 3% relative to 2008, thus including the significant anti-recessionary ramp-up in 2009, and down 12%, 2009-13. Second, future fiscal consolidation must be more balanced, with significant contributions from new revenues.

--Going forward, near term fiscal policy must support the still weak recovery. Sequestration cuts and budget proposals to severely cut programs supporting the poor and middle-class as well as key financial regulatory agencies are highly counterproductive. In this regard, the recent budget by the Obama administration offers useful measures to offset harmful discretionary cuts with balanced "payfors."

--In the longer term, it is important to recognize that debt projections are both much improved yet still reveal the need for attention and action. Building on recent progress in slowing the growth of health costs is essential, as are balanced measures that raise new revenues while reducing costs in ways that protect economically vulnerable households. It should also be stressed that the slower growth of health costs is clearly linked to cost-saving measures embedded in the Affordable Care Act. To repeal these measures would do deep damage to the long term fiscal outlook.

Fiscal Policy Dynamics

The figure below shows debt held by the public as a percent of GDP since 1940.[1] The figure underscores many of the points made above.

First, a key point of my testimony is that the growth of our public debt is sometimes a very necessary response to a major national challenge. Note, for example, the spike in the debt ratio in the 1940s during WWII, a trend to which I suspect few policy makers would object. Similarly, the sharp increase in debt/GDP at the end of the figure signals the response to the Great Recession, as spending temporarily increased significantly to offset the deep, private sector contraction, while GDP fell sharply.

However, in the 1980s, we observe an increase in structural debt, i.e., an increase that occurred even while the economy recovered from the early 1980s recession, signaling a misalignment of government receipts and outlays. Next, there's an instructive period in the 1990s when the economy achieved full employment and the debt ratio fell sharply. This period was followed by an uptick in structural debt in

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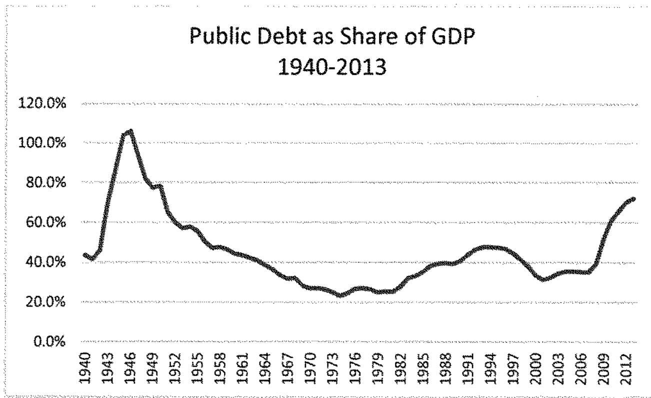
[1] This testimony focuses on debt held by the public as opposed to gross debt. The latter includes intragovernmental debt while the former—the numerator in figure 1—is widely agreed upon by economists, including the CBO, to be the relevant metric for both fiscal and economic analysis. See http://www.cbpp.org/cms/index.cfm?fa=view&id=3238&.

the 2000s (from economic trough to peak—from 2001-07—debt as a share of GDP grew 3.7 percentage points), again a function of misaligned spending and taxes, as well as of historically weak economic and job growth in that expansion.

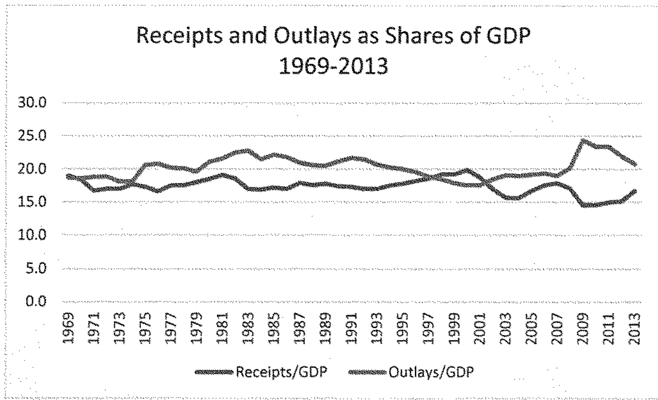


Source: OMB

Even this admittedly cursory history shows that increases in public borrowing are often legitimate and necessary. The deficit and debt will often increase in times of war or to mitigate the suffering of Americans when, through no fault of their own, markets fail and joblessness soars. Such increases in debt should of course not be taken lightly, as they have potential consequences. For example, conditional on interest rate movements, debt service is obviously higher when the stock of public debt is larger. But neither should such increases be avoided as both the human and societal costs of budget austerity in such cases could be catastrophic. Imagine such costs if policy makers in the 1940s refused to countenance an increase in the debt required to meet the existential threat of fascism.

A second point is that structural increases in deficits and debt—increases outside of periods of recession or national emergency—such as we see in the 1980s and, to a lesser extent, the 2000s, have also occurred in recent decades. A brief examination of their origin is instructive, for it is in these cases, not the special cases like the war years or the Great Recession, wherein policy makers need to remap a fiscal course toward debt stabilization and decline.

The next figure shows both outlays and receipts as shares of GDP from 1969 through 2013. For all of this period except the latter 1990s (1998-2001), the outlay line lies above the receipt line, implying deficits. Moreover, when the budget is out of primary balance, meaning receipts are too low to cover current spending obligations other than net interest, the debt will rise (primary balance over the next decade is expected to be equivalent budget deficits of about 2.5-3% of GDP).



Source: OMB

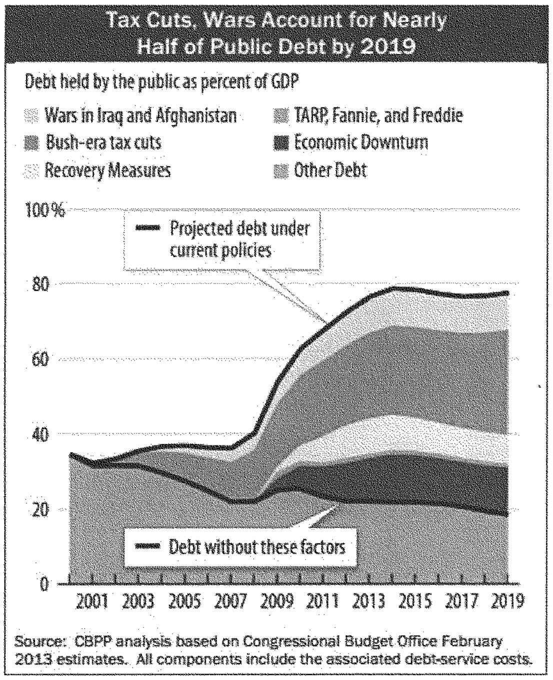
The structural deficits of the 1980s were driven by above average outlays around slightly decreased revenues. The surpluses of the late 1990s were a function of both higher revenues and lower spending as a share of the economy, which grew quickly in those years—note how the trends clearly cross late in the decade.

The Impact of Policies in the 2000s on the Fiscal Outlook

The 2000s structural deficits deserve a closer look because they were quite clearly driven by policy changes that both lifted spending, and more so, sharply reduced revenues, which fell from about 20 to around 16 percent of GDP in the first half of that decade.

The figure below, from analysis done about one year ago by my Center of Budget and Policy Priorities colleagues Kathy Ruffing and Joel Friedman, shows the impact of various policies of the 2000s, including the Bush tax cuts, the wars, and anti-recessionary measures, on the federal debt-to-GDP ratio. The budget outlook has not changed materially since that analysis—certainly not enough to change the relative magnitudes in the figure.

By far the largest component contributing to the growth of the debt over these years is the Bush-era tax cuts, most of which—about 80 percent—were made permanent in the 2012 Taxpayer Relief Act. The recovery measures added a few percentage points to the debt ratio over the 2009-2012 period but as these measures were temporary, once they fade they do not add further to the growth of the debt. Similarly, war costs added to the debt until they peaked and then stabilized as these interventions have wound down.



Tax Cuts, Wars Account for Nearly Half of Public Debt by 2019

Source: CBPP analysis based on Congressional Budget Office February 2013 estimates. All components include the associated debt-service costs.

As Ruffing and Friedman note:

"Some commentators blame major legislation adopted since 2008 — the stimulus bill and other recovery measures and the financial rescues — for today's record deficits. Yet those costs pale next to other policies enacted since 2001 that have swollen the deficit and that have lasting effects.

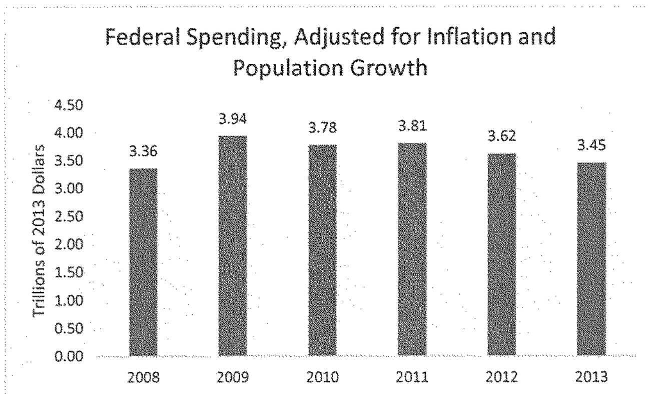
Just two policies dating from the Bush Administration — tax cuts and the wars in Iraq and Afghanistan — accounted for over $500 billion of the deficit in 2009 and will account for nearly *$6 trillion* in deficits in 2009 through 2019 (including associated debt-service costs of $1.4 trillion). By 2019, we estimate that these two policies will account for *almost half* — over $8 trillion — of the $17 trillion in debt that will be owed under current policies. These impacts easily dwarf the stimulus and financial rescues, which will account for less than $2 trillion (just over 10 percent) of the debt at that time. Furthermore, unlike those temporary costs, these inherited policies do not fade away as the economy recovers.

...Even if we regard the economic downturn as unavoidable, we would have entered it with a much smaller debt — allowing us to absorb the recession's damage to the budget and the cost of economic recovery measures, while keeping debt comfortably below 50 percent of GDP, as [the above figure] suggests. That would have put the nation on a much sounder footing to address the demographic challenges and the cost pressures in health care that darken the long-run fiscal outlook."

Real Spending and Deficit Savings in Recent Years: The Results Do Not Match the Rhetoric

Another way to gain insight into what's driving current debts and deficits, particularly given misguided rhetoric about the current administration's spending contribution, is to look at the actual dollar levels of outlays over the Obama administration, adjusting for inflation and population growth. Given the rhetoric, we should surely see large and consistent increases in real outlays.

To the contrary, the figure below shows significant spending growth in one-year only: 2009, a result of fighting the deepest recession since the Depression, including automatic stabilizers and stimulus. Since then, outlays have fallen, adjusting for inflation and population growth. From 2009 to 2013, adjusted outlays are down 12%; compared to 2008, they're up 3%, hardly the spending spree that is often suggested in partisan debates.



Source: CBPP analysis of OMB and BLS data.

In fact, relative to projections that were made in the fall of 2010, new analysis by Kogan and Chen finds that spending cuts in various bills, including the Budget Control Act (2011), the American Taxpayer Relief Act (2012), the Bipartisan Budget Act (2013), and the recent farm bill generated deficit savings of $2.5 trillion over the current 10-year budget window (2015-24).[2] Adding saved interest of about $650 billion amounts to $3.2 trillion. Revenues added about $950 billion and technical and economic changes added savings of about $840 billion. Thus, Kogan and Chen find $5 trillion in savings over the budget window relative to that 2010 baseline.

Moreover, as the figure below reveals, 77% of the savings that come from policy changes (i.e., excluding technical and economic changes) are from spending cuts to government programs; less than a quarter come from revenues.

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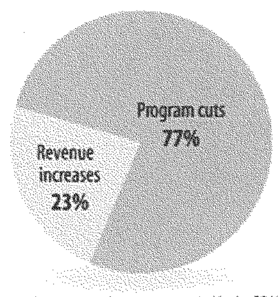
[2] http://www.cbpp.org/cms/index.cfm?fa=view&id=4106

Figure 1
Policy Savings to Reduce Deficits Largely Come From Program Cuts

Total policy savings 2015-2024



Note: Revenue increases and cuts were enacted in the 2012 American Taxpayer Relief Act and the 2013 Bipartisan Budget Act; program cuts were also enacted in the 2011 Budget Control Act and the 2014 farm bill.

Source: CBPP based on Congressional Budget Office and Joint Committee on Taxation data.

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Thus, to the extent that further deficit reduction is warranted, this analysis strongly points toward new revenues as necessary to maintain a balanced approach toward achieve budget sustainability.

Optimal Fiscal Policy for the Near and Longer Terms

As I have stressed throughout this testimony, the optimal time to reduce the budget deficit is when private sector economic activity is generating enough demand to fully utilize our economic resources, including human capital. With elevated unemployment (particularly long-term unemployment), weak labor force participation, only moderate job growth, and large holdings of investment capital "on the sidelines," the economy still needs fiscal support, not fiscal consolidation.

Extending unemployment insurance to the long-termer unemployed is warranted, as the expiration of extended benefits at the end of last year occurred even though the long-term unemployment rate was significantly above its level at past expirations. A higher minimum wage would help deliver at least a bit more of the economy's growth to low-wage workers, a group that has been uniquely left behind in both this and recent past recoveries.

Considering this committee's jurisdiction, a number of programs that support low and middle-income families as well as the broader economy have been cut through the various budget deals noted above, including the sequestration cuts from the Budget Control Act. Moreover, recent budgets by the House majority have proposed to gut vital programs and functions that offer critical support to the very types of households left behind in this recovery.

These programs include regulatory functions of the Consumer Financial Protection Bureau, the Government Sponsored Enterprises' support of the secondary mortgage market (and the backstop for an affordable, 30-year fixed rate mortgage), financial oversight to avoid systemic risk, housing support for veterans, the elderly, and the disabled, rental assistance for the low-income households, and neighborhood stabilization programs that remove blight while creating jobs.

The recent budget deal helped to offset some of the cuts that threaten these and other functions, but this deal expires at the end of 2015, meaning especially deep sequestration cuts would have to be made from today's higher discretionary cap levels.

One good way to avoid these 2016 cuts would be to adopt the fiscal approach in the Obama administration's FY2015 budget, a fiscal roadmap that embodies the balanced approach I've stressed throughout. While adhering to the budget agreement reached at the end of last year, the President's budget encourages Congress to improve on that agreement and meet critical needs by increasing the discretionary caps by $56 billion, split evenly between defense and non-defense, and paid for with mandatory savings and new revenues.

The Long Term Debt Picture: Significant Improvement but Challenges Remain

Turning to the long term, the figure below reveals two important points. First, it is clear that our long-term debt picture has very significantly improved. As noted, considerable deficit savings have been legislated since 2010. Also, one of the main factors driving the long-term debt is the intersection of our aging demographics and the growth of health care costs. However, in recent years, those costs have slowed significantly, thanks in part to measures introduced in the Affordable Care Act, and that too has lowered our debt projections.

This very important slowing of health costs is clearly linked to measures in the Affordable Care Act targeting more efficient delivery of health care services. Incentives to bundle care, reduce unnecessary testing, reduce hospital readmissions—basically, to emphasize quality of health care over quantity of procedures—are already yielding notable gains. Growth in real per capita health spending has been lower in recent years than in any other period dating back to the 1960s.[3] Looking ahead, CBO estimates that ACA-generated savings (not all of which are from these efficiency enhancements) will lower budget deficits by ½ percent of GDP in its second decade.[4] In this regard, any Congressional action to repeal these efficiency gains has the potential to seriously worsen the long-term fiscal outlook.

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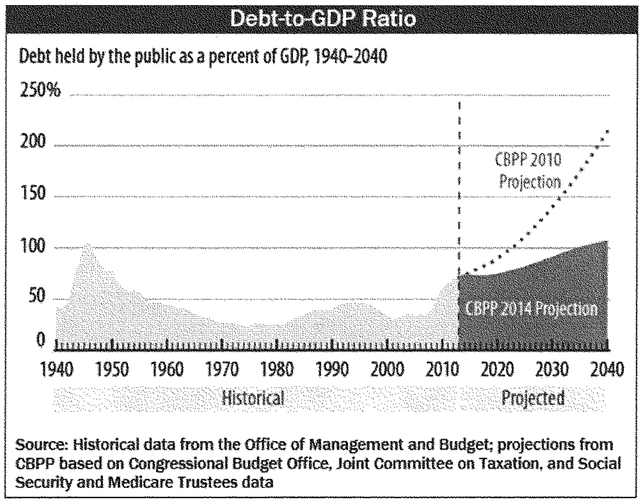
[3] See Economic Report of the President, March 2014, Figure 4.1
http://www.whitehouse.gov/blog/2014/03/10/2014-economic-report-president

[4] http://www.cbo.gov/sites/default/files/cbofiles/attachments/43471-hr6079.pdf



The second point of the figure, however, is that while our debt forecasts are improved, they still reveal significant pressures, with debt projected to exceed 100% of GDP before 2040. This projection strongly supports the need to continue to implement the efficiency enhancing measures in the ACA, to continue to monitor and build on the recent progress we've seen on health care costs, and the pursuit of balanced fiscal measures like those in the President's new budget.

Testimony of David M. Cote
Chairman and CEO
Honeywell

Before the House Committee on Financial Services
United States House of Representatives
Washington, DC

March 25, 2014

Chairman Hensarling, Ranking Member Waters, and distinguished Members of the Committee, my name is David Cote. I am Chairman and CEO of Honeywell International. It is my pleasure to appear before you today to discuss the continued importance of addressing our nation's long term debt problem.

As a country, we have a lot of strengths... but the rest of the world isn't standing still. We need to recognize (1) that we are in a different global economy than we were twenty years ago, (2) that the global economy will change substantially over the next 20 years, and (3) that it will move forward with us or without us.

In business and government, it's helpful to drive a common agenda by looking at what's going on outside of what we control. At Honeywell, our actions have to be determined by looking at what customers, competitors, and technologies are doing.

According to the economic statistics from Global Insight and the US Department of Agriculture, (Chart 1) in 1990 the US represented 27% of World GDP, by2010 it was 26%, and over the ensuing twenty years the percentage of World GDP generated from the US will decline to 24%. Other developed countries (Western Europe, Japan, Canada, etc.) declined from 50% in 1990 to 41% in 2010 and will decline further to 29% of World GDP by 2030. And importantly, High Growth countries or what some call the Developing economies have grown from 23% of World GDP in 1990 to 33% in 2010 and will continue growing to 47% of World GDP by 2030. In other words, what we think of as "Developing Countries", in 20 years will account for half of the World's GDP. That's a big deal. If we are going to compete and win in this new world, we need to focus on having our own American Competitiveness Agenda.

Eight Areas

There are eight areas where we can make a difference now. Today I am going to primarily focus on the first, addressing the long term debt. I will briefly mention the other seven because I believe we need to be doing all of these things if we are going to compete and win in this century.

As we develop our American Competitiveness Agenda, I'd suggest another principle I use with my business teams. That is, that life and business are always about trying to accomplish two seemingly competing things at the same time. In business for example, do you want low inventory or do you want good product availability, do you want good short-term results or good long term results, do you want empowered employees closest to the action to be able to make decisions or do you want good controls so nothing bad happens. In every case, you want both.

I'd argue the same principle holds true in government. But said a bit differently, there is truth on both sides of the arguments made by Democrats and Republicans. The trick is to work together and accomplish both.

We need to make the pie bigger and we need to ensure everyone has a stake in the system. We need to regulate and we need to enable. We need to cut spending and make the right investments in our future.

Debt

We should look at our debt, our spending, and our tax profile not just through the lens of Democrat vs. Republican but also in terms of increasing global competitiveness.

The baby boomer generation (my generation) is retiring and medical costs will rise as a result, even if we better control medical costs. While we can put our heads in the sand for a few years and talk about declining deficits, that demographic freight train is still coming.

The path is politically difficult perhaps but will have to be addressed. Sooner rather than later is easier on everyone, especially the recipients.

If we focus just on this decade (Chart 2) we can probably argue there's no issue even though we are at a debt level comparable to some of the troubled European countries. If we expand this to the next decade (Chart 3) though we see it doesn't look as bright. And remember this doesn't' predict <u>any</u> recessions. In the course of the next 20 years I'd say there's a good chance of at least two or perhaps three recessions which will worsen this picture. Additionally, CBO estimates that in 2023 we will be spending about $825 billion in interest. Extrapolating that same baseline says that in 2025 just eleven years from now we will be spending a trillion dollars a year just in interest.

We're all familiar with millions and billions so a trillion just seems like the next number, so how do we put a trillion dollars into perspective (Chart 4)? If you had spent a million dollars per day since Jesus Christ was born 2013 years ago, you still would not have spent a trillion dollars. We will be spending that much every year just for interest... unconscionable.

To put our debt further into perspective (Chart 5), our debt as a percentage of GDP is about the worst in our history, only eclipsed by WW II when we had a really good reason to borrow.

A heavy debt burden could hike up interest rates and inflation rates, and it very well could slow our entire economy. For those who think this is just a Wall Street problem, look at it this way: When 10 year Treasury notes go to 7%, and as a result home mortgages go to 10% and car loans to 13%, families will have fewer dollars ... that's now a Main Street problem.

In addition to the amount of spending, the composition of spending changes over the next ten years (Chart 6) with mandatory spending on autopilot going from about 2/3 to about 3/4 of our total budget. In other words, discretionary spending declines to 24%, of which half of that is defense. Even today only about 7% of our entire spend is for education and infrastructure. Another way to think about it is that our government spending overwhelmingly focuses on transfer payments, not investment. Transfer payments help perhaps to equalize distribution but investment is what grows the pie. We need to increase our investments and decrease our entitlements if we're going to compete. Changes made now can have a big effect in the second decade and allow people and systems time to adjust so it's much less onerous.

Entitlements need to be reformed now to reduce spending, and a revenue increase is needed as a reasonable compromise. Revenue should be approached through tax code simplification. Congressman

Dave Camp's efforts to get this effort going should be applauded. The last time we simplified the tax code was about 30 years ago. There's a scientific principle called entropy that says all organized systems evolve to chaos. And that's where we are now. If we had set out to create a system that was unfair, confusing, and globally uncompetitive, we couldn't have done this good a job. We need to rid ourselves of the euphemistically named tax expenditures and use it to significantly reduce rates. We can then raise revenue through a slight increase in these lower rates and we should re-visit our policies on items like the capital gains rate, carried interest, and minimum rates over certain income levels.

To compete effectively on this increasingly competitive world stage, we have to have a strong balance sheet. We don't have a strong balance sheet today and it will worsen over time with our current plan. If you want another way to think about the impact of our debt in this new world, think of it this way. In 25 years, at current rates, China will eclipse the US as the biggest economy in the world. At that same time, at current projections, US debt will be over 100% of GDP. Is that the legacy we want to leave our kids and grandkids?

Infrastructure

I want to briefly mention the other seven areas that I believe are also important to our future competitiveness.

The second area is infrastructure development. According to a widely cited 2011 Economist magazine article called "Life in the Slow Lane", China spends about 9% of GDP on infrastructure , Europe spends about 6%, and the US a little over 2%.

We need better roads, bridges, and ports. We also need to upgrade our Air Traffic Management system from its current 1950's baseline and we need to advance broadband. While we do have to cut overall spending drastically, there is such a thing as good spending -

investment spending that grows the pie. We shouldn't throw the baby out with the bath water.

Math and Science Education

The same is true for the third area…education and more specifically, Math and Science. Math and Science has to become a stronger part of our curriculum. We have all seen the studies showing our decreasing position versus the rest of the world in this area. It's not an area where I'm an expert but it feels to me like we have a system designed by elitists for whom the system worked. Not everyone learns the same way or at the same rate. We could learn to be more flexible in how we teach and recognize not everyone likes school and a number of them hate it.

So why not gear learning to the ways kids find it interesting and to the number of years they are likely to stay interested. Given computer proliferation and aptitude, it would seem we could also do more on-line. The German model of apprenticeship is worth understanding.

Copying it exactly would be unlikely to work here but there are ideas and best practices that can be gleaned and applied in an American way.

Immigration

The fourth area is Immigration. To the extent we can have thoughtful policies that increase our population with people who want to work hard and realize the American Dream that's a wonderful thing and it's what brought my ancestors to New Hampshire from Quebec to work in the textile mills. I do understand the need for less permeable borders... but we also can't deny there are millions here already.

Population and productivity drive the size of an economy. We will never be the most populous country so we have to focus on being the most productive, most innovative country in the world. Making it attractive for the best and brightest around the world to come here, live here, become citizens, and take their shot at becoming a millionaire will help us do that.

Tort Reform

The fifth area is tort reform. It sounds like an old refrain coming from a Businessman, but it is true. We have let the pendulum swing too far in an attempt to root out society's inequities, to the point where our tort system is a mystery to the rest of the world. This is another area where working together we can achieve a better balance, providing fairness for people who have suffered inequities while also providing fairness for the companies that invest and provide jobs.

Patents

The sixth area is a robust Patent Office and process. The significance of encouraging innovation was recognized over 200 years ago by our Founders who went so far as to include protection of innovation in Article 1, Section 8 of the Constitution. Our Patent office is woefully underfunded, litigation of real issues takes years, and the patent application process takes way too long. The recent reforms, which we supported, helped in some areas but also made the process longer and more cumbersome. If we want to continue as the most productive country in the world, we have to ensure that smart innovation is protected and encouraged, just like the framers of our Constitution envisioned.

Energy

The seventh of the eight areas for American Competitiveness is Energy Policy. In the debate of energy generation vs. energy efficiency, the answer is to do both. There is huge opportunity for efficiency. We've estimated that just aggressively using existing Honeywell products could save the US 20-25% of its annual energy bill. Imagine the impact with everyone else's stuff included. We should encourage energy efficiency everywhere but that takes time. In the meantime, we need more oil, gas, and renewables now.

Free and Fair Trade

The eighth area is Free and Fair Trade. Twenty years ago there were only about a billion people involved in the global economy... basically the US, Western Europe, and Japan. Today there are about 4 billion people participating in the global economy with the addition of China, India, former CIS states, and Russia, plus numerous other countries that have recognized prosperity for their citizens comes from a robust private sector.

With about 75% of the world's GDP and 95% of world population outside the US, we have to be in there. Open trade relationships benefit both countries. The rest of the world is moving this way, and we're not. While there are legitimate concerns about labor and environmental laws, helping those disrupted by trade, and adherence to agreements, this is again a case where we need to work together to achieve the best balance of both. Our best opportunity to have this impact on other countries is right now with TPA and the trade agreements.

Summary

There is an economic Olympics going on right now. We can't just focus on beating the other Americans on our team. We need to look at all the other teams that are competing and we have to beat them.

We have been on top for so long that it's easy to forget what got us here. The same phenomenon occurs with companies. Where a very successful company starts down the path of decline because they start believing they're successful because they're the best instead of realizing they're successful because they stayed at the leading edge of innovation and productivity.

It is important to have a vibrant democracy. At the same time we can't let our commitment to democracy evolve into an excess of discordant pluralism and infighting that incapacitates our ability to make a collective decision reconciling those divergent viewpoints and then acting...actually doing something to address our debt and improve our competitiveness.

We have an important choice to make in the next few years. Do we still have that will, that ability to compete? Or have we become so enamored of reveling in our discordant pluralism that we no longer care if we pass on a brighter future to our kids and grandkids? Do we still have that will, that ability to train hard? Or do we want to sit on the couch and watch others do what we could have done?

The choice is simple ... and stark. Are we so focused on our arguments that we've forgotten what made us great ... hard work, math and science, technical skills, a dynamic economy, a sense of purpose, relying on ourselves and not blaming others, taking personal ownership of our future, and being able to individually act in our self interest while not forgetting our collective purpose.

Some people in the world and some countries even, believe our time has passed. That a once great economic and military power has taken the first steps on the path to decline. That we cannot resolve our internal differences to make the difficult choices needed as a society. That having achieved greatness, we've forgotten what got us here ... and can no longer act.

I do believe our form of Government is the best there is. It has proven over 200 years to be the most sustainable and responsive to change, appealing to the basic need for freedom and inclusion that resides in every person. We must never forget though, that the long term stability of our system and our belief in the enduring strength of our system, cannot be an excuse to not act when confronted by great changes in the world. We shouldn't wait for a crisis to act on our long term debt. We need to start acting now.

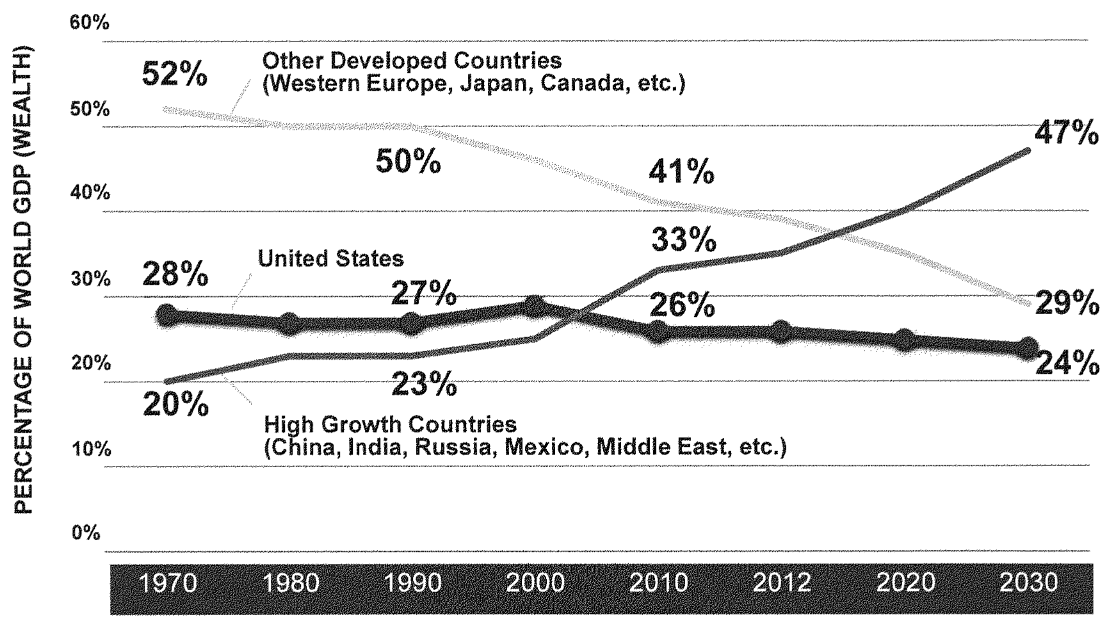
We need Government that pulls together, rather than pulling apart. We need your leadership to make it happen.

Thank you.

Global Competitiveness

1

Honeywell

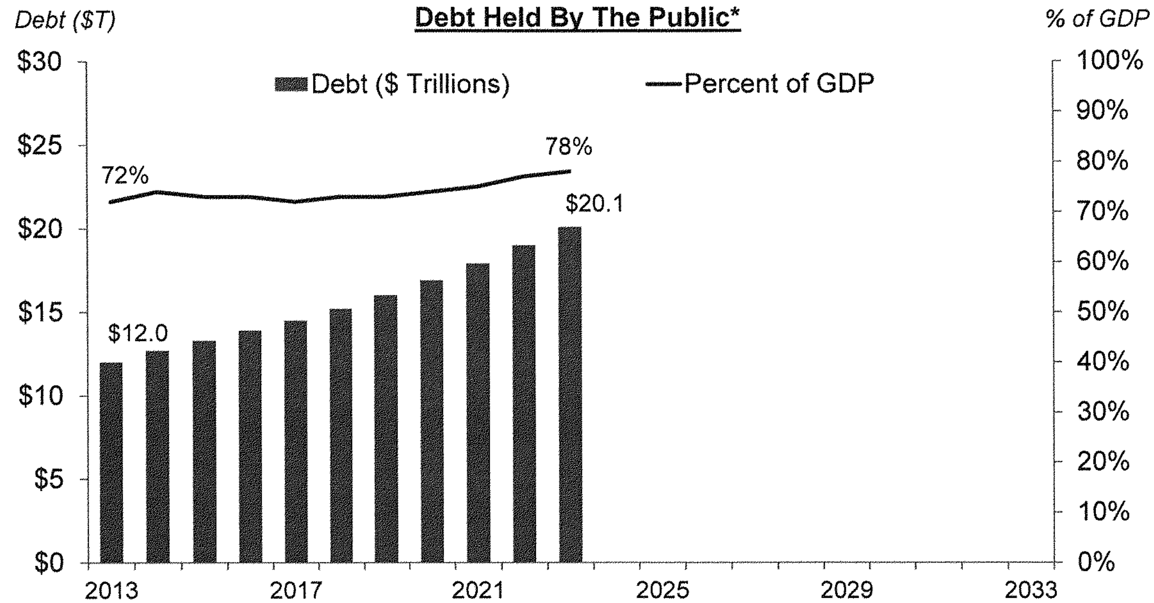


Source: Economic Research Service, US Department of Agriculture (1970 - 2030)

World GDP to Change Substantially

Total Debt

Honeywell



Source: Congressional Budget Office

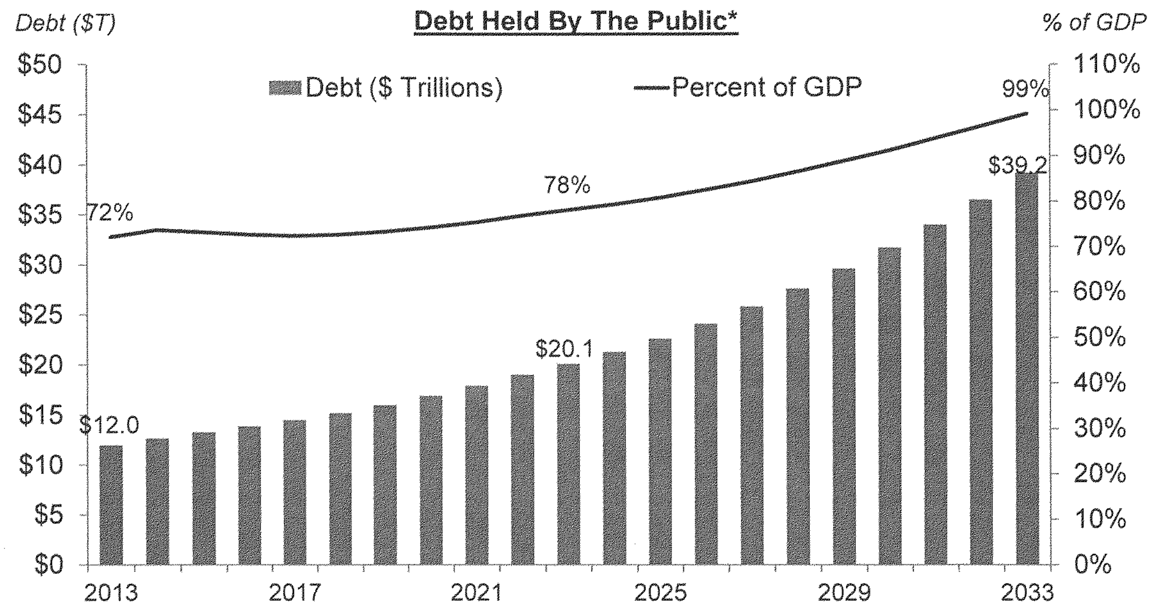
** Debt Held By The Public excludes debt that the federal government owes itself through borrowings from various trust funds like Social Security.*

Next 10 Years ... Can Probably Get By... If No Recession

Total Debt

3

Honeywell



Source: Congressional Budget Office (2013 – 2024); CRFB projections (2025 – 2033)

** Debt Held By The Public excludes debt that the federal government owes itself through borrowings from various trust funds like Social Security.*

Second Decade A Very Different Story... Clearly An Issue

What's a Trillion Dollars?

Honeywell

If you had spent a million dollars a day since Jesus Christ was born 2013 years ago....

$1,000, 000 x 365 Days x 2013 years =

$735 Billion

You still would not have spent a trillion dollars......

And That Will Be Our Annual Interest Bill

Historical Comparisons

	Year	Net Debt % GDP*
Revolutionary War	1790	30%
Civil War	1866	31%
World War I	1919	33%
World War II	1946	106%
Reagan Budgets	1993	48%
Today	2013	72%

Source: Congressional Budget Office
Note that these data reflect recent revisions by the Bureau of Economic Analysis to estimates of GDP in past years
** Debt Held By The Public excludes debt that the federal government owes itself through borrowings from various trust funds like Social Security*

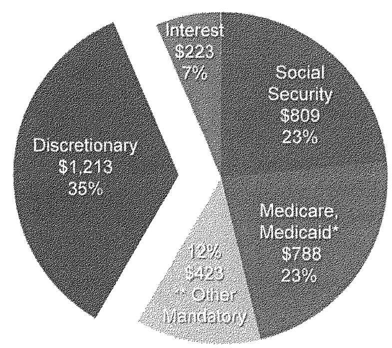
Current Debt to GDP of 72% Eclipsed Only By World War II

Where Is The Money Going?

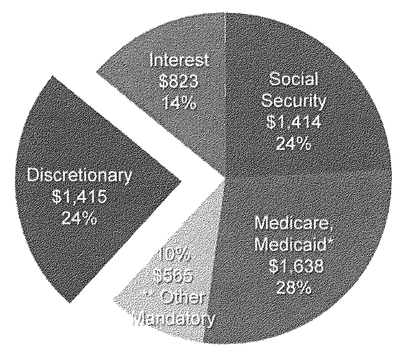
Honeywell

Mandatory % of Total	65%	76%

$3.5 Trillion	$5.9 Trillion



2013



2023

Source: Congressional Budget Office

** Medicare, Medicaid also Includes other health care costs for federal and military retirees, and subsidies and spending related to the Affordable Care Act*

*** Other mandatory spending includes a number of automatic spending programs, including those for low-income individuals such as food stamps, various subsidies such as agriculture, and federal civilian and military pension spending.*

Mandatory Spend Increases From 2/3 to 3/4 of Total Spending

Economic Consequences of the Federal Fiscal Outlook

Testimony presented to the
U.S. House Committee on Financial Services

Douglas Holtz-Eakin, President*
American Action Forum

March 25, 2014

*The views expressed here are my own and do not represent the position of the American Action Forum. I thank Marisol Garibay, Gordon Gray, and Cameron McCosh for their assistance.

Introduction

Chairman Hensarling, Ranking Member Waters, Members of the Committee, it is a privilege to speak to you today on a matter of great importance – the federal fiscal outlook, why accumulating federal debt matters, and the potential for a sovereign debt crisis in the world's most important economy.

I would like to make three basic points in my testimony:

- The federal budget outlook is quite dire, harms economic growth, and ultimately raises the real threat of a sovereign debt crisis;
- The necessary policy response in a debt crisis is in itself deeply damaging; and
- A sovereign debt crisis translates into deep distress for individuals and families.

I will address each in further detail.

The Budget Outlook

On February 4th, the Congressional Budget Office (CBO) released the Budget and Economic Outlook for 2014-2024. The basic picture from CBO is as follows, tax revenues return to pre-recession norms, while spending progressively grows over and above currently elevated numbers. The net effect is an upward debt trajectory on an already large debt portfolio. The CBO succinctly articulates the risk this poses: "Such large and growing federal debt could have serious negative consequences, including restraining economic growth in the long term, giving policymakers less flexibility to respond to unexpected challenges, and eventually increasing the risk of a fiscal crisis (in which investors would demand high interest rates to buy the government's debt)."[1]

Figure 1: The Budget Outlook by the Numbers

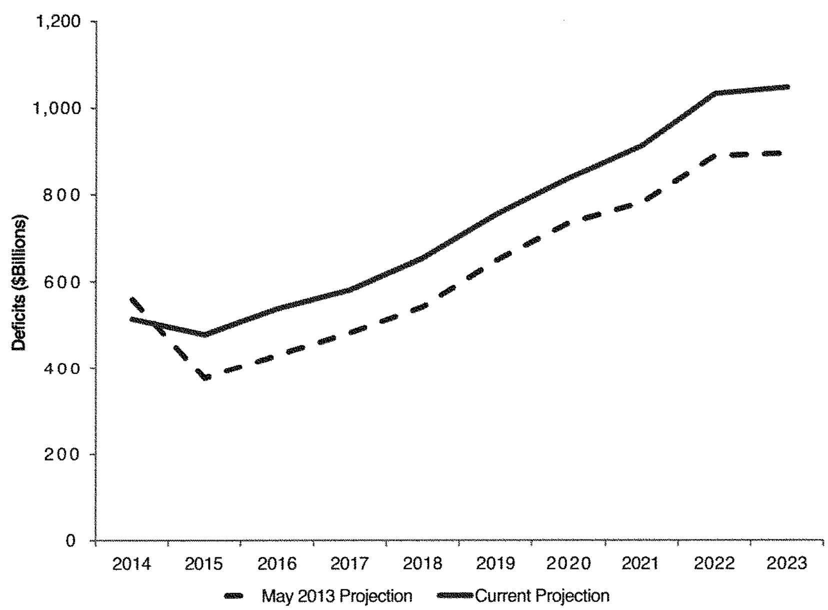
	Unit	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
Revenues	$ Billions	3,029	3,305	3,481	3,631	3,770	3,932	4,104	4,288	4,490	4,702	4,926	18,120	40,630
	% of GDP	17.5	18.2	18.2	18.1	18.0	18.0	18.0	18.1	18.1	18.2	18.4	18.1	18.1
Outlays	$ Billions	3,543	3,783	4,020	4,212	4,425	4,684	4,939	5,200	5,522	5,749	6,000	21,124	48,534
	% of GDP	20.5	20.9	21.1	21.0	21.1	21.4	21.7	21.9	22.3	22.3	22.4	21.1	21.7
Deficit	$ Billions	-514	-478	-539	-581	-655	-752	-836	-912	-1,031	-1,047	-1,074	-3,005	-7,904
	% of GDP	-3.0	-2.6	-2.8	-2.9	-3.1	-3.4	-3.7	-3.8	-4.2	-4.1	-4.0	-3.0	-3.5
Debt Held by the Public	$ Billions	12,717	13,263	13,861	14,507	15,218	16,028	16,925	17,899	19,001	20,115	21,260	n.a.	n.a.
	% of GDP	73.6	73.2	72.6	72.3	72.6	73.3	74.2	75.3	76.8	78.0	79.2	n.a.	n.a.

[1] http://www.cbo.gov/sites/default/files/cbofiles/attachments/45010-Outlook2014_Feb.pdf

According to the CBO, tax revenue will remain above 18 percent of GDP over the next ten years. This is well above the average since 1974 of 17.7 percent, not including the past six years where revenues have been depressed. The federal government is projected to spend over $48 trillion over ten years, maintaining spending levels over 1.6 percentage points above historical levels. Mandatory spending, which comprised 41 percent of the federal budget in 1974, will exceed 62 percent in 2024. Interest payments on the debt comprised 8 percent of the budget in 1974 and 6 percent 2013. These payments will more than double, to almost 15 percent. Debt service payments will reach 3.3 percent of GDP by 2024 - the highest level seen in the preceding 50 years.

Projected deficits in the next 10 years will dip below half a trillion only once, and will surpass $1 trillion again by 2022. Importantly, the deficit outlook has worsened since CBO's last estimate, largely driven by a more pessimistic economic outlook. The latest estimates show deficits projected to be a cumulative $1 trillion higher over 2014-2023 than were projected just last May.

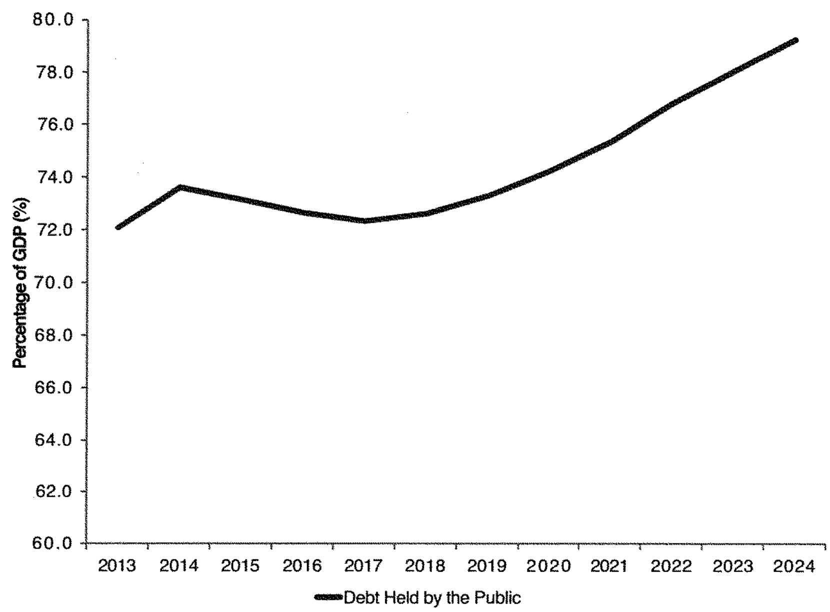
Figure 2: The Deficit Outlook has Worsened



This development also reveals two key concepts relevant to today's hearing: the interaction between a sluggish economy and the budget outlook, and the precarious nature of 10-year budget projections. The former is directly relevant to the mechanics of a debt crisis, while the latter reveals how uncertain debt projections can be. When the existing debt is already so large, the consequences of underestimating future deficits are much greater. Moreover, the nature of conventional, current-law deficit projection, which leaves out certain policies that are likely to continue — e.g., higher Medicare physician payments and certain tax policies — build in a bias to understating future deficits.

The worsened deficit outlook will raise borrowing from the public over the coming decade. Debt held by the public will reach the highest levels since 1950 in FY 2014, reaching 73.6 percent of the economy and despite a temporary and modest improvement, will remain at levels not previously seen in over 60 years.

Figure 3: Debt Ultimately on an Upward Trajectory



The trajectory direction and the magnitude of the current debt outstanding is ultimately the most telling characteristic of the U.S. fiscal path. The widely acknowledged drivers of the long-term debt, health, and retirement programs for aging populations, and borrowing costs, will begin to overtake higher than average tax revenue and steady economic growth by the middle of the decade, and grow ever inexorably upwards until creditors effectively refuse to continue to finance our deficits by charging ever higher interest payments on an increasingly large debt portfolio.

Federal Debt and the Pace of Economic Growth

The projected federal fiscal outlook may have an immediate and increasingly negative impact on the pace of economic growth. The current outlook is unsustainable, which means that in the future one of three things must happen: spending will be reduced, taxes will be raised, or the U.S. will experience a sovereign debt crisis. Those looking to invest or hire in the United States must assess the likelihood and timing of these policy changes, two of which — taxes and a crisis — are decidedly anti-growth.

The key to their expectations, and thus their willingness to expand the U.S. economy, hinges on controlling spending — especially the large mandatory programs that drive the budget outlook. To date, there has been no serious effort to change their trajectory. If entrepreneurs, small firms, and investors become convinced that their will be *no* change, then radically higher taxes or interest rates are the only options and the current pace of investment, innovation, and employment growth in the U.S. will suffer.

While there has been a significant research controversy over the size of any negative impact on growth presented by a large debt burden, there is no evidence that growth is enhanced. The only issues is how much damage is being done.

The Policy Response to a Debt Crisis

How would a sovereign debt crisis unfold? Reliably predicting when credit markets would refuse to finance our deficits is effectively impossible. Instead, one can only safely say that it is unlikely in the near term but that risks go up dramatically with policy inertia and the passage of time. For the sake of illustration, this testimony contemplates the U.S. confronting the possibility of a sovereign debt crisis in 2024.

Assume that the federal government begins FY2024 with debt at 78 percent of GDP, and assume that credit markets essentially signal — through debt downgrades and other means — to the U.S. that unless the debt is stabilized as a share of the economy, the U.S. would begin to face the crippling interest premiums that characterize a sovereign debt crisis.

The only policy responses readily available to lawmakers in a debt crisis would not target the real source of the problem — the slow-changing health and retirement and entitlement programs. Instead, a fiscal consolidation that was forced by creditors would likely take the form of tax hikes and cuts to discretionary spending.

Assuming GDP levels in CBO's baseline, an immediate leveling of the debt held by the public would require fiscal consolidation of $884 billion.[2] Split evenly between tax increases and spending cuts this would amount to a single year, across the board, tax increase of 9 percent, and a 30 percent discretionary spending cut.[3] In addition, to keep the debt at 78 percent of GDP would require additional savings of roughly $8 trillion over the subsequent decade.

This daunting fiscal math assumes that the U.S. is able to pre-empt a spike in borrowing costs. According to the most recent Treasury projections, about $4 trillion in existing debt would have a maturity of less than one year and would therefore need to be rolled over during 2024. Assuming the $1 trillion in additional borrowing needed to finance the FY2024 borrowing, this amounts to a combined $5 trillion in direct exposure of federal financing to credit markets in 2024.[4]

A stylized example that assumes a 1000 basis point increase in interest rates would see an immediate, and additional interest penalty of $600 billion, which, all else being equal would also have to be borrowed or absorbed through tax increases and spending cuts as in the first example.

The examples does not incorporate the economic impact that such immediate fiscal contractions would have on the economy. From a purely budgetary perspective, large and immediate tax cuts and spending hikes would reduce growth, and immediately mitigate revenue collected from tax increases. Spending would also increase as certain automatic stabilizers come into force as the economy flags.

Why the Debt Matters to Individuals

As illustrated above, a debt crisis has three key features: abrupt and large fiscal consolidations, high interest rates, and weak economic growth. All three have real implications for individuals and families.

The policy response would certainly be visible to individuals. It is difficult to quantify how the reduced budgetary resources would be experienced individually, but there would be clear erosions in defense readiness, education expenditures, and research initiatives. Other more basic services, many of which were recently experienced during the smaller sequester would be reduced.

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[2] 78 percent of 2024 CBO baseline GDP level, less baseline means of financing

[3] Total deficit reduction equals $442 billion in new taxes, $424.5 billion in less discretionary spending and $17 billion in interest savings.

[4] This is based on Treasury projections in 2023. However, the $4 trillion projection is relatively constant for the preceding 3 years and likely slightly understates the total debt with maturities of less than a year. http://www.treasury.gov/resource-center/data-chart-center/quarterly-refunding/Documents/Treasury%20Presentation%20to%20TBAC%20FINAL.pdf

With respect to tax policy, a clearer picture can be drawn. According to recent projections, the average federal tax rate, which includes payroll and corporate taxes, in 2024 will be 20.2 percent.[5] A 9 percent hike would take that rate up to about 22.0 percent. However, it would be very unlikely that a policy response would fall evenly across all taxes and all tax brackets. Rates would have to be commensurately higher as fewer and fewer taxpayers and less of the tax base is exposed to higher rates of taxation. One recent estimate suggests that raising rates on just the 28 percent bracket and above would necessitate a rate increase of over 20 percentage points in order to raise the revenue required in the illustrative example above.[6]

The second distinguishing element of a debt crisis is a high interest rate environment. The U.S. Treasury security is the benchmark for the cost of funds, and underpins all manner of consumer financial products. Prime mortgage rates are highly correlated to Treasury notes.[7] Accordingly, one can construct a notional mortgage rate in an extraordinarily high interest rate environment. If 10-year Treasury's jumped 1000 basis points, today's prevailing mortgage rate of 4.32 would jump to 14.32. For the sake of comparison, at today's rates, monthly interest and principal payments on a $250,000 home loan would amount to $1,240. At 14.32 percent, payments would jump to $3,026.[8]

The example holds true in other matters of consumer finance, which rely on Treasury securities as benchmarks. A 5-year car loan can be had at present for 3.06 percent.[9] Under these terms, payments on a $20,000 car loan would amount to $360 per month. At 13.06 percent, payments would jump to $456. That amounts to $5,706 in extra payments just toward interest – and more than a quarter of the car's loan value.

This would also affect college finance. While a great deal of loan volume has fixed interest rates set by statute, private student loans remain an important element of college finance. As an example, some student loans are pegged to the PRIME lending rate, which at present stands at 3.25 percent.[10] With a generous assumption that the rate stays at the current low prime rate, monthly payments would total $351 on a $50,000 loan, with total interest payments amounting to $13,240.[11] Under a high interest rate scenario, this would jump to $641 per month, with total interest payments running to $65,355.60 – more than the underlying loan value.

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[5] http://www.taxpolicycenter.org/numbers/Content/PDF/T13-0159.pdf

[6] http://cbo.gov/budget-options/2013/44794

[7]Since 1972, the 30-year mortgage rate premium over the 10-year Treasury has average 1.7 percentage points, and has averaged 1.63 percent over 2013, accordingly, a 1.53 premium is conservative http://www.freddiemac.com/pmms/pmms_archives.html; http://www.federalreserve.gov/releases/h15/data.htm

[8] http://www.freddiemac.com/homeownership/calculators/?intcmp=AHTRC

[9] http://www.bankrate.com/calculators/auto/auto-loan-calculator.aspx

[10] http://www.finaid.org/loans/privatestudentloans.phtml

[11] http://www.finaid.org/calculators/scripts/loanpayments.cgi

Lastly, as noted above, high debt hurts economic growth, crowds out private savings, and eventually saps the economy of capital. Moreover, the rapid fiscal consolidation, particularly poorly target policy, harms economic growth particularly in the short run. For example, CBO estimated that a eliminating a scheduled fiscal consolidation of $602 billion would have increased GDP growth by 3.9 percent.[12] Such a rapid policy change would ultimately reinforce certain negative budgetary pressures.

Conclusion

The risk of an eventual fiscal crisis is real, and the United States is not immune from those risks. Rather, at present, the budgetary path of the nation guarantees an eventual confrontation with that threat. A debt crisis would pose real and lasting policy challenges to the United States. Forced fiscal consolidation dictated by creditors offers only poor policy choices that will impose real costs on the economy and families in general. The implications of a debt crisis will be felt throughout the economy. Home loans will be priced out of reach for many, while car payments and student loans will become prohibitively expensive. For those who lose their jobs in the economic turmoil, such expenses become entirely unaffordable. The severity of the consequences of an eventual crisis, rather than the capacity to predict its exact timing, should induce the urgency to address it, and hearings such as this advance that goal.

Thank you for the opportunity to appear today. I look forward to answering your questions.

[12] http://www.cbo.gov/sites/default/files/cbofiles/attachments/FiscalRestraint_0.pdf

"Why Debt Matters"

Testimony of

Alice M. Rivlin*

The Brookings Institution

Committee on Financial Services

U.S House of Representatives

March 25, 2014

Chairman Hensarling, Ranking Member Waters, and Members of the Committee:

I am glad you are holding this hearing to focus Congressional and public attention on why debt matters and appreciate the opportunity to share my views. The question of what to do about rising future debt, which was a hot topic on the political agenda until quite recently, has suddenly disappeared from the legislative radar screen. I am afraid this disappearance is evidence of our short national attention span and gridlock in our polarized politics that prevents our coming to grips with serious long-run problems that are not immediate crises.

I would like to make three main points: First, debt matters. Getting our budget onto a sustainable path—one that will eventually lower the ratio of public debt to GDP-- is essential to our future prosperity and ability to pay a leadership role in the world. Second, we do not have to choose between growing the economy and reducing future debt. We need to do both—and we can. Third, we do not face an immanent debt crisis that requires drastic immediate action to stave off a meltdown. Rather we face a challenge that is harder for our political process to deal with: the need to come together across party lines and take sensible action now that will pay off over decades to come.

Current projections—less scary, but still not sustainable

Back in 2010, when you and I, Mr. Chairman, served on the Simpson Bowles Commission, both the economic and budget outlooks were truly scary. Recovery from the Great Recession had barely started. Unemployment was nearly ten percent of the workforce. The recession combined with measures to mitigate its effects had ballooned the deficit to nearly nine percent of GDP, and the debt/GDP ratio had risen rapidly to more than 60 percent, a level not seen in decades. The stimulus and the Fed's aggressive monetary easing were helping the economy recover, but it was not certain that stronger growth would take hold. We knew that the high

* Alice M. Rivlin is a Senior Fellow at the Brookings Institution and Director of the Engelberg Center for Health Care Reform. The views expressed in this statement are strictly her own and do not necessarily reflect those of staff members, officers, or trustees of the Brookings Institution.

deficits would come down as the economy recovered and the stimulus spent out—and they have—but we also realized that later in this the decade deficits would begin to rise again and the debt increase would accelerate. The immanent retirement of the Baby Boom generation, combined with increasing longevity and rapidly rising health care costs would drive federal spending up faster than the economy or revenues could grow, even with solid recovery from the recession. The wedge between projected spending and revenues would widen and push the debt/GDP ratio into uncharted territory in the 2020s. The prospect of a debt crisis in the not too distant future--international investors losing confidence in U.S. Treasuries and interest rates escalating rapidly--was a serious concern.

Bipartisan groups—not just Simpson Bowles, but Domenici Rivlin, the Gang of Six, and others—worked hard to craft "grand bargains" that would stabilize the rising debt burden and eventually begin to lower it. The plans had four common elements: slow the growth of the health care entitlements, get Social Security into long-run balance, reform the tax system to produce more revenue by broadening the base and lowering the rates, and cap the growth of discretionary spending. These plans back-loaded the changes, limiting immediate deficit reduction (or even increasing spending) to avoid derailing the fragile recovery and but slowly phasing in reforms in entitlements and taxes to reverse the long-run debt increases. In my opinion, this was the right policy then and still is.

However, actual policy enacted since 2010 was almost the reverse of the bipartisan groups' recommendations. We have seen a series of substantial near-term cuts in discretionary spending, increases in high-income tax rates, and almost no action on long-run tax and entitlement reform. The Murray Ryan budget agreement had the great virtue of bringing about a two-year cease fire in the budget wars and restoring a semblance of regular order, but it was not a "grand bargain" designed to reduce long-term debt.

Nevertheless, both the economic and budget outlooks have improved. Despite bizarre shenanigans in Washington (shutting the government, the fiscal cliff, and two debt ceiling crises) and severe fiscal drag (partially offset by monetary ease), the remarkably resilient American economy survived the battering and recovery strengthened, albeit not as much as any of us would like. The deficit has fallen rapidly (too rapidly, in my opinion) and future increases in the debt/GDP ratio appear less threatening than they did in 2010. While the debt burden has continued its rise to more than 73 percent of GDP, future increases look more moderate. The debt is still projected to rise faster than GDP over the long run, but not as fast as projected in 2010.

The improvement in long run debt outlook over the projections in 2010 comes from two main sources: (1) policy actions, mostly cuts in spending, especially discretionary spending; (2) slower assumed growth in health spending.[1] But there is some risk that one or both of these developments may prove temporary. CBO projections[2] of discretionary spending based on current law imply future spending levels that are extremely low by historical standards for both defense and domestic programs. Discretionary spending was 8 percent of GDP in 2012—below the average of recent decades—and is projected to fall to 2.3 percent of GDP by 2023. But it is much easier to enact non-specific caps on categories of spending than to fit actual program needs under those caps. Discretionary spending includes money for the armed forces, border control, national parks, research, law enforcement, food safety, pollution control and a long list of other purposes. Will a growing population and a world full of threats prove consistent with a decline in demand for public services? When legislators listen to the public—not to mention interest groups—will they be able to fit actual appropriations under these severe caps? "Other mandatory" spending (EITC, nutrition programs, child credits, etc.) is also projected to decline in relation to the size of the economy and the same questions arise.

For several decades national health care spending rose substantially faster than GDP, swelling the health sector to more than 17 percent of GDP. High per capita spending rates showed up in increasing federal spending for Medicare and Medicaid, as well as in state, local and private budgets. The prospect that health care spending would continue to grow substantially faster than GDP as the population aged led forecasters to expect rapid spending growth for Medicare and Medicaid over the next couple of decades—more eligible beneficiaries multiplied by escalating costs per beneficiary. But over the last decade rates of health spending increase have slowed and for the last several years have been at historic lows. CBO has reduced its projections of the future cost of Medicare and other federal health programs, which contributes to lower projected debt increases compared with those projected in 2010.

But analysts are unsure why health spending growth slowed so much and whether the slowdown will continue. If a substantial part of the slowdown is attributable to the lingering effects of the Great Recession, as many analysts suspect, then current projections could be low-balling future increases in spending and debt.

In short, debt held by the public is at high levels in relation to GDP and current projections show debt continuing to rise faster than the economy is expected to grow. Moreover, there are reasons to worry that the assumptions underlying the projections, especially with respect to discretionary spending and health entitlements, are over-optimistic.

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[1] Kogan, Richard, and William Chen. 2014. "Projected Ten-Year Deficits Have Shrunk by Nearly $5 Trillion Since 2010, Mostly Due to Legislative Changes." *Center on Budget and Policy Priorities*. March 19th, 2014. Accessed at: http://www.cbpp.org/cms/index.cfm?fa=view&id=4106

[2] "The Budget and Economic Outlook." *Congressional Budget Office*. February 4th, 2014. Accessed at: http://www.cbo.gov/sites/default/files/cbofiles/attachments/45010-Outlook2014_Feb.pdf

Why Debt Matters

The reasons debt matters are pretty straight forward. First, we have to pay interest on the debt. The interest is a contractual obligation and has to be paid first, before payments for other services that the country expects the government to perform. At any level of total spending, the more we spend on interest, the less is left for anything else. In recent years the United States has been able to borrow at extraordinarily low interest rates—rates held down by Federal Reserve action, world-wide investor confidence in the underlying strength of the U.S. economy, a long history of fiscal responsibility, and lack of good alternative places for investors to put their money. In FY2013, net interest payments were 6.4 percent of budget outlays, but OMB expects them to rise to 11.6 percent by 2019 as interest rates rise.[3] If interest rates increase faster than currently expected net interest could easily rise to, say, 20 percent of outlays.

Historical note: In 1993, when the Clinton Administration budget team was designing a deficit reduction plan, net interest was 14.1 percent of outlays, because interest rates were higher than than now, although the debt/GDP ratio was much smaller. We were worried that unless we reduced the deficit and the projected build-up of debt, we would end up having to raise taxes or cut other spending just to pay the increasing debt service. The chances of getting into a similar bind are higher now because of the higher debt/GDP ratio.

Second, high levels of debt increase our vulnerability to shifts in investor confidence and the whims of foreign governments. With substantial fractions of U.S. Treasuries held by foreign governments and central banks, this is a serious concern and can limit our foreign policy flexibility.

Third, high levels of debt decrease policy flexibility. Before the recent financial crisis and the Great Recession, our debt/GDP ratio was about 35 percent, so taking on more debt, either automatically or deliberately, was far less worrisome than it would be now with a ratio over twice as high. We should take steps to bring our debt burden down gradually over time, so that we have the ability to react constructively to unexpected events at home and abroad without concern about exacerbating an already precarious debt situation.

There is no bright line that tells us how much debt is too much. At the end of World War II the U.S. debt/GDP ratio was over 100 percent and many people were worried. In fact, U.S. productivity growth was high and so was demand. We didn't pay down the debt, but we grew the economy fast enough to lower the debt/GDP ratio fairly steadily to a low of 23 percent by 1974. Now, however, the prospect of continuous growth at post-World War II rates seems

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[3] Office of Management and Budget. Table 4.1, FY 2015 Budget, Historical Tables. Accessed at: http://www.whitehouse.gov/omb/budget/historicals

highly unlikely. We need to work simultaneously on raising the growth rate and reining in the debt.

Growth and Debt Reduction are Both Necessary and Both Possible

Recent policy debates, among economists as well as politicians, have often sounded as though America faced a choice: grow the economy or reduce the debt. In fact, we must do both and the two objectives reinforce each other--as long as we get the policy timing right. As the post-World War II experience illustrates, strong steady economic growth will not only improve the standard of living, it will turn a worrisome debt level into a manageable one. Moreover, high levels of debt can inhibit growth by steering resources into debt service instead of productive investment. But good timing is essential. Austerity in a recession will only slow recovery—as many European countries are discovering. The rapid fall in the U.S. budget deficit has not derailed the recovery, as some thought it would, but it has slowed growth and job creation, as well as requiring off-setting monetary easing, which cannot be unwound quickly.

Growth and job creation require steady long run investment, both public and private, to raise the productivity of the American workforce. We need to invest wisely in modernizing infrastructure, dramatically increasing the skills of workers at all ages, especially technical skills, and supporting scientific research. These investments should be designed to enhance future productivity growth, not primarily to create jobs quickly, although they may do some of both. Any near-term deficit increases should be offset by reductions further in the future. Comprehensive immigration reform can also contribute to future growth and enhance productivity, as can well-designed tax reform. Changing the reimbursement criteria for health care providers so that they rewarded for value and quality of care, not volume of services, may also be able to enhance the productivity of the health care sector, as well as slowing the increase in federal health spending, thus mitigating the increase in debt. Maybe the truce in the budget wars can allow time for some creative efforts with the dual objective of increasing economic growth and reducing future debt.

A political challenge, not a crisis

Although the Great Recession is responsible for raising the level of U.S. public debt, upward pressure on federal spending in the future is associated with the imminent surge in the number of seniors eligible for retirement benefits and health care. We have known this challenge was coming at us for a long time and should have acted sooner. The only ways to minimize the burden of a larger dependent population are to invest heavily in the productivity of the relatively smaller work force or to grow the work force. Encouraging seniors to work longer in age-appropriate jobs can be part of the solution; so can increasing the number of productive young immigrants. Squeezing out investment in younger workers or failing to upgrade infrastructure can only lead to a lower standard of living for both young and old.

Compared with many other countries, the challenge of adjusting to an aging population looks relatively easy in the United States. Many other countries—Japan is an extreme example--have longer life expectancies that we do, lower birth rates, and less immigration. We do not have to slash expected entitlement benefits or raise taxes drastically to restore government solvency, as the Greeks do. We can make relatively small changes gradually over time, especially if we start soon.

Unquestionably, solutions such as tax reform and increasing the efficiency of the health care delivery system require hard choices. There will be winners and losers. Someone always benefits from existing inefficiency and fights giving it up. But it is not the inherent difficulty of the problems that is preventing us from getting our budget on a sustainable path toward higher growth and lower debt. It is the current state of partisan politics that is preventing hammering out compromise solutions to these quite manageable problems.

Our Constitutional structure requires compromise to move the country forward. We cannot solve major problems without compromise between the House and the Senate and between Congress and the President, even when the branches are controlled by the same political party and especially when they are not. But if elected leaders can break out of the partisan trenches and work together to solve problems, we can have a more prosperous America with a less dangerous level of debt.

Tia Farese
116 Richboro Road
Newtown, PA 18940

24, January, 2014

Congressman Michael Fitzpatrick
711 Hart Building
Washington, DC 20510

Dear Congressman Fitzpatrick:

I am a 8^{th} grade student at Newtown Middle School and am concerned about the financial stability of our nation and where it is headed. The national debt is currently $17 trillion and is projected to be $24 trillion by 2020. Specifically, I am concerned about the national debt, which keeps increasing and harms the economy by slowing economic growth and weakening our ability to respond to economic challenges. I am ~~also~~ worried because interest costs on debt takes away from the United States government spending on important programs like education. I am especially worried about how increasing the national debt will affect future generations, including mine, because we will be paying off the debt and the interest for the spending by others today. I believe forcing future generations to pay for debt created today is not fair because we were not the ones to cause our country to go into debt. Thomas Jefferson agreed with this topic as well in 1789 by stating "'The earth belongs… to the living' or in other words, those alive at any given time should not be saddled with debts and obligations of earlier generations" (Allen and Schweikart 135).

Defense spending causes high debt levels in the United States. Today on defense , we spend a lot of money on planes, guns, boats, military bases, and other military items and many of them aren't needed. Defense spending is currently more than $1/5^{th}$ of federal spending and debt, and if the country doesn't do anything about this it will keep on growing. I understand that defense is needed for national security and protection against other countries, but we should definitely limit the costs and spending. By having the country eliminate ineffective and outdated military and defense programs, spending will be decreased and the debt will drop. By doing this, the United States would no longer pay for areas of defense that aren't needed and we could spend more money on things we actually need to be more successful like education.

Social Security is another crucial part of our lives but is increasing our national debt too much. Social Security has promised to pay for more people than it can afford. The retirement age is still the same as it was many years ago, but life expectancy is rising. This means that Social Security is paying for a lot more people for a longer time then they used to, causing Social Security to go into debt and spend more than they should. If the United States gradually starts to raise the retirement age over the next 10-15 years, by doing this Social Security will start to be paying for a smaller amount of senior citizens rather than too many at a time and going broke. The ages could be gradually raised so the elderly generation now will not be affected, and the future generations of older people would have time to prepare for the retirement and to change Social

Another area of debt I am concerned about is the increased spending on healthcare. Today it is one of the leading areas of national debt and it is projected to be the fastest growing cost for the government. Healthcare will soon become unaffordable and will become the biggest long-term financial issue. If the citizens of the United States start to live healthier lifestyles, there will not be nearly as many medical costs to the government. The way we live has a major impact on our future health. For example, eating fast food regularly will definitely cause health problems which results in increased medical costs. By exercising more, eating better, and not smoking as much as the United States does today; chronic dieses, illness, and hospitalization will be decreased, which will decrease medial costs and debt.

I understand that debt is good and encourages growth and investment. Alexander Hamilton stated this very same opinion: "A national debt *if not excessive*, is a national blessing." Today the debt is "*excessive*" as described above. If left unchecked, the national debt will have a terrible toll on future generations, by making them pay the debt and interest. High United States debt results in high interest rates which is costly to families and higher inflation. It could also result in very high taxes due to the interest and debt costs that is mostly owed to overseas countries. The generation that caused the debt should be responsible for paying it back. As my congressman, please help the United States control its spending and keep excessive debt under control.

Sincerely,

Tia Farese

Tia Farese

Elyse McMenamin
119 Liberty Drive
Newtown, PA 18940

January 21, 2014

Congressman Michael Fitzpatrick
711 Hart Building
Washington, DC 20510

Dear Congressman Fitzpatrick,

The U.S. National Debt is 17.3 Trillion and continually rising tens of thousands of dollars by the second. This leaves each citizen in our country with 54,627 dollars in debt currently. If America continues its route of fiscal irresponsibility and uncontrolled spending, by the end of Obama's second-term in 2018 the projected debt will be 20.3 Trillion. I believe our nation is headed in a direction where it could become nearly impossible to solve the debt issues. Putting less debt on future generation's shoulders. Although, if we can take a stand now by cutting over trillions of dollars of debt in ten years, it could set a standard for a new America, the America our Founding Fathers wanted for us.

The first step in cutting our nation's debt is beautifully simple. If the government cuts one cent out of every dollar of its total spending (excluding interest payments) each year for five years, and then caps overall federal spending at 18 percent of national income from then on, we can reduce federal spending by $7.5 trillion over 10 years and balance the budget by 2019. Reduce Federal Spending 1% for the next seven years, then 0% increase or reduction for another two years. After that never have a budget annual increase greater than 3% or the annual rate of inflation whichever is less. This solution to debt is also known as the Penny Plan. Under the One Cent Solution or Penny Plan, not all programs have to be cut by one percent. Congress may determine that some programs are too important to cut, but that would require that other programs be reduced more so that the total amount cut compensates to one cent for every dollar each year for six years. The One Cent Solution provides Americans with a distinctive track from massive deficits to a balanced budget. Every family in America can reduce its overall spending by one percent per year, and so can the federal government. If this plan continues for six years in a row and the federal budget is balanced.

Additionally, redundant assistance-type programs should be removed permanently. Redundant Government Programs are making tax payers pay for certain programs twice, there are numerous areas with duplicative spending and why should we, U.S. citizens pay for government programs twice? At a time of increased budget pressure, American taxpayers cannot afford to keep buying the same service multiple times. Over the past three years, the Government Accountability Office found 162 areas where agencies are duplicating efforts, at a cost of tens of billions of dollars. Cutting some Redundant Government Programs will reduce debt by a couple million dollars, if Redundant Programs are eliminated altogether it could save our country hundreds of billions, if not more.

Remove "Baseline" budgeting from annual federal budgets permanently. Baseline budgeting is based on the presumption that every item in the budget will automatically increase between three and 10% depending on what the item is, every year, regardless what happened in the previous year. Eliminating the inflated budget baseline will force Congress to justify and account for increased spending instead of hiding behind automatic increases and help decrease our nation's debt by having congress vote to increase items in the budget rather than making it an unavoidable increase every year.

In conclusion, our nation's debt in an eminent problem which needs to be solved and not evaded, like George Washington once said, "Avoid occasions of expense . . . and avoid likewise the accumulation of debt not only by shunning occasions of expense but by vigorous exertions to discharge the debts, not throwing upon posterity the burden which we ourselves ought to bear." We should abide to the constitution, listen to the words of our Founding Fathers and try our best to compromise with both of the left and right opinions. As a nation we need to stop avoiding the debt ceiling and question the necessity of certain governmental programs. We need to make a change. How will you help?

Sincerely,

Elyse McMenamin

Elyse McMenamin

Alexander Frischmann
116 Richboro Road
Newtown, PA 18940

February 4, 2014

Congressman Michael Fitzpatrick
711 Hart Building
Washington, DC 20510

Dear Congressman Fitzpatrick:

Our country is seventeen trillion dollars in debt with over one hundred trillion dollars in unfunded liabilities, and there are only sixty trillion dollars in the whole world. This enormous debt that our country is experiencing is depressing growth right now. For Americans, this means fewer jobs, lower incomes, and depressed behavior/attitude. I believe, our nation will continue to go deeper into debt, unemployment rates will continue to increase, and businesses in our country will feel the effects.

Social Security is a growing concern for my generation. The original purpose of Social Security was to offer a baseline insurance policy for those in retirement. It serves as a "pay as you go" plan forcing employed workers to provide the money for the Social Security fund to pay benefits of the retirees. However, the money paid for Social Security is being spent by the government. If Social Security remains how it is, my generation will not have the benefit of Social Security. One solution to solving the Social Security problem is increasing the retirement age. From my understanding, if we raise the retirement age to 69 by the year 2039, this would reduce the shortfall by 37 percent. Also, as people are starting to live longer, they are able to work longer. Another solution to the problem is increasing the payroll tax by 0.1 percent a year for 20 years. I believe this tax increase is small enough so that it doesn't cost employees and their employers too much money at once. The problem with Social Security needs to be solved now or it will continue to get worse until it no longer exists.

Congressman Fitzpatrick, I urge you to stop funding Obamacare. According to the Congressional Budget Office, Obamacare will lower the labor force by 800,000 for the next decade and American businesses will have to pay an estimated $52 billion due to inability or failure to comply. Small local businesses, grocery chains, restaurants, and schools will be negatively affected by the costs. To save their business and to cut costs, business owners might be forced to pass the additional cost to consumers, have more part-time staff over full-time employees, fire staff members, or send jobs overseas. If businesses are allowed to purchase their own health insurance from whatever state they choose, this would create competition among insurance companies and open up more affordable opportunities for businesses. I live in Newtown, Pennsylvania, which is a small town filled with small businesses. I love going to the stores, and I would hate seeing many of them close due to the cost they have to pay towards Obamacare.

Lastly, I ask you to support reductions in military spending. The United States' military budget exceeds more than any other nation by billions of dollars. According to the National Intelligence Council, by the year 2030 the United States will no longer be the dominant nation. When it comes to global power, China is likely to pass the U.S. with the European nations and India close behind. With the world being governed in such a way, why should we have to pay so much for military spending. It does not seem fair for us to cover almost 50 percent of the military spending when there are three other nations to share the burden. It would not be easy to change our thinking in the way we have governed, but I think the United States need s to find a way to share the financial burden with this new system. I would think that having four powers working together would be stronger than just the United States to protect the world.

In closing Congressman Fitzpatrick, I urge you to please look for ways to reduce spending and our national debt. I feel that Obamacare and Social Security issues can be devastating to small business and small towns in America. These places would not be able to stay in business due to the high cost of health care and taxes. I also believe that if we do not look to share the burden of military spending, this will add more to our debt and could lead to financial disaster. I think Thomas Jefferson summarizes our current debt problems with this quote, "I place economy among the first and most important virtues, and public debt as the greatest of dangers to be feared. To preserve our independence, we must not let our rulers load us with perpetual debt. If we run into such debts, we must be taxed in our meat and drink, in our necessities and in our comforts, in our labor and in our amusements. If we can prevent the government from wasting the labor of the people, under the pretense of caring for them, they will be happy."

Sincerely,

Alex Frischmann

Alex Frischmann

Additional 8th Grade Students who submitted letters to Congressman Fitzpatrick about their concerns regarding the national debt...

Ryan	Addis
Carla	Alizzi
MacKenzie	Andra
Jacqueline	Antolos
Morgan	Bamrick
Nick	Baniewicz
Abhinav	Batra
CJ	Bauer
Ali	Bernstein
Alyssa	Bernstein
Jules	Bernstein
Julia	Bochenek
Anna	Burke
Meghan	Cavanaugh
Brendan	Clancy
John	Cohee
Julia	D'Apolito
Marco	Davis
Chris	DiMedio
Rebecca	Downing
Kevin	Ehrgott
Jake	Elson
Justice	Evans
Tia	Farese
Giannacarlo	Flores
Maddie	Freeman
Luke	Frey
Jason	Gamils
Nicole	Gardner
Sienna	Gartner
Josh	Gefter
Vijay	George
Fred	Germana
Zoe	Goldberg
Sabrina	Green
Brady	Haggerty
Jake	Haldeman
Daniel	Han
Sarah	Harvey
Jordan	Heacks

Ryan	Heese
Max	Herlan
Patrick	Higgins
Meredith	Hill
Sasha	Hofman
Kendre	Hone
Kerry	Johnson
Se Hyun	Jun
Remington	Kelly
Mandisa	Keswa
Nicole	Khusid
Amanda	Knappenberger
Jordan	Koseski
Chantz	Kouveras
Arthur	Kozhevnik
Ava	Kreshbaumer
Ava	Kripp
Robbie	Krusen
William	Laverty
Leya	Ledvin
Henry	Liu
Ethan	Lorence
Brendan	Mahony
Kurt	Mannick
Becca	Margolis
Megan	Markey
Ethan	Marschean
Lily	Marx
Matt	McAlister
Morgan	McKay
Elyse	McMenamin
Clara	Miller
Jesse	Moldovsky
Madeline	Moore
Chase	Murphy
Avery	Olsen
Cole	Orzechowski
Michael	Oudenne
Courtney	Pae
Tori	Penner
Colby	Petelinkar
Michelle	Pogosian
David	Pool

Grace	Porter
Rachel	Rand
Charlotte	Rigogne
Billy	Robertson
Lauren	Rogers
Justin	Ross
Alex	Routh
Christian	Salvitti
Nick	Saturno
Justin	Scharf
Morgan	Schimek
Ilya	Soulaimanov
Maria	Speeney
Kate	Stiffler
Alex	Stranford
Lauren	Sullivan
Kevin	Sullivan
Andrew	Tate
Shane	Thompson
Maggie	Tolkach
Alexio	Troia
Sahil	Tuliani
Julia	Ugras
Tommi	Viola
Brooke	Wade
Justin	Walton
Anna Belle	Warren
Jessie	Whitman
Kieran	Wild
Madison	Wittenberg
Isabel	Wolff
Allison	Wray
Claudia	Wyrzykowski
Madison	Young
CJ	Zemzik
Gabriella	Zingarini