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Mr. Chairman and Mr. Ryan, thank you for inviting me to testify today. My testimony will focus primarily on the general question of whether a "budget commission" would be useful at this point as a way to address the serious long-term fiscal problems the nation faces. I would like to make three principal observations.

First, the Center on Budget and Policy Priorities agrees with the many analyses showing that, if current policies are not changed, the projected mismatch between expenditures and the revenues to pay for them will grow over time and eventually lead to a debt explosion. This cannot be permitted.

Second, we agree that policymakers should start soon to reduce this long-term mismatch.

Third, we do not believe that a law establishing a commission is advisable, at least not now. I say this based on experience as someone who served as a member of the Kerrey-Danforth Commission on deficit reduction in 1994. Unless the next President and the bipartisan leadership of the House and Senate are committed to considering both program reductions and tax increases to achieve deficit reduction — and to working out compromises on these matters — any commission will fail and be a waste of time and money. A commission will only work — as with the 1982-1983 Greenspan commission — when the President and Congressional leaders decide to work out a bipartisan compromise and use commission members as their negotiators. Moreover, if the President and the Congressional leadership are willing to commit to negotiate a package of program reductions and revenue increases, a commission is not really necessary — political leaders can go straight to the substantive negotiations themselves, as they did in 1990 and 1997, without convening a commission. To be sure, they may decide that a commission would provide a useful forum for negotiating an agreement and educating the public about its importance and desirability. But that is a decision that can only be made if the President and Congressional leaders have reached a consensus that serious negotiations are desirable. And, if so, a commission could be convened without legislative action, as was done in 1982-1983.

The key point is that a commission will not force a consensus — or a willingness to negotiate a bipartisan agreement — where one is lacking on the part of the President and Congressional leaders. That is why the 1994 Kerrey-Danforth commission on entitlement and tax reform failed.

I would add that the base-closing commission does not offer a counter-example. There, the President and bipartisan Congressional leadership agreed that the nation had too many bases and some needed to be closed. The commission was designed to implement that agreement by providing a way to surmount parochial geographic concerns that could otherwise block action. But bipartisan consensus on the need to close bases had already been reached.

I would like to elaborate now on these three points, with special emphasis on the third.

Projected Debt Explosion

Our projections of the long-term budget outlook show a "fiscal gap" — the difference over time between revenues and expenditures other than interest payments — equaling 3.2 percent of Gross Domestic Product from now through 2050.[1] This is too high — it would lead to a compounding explosion of debt. Specifically, under our projections, the publicly held debt, which today stands at a relatively modest 37 percent of GDP, would grow to 42 percent of GDP by 2020, to 72 percent by 2030, to 134 percent by 2040, and to 231 percent by 2050. The Congressional Budget Office, in a recent letter to Mr. Ryan, estimates that in about 40 years, the per-person growth of the economy would halt and then begin to reverse. Such a situation would be untenable. This is why nearly all analysts call the long-term budgetary projections of existing tax and budget law "unsustainable." (CBO also says that in the real world, financial instability and periodic market crises could occur before debt reaches such a level unless it becomes clear that the public, and therefore policymakers, are willing to raise revenues and/or reduce programs as necessary.)

Early Action Is Desirable

Early action is desirable, because the earlier that the nation acts to reduce projected deficits — and the sooner that we increase revenues and reduce program expenditures from projected levels — the longer the Treasury can earn compound interest on these budget savings. For example, a policy that reduces projected deficits by 1 percent of GDP in this and all future years would reduce the fiscal gap through 2050 from 3.2 percent of GDP to 2.2 percent, a reduction of almost one third. In contrast, if the same set of policies were enacted five years from now, they would reduce the fiscal gap by 0.86 percent of GDP; so we would lose about one-seventh of the long-term budgetary value of those savings. Put differently, waiting five years means that the necessary revenue increases and program reductions would have to be 17 percent larger to reduce projected debt in 2050 by the same amount and likely would be somewhat harder to enact as a result.

[1] Both projected primary (non-interest) deficits and future GDP are calculated on a "present-value" or discounted basis, which gives higher weight to earlier deficits, because the sooner a deficit occurs, the more years the nation must pay compound interest on it. Our projections were issued in January 2007. We are in the process of updating those projections, but they are not likely to differ materially from our published results. See Richard Kogan, Matt Fiedler, Aviva Aron-Dine, and James Horney, "The Long-Term Fiscal Outlook Is Bleak," at http://www.cbpp.org/1-29-07bud.pdf.

In short, delay has costs. To be sure, combating climate change, addressing the foreclosure crisis, and dealing with global nuclear threats are more immediately pressing. But sooner or later, the nation *must* change budgetary course, and sooner is certainly better.

I would note that an attempt to eliminate the entire long-term fiscal gap in one sitting would almost certainly fail. The lift would be far too heavy. We believe that when the moment is ripe for bipartisan compromise on deficit reduction, policymakers should negotiate a package of permanent savings to take a noticeable and permanent bite out of the long-term fiscal gap. We will need to do this several times, until the matter is fully addressed.

- If policymakers raised revenues and reduced programs by a total of 3.2 percent of GDP in 2008 and each subsequent year, that would indeed eliminate the fiscal gap through 2050; the debt in 2050 would be 37 percent of GDP, just as it is today. But such a sudden change in fiscal policy could throw even a healthy economy into a recession. And, the budget would run immediate *surpluses*, growing to almost 3 percent of GDP by the end of the next decade and lasting a quarter of a century. The debt would fall to zero and then below — the U.S. Treasury would accumulate assets amounting to one-sixth of the economy by 2030. Eventually deficits would return, and the assets would be drawn down and then replaced with debt. But surely the public would not stand for surpluses of this magnitude or duration. Much of the public thinks of surpluses not as desirable "saving for the future" but as undesirable "over-taxing" or "under-investing." Pressure from the right and left to consume those surpluses would be overwhelming.

- Alternatively, Congress could eliminate the fiscal gap in one sitting by enacting tax increases and program cuts that start small but ramp up significantly over time. This would avoid the politically untenable prospect of a quarter century of surpluses. Under this alternative scenario, however, today's policymakers would not only be deciding the appropriate trade-off between higher revenues and lower benefits and services for today's voters but also be enacting a series of future tax increases and future program cuts that would first take effect 15 or 25 or 40 years from today. If a new trade-off between taxes and benefits must take effect every decade or so, the voters and policymakers at that time should have some role in deciding the tradeoffs. In particular, we cannot know today the efficacy of health care practices 30 years from now, so we cannot make final judgments of much public financing they will merit. Nor can we know today whether income inequality will continue to grow, whether our future relations with China will be confrontational or cooperative, or whether new technology will make energy cheaper or exploding demand will make energy much more expensive and the need for public transportation much greater. Such questions will influence how future voters view the role of government.

  At the same time, doing little and saddling future generations with mountains of debt should be unacceptable. An appropriate balance needs to be struck, and major action to shrink projected deficits — and to start securing interest savings that will compound over time — should be taken soon.

Budget Commissions

As noted, I do not favor a budget commission at this time. The Kerrey-Danforth Commission could not even issue a majority report in favor of specific policy proposals. This was *not* because the two principals were not serious, the staff was not expert, or there were no available options. Not at all; plenty of serious and thoughtful people devoted much time and effort to the task.

No, the failure of the Kerrey-Danforth Commission was caused by the fact that neither President Clinton nor the top Congressional leaders were interested in negotiating a bipartisan deficit reduction plan. There was no broad consensus on whether taxes should be raised and by how much, nor about which programs should be cut and by how much.

This is my main point: without a pre-existing consensus that a bipartisan compromise should be negotiated and what should be on the table for negotiation, and without engagement in the negotiations — through key commission members — of the President and the top Congressional leadership, no commission will succeed.

Let's look more closely at the Greenspan Commission. It had a clear mission, set by the President and bipartisan Congressional leadership, to restore immediate and longer-term solvency to the Social Security trust funds. That Commission was a success because President Reagan, Speaker O'Neill, and top Congressional leaders of both parties wanted it to be and used it as the forum to negotiate a deal (through proxies). In this respect, the Greenspan Commission more closely resembled the successful 1990 budget summit negotiations than the failed Kerrey-Danforth Commission, because the Greenspan Commission was basically a mechanism for President Reagan's top negotiator – Howard Baker – and the Democrats' top negotiator – Bob Ball, the former Commissioner of Social Security – to hammer out a compromise on behalf of their principals. Furthermore, it was understood in advance that the agreement would include both an increase in the payroll tax and a reduction in Social Security retirement benefits. This history underscores the point that any successful deficit reduction exercise starts with the President and must involve the top leadership of Congress. It is also worth noting that the Greenspan commission was established by executive order, not through passage of a piece of legislation. Once a consensus formed to move forward, no time was lost in trying to move a commission bill through Congress and having committee and floor debates and disputes over "the shape of the table."

Given this history, enacting legislation now to establish a new commission is not advisable, in my view. President Bush has little interest in this subject. More importantly, we do not know if either of the presidential candidates would be willing, after the election, to enter into negotiations for lower program expenditures and higher revenues.

Suppose, however, that the next President does decide after the election that he would like to negotiate a serious deficit reduction package with Congress. To begin with, he needs a willing partner. Most likely, a serious President would first find out if the leaders of both parties are willing to engage in serious negotiations.

If the planets are aligned and the new President and the bipartisan leadership of Congress are willing to engage, a commission should not be necessary, as successful bipartisan deficit reduction negotiations in 1982, 1987, 1989, 1990, and 1997 proved. If the President and Congressional leaders decide a commission could facilitate their negotiations and help to secure public support for a deficit reduction plan, they could establish a commission designed to accomplish that goal and would not need the enactment of legislation to do so. As noted, the Greenspan Commission was established by executive order after consultation between the President and Congressional leaders.

Before concluding, I would like to make three additional points.

First, we should be aware of the law of unintended consequences. There are some thoughtful deficit reduction ideas that have *not* yet been firmly and unequivocally rejected by one or the other party. These ideas could form part of a serious plan the next President and the bipartisan Congressional leadership might negotiate if there is such a negotiation. However, if a commission exists in the absence of such a high-level, substantive negotiation and that commission propounds one of these deficit reduction ideas, there is a risk that one or both parties or some prominent political leaders will try to score political points by loudly attacking the proposal. If, a few years later, the planets realign and serious negotiations become possible, the previous trashing could take what would otherwise be a useful option off the table.

Second, I would like to elaborate on the point that I noted earlier regarding the Base Closure and Realignment, or BRAC, process. The BRAC model worked because there was overwhelming bipartisan agreement, shared by the President and Congress and by both parties, that in the aftermath of the cold war, there were more military bases than were needed to provide for the defense of the United States. Despite this consensus, it was difficult for individual Members of Congress to support legislation that would close bases in their own districts or states. So the BRAC process was established to allow a commission of experts to do the work of deciding *which and exactly how many* bases to close and to require Congress to vote up or down on the base-closing package. The BRAC process is about preventing purely geographic interests of individual Members from undercutting a bipartisan consensus over the need to reduce the number of military bases.

Major deficit reduction, however, is different. Putting our fiscal house in order involves fundamental questions about the tradeoffs between taxes and the defense, education, health care, and other needs of the nation. It may involve key questions about the role of government. These are exactly the kind of decisions the framers of our Constitution believed should be made by an elected President and elected members of Congress. It is one thing to design a process like BRAC that is aimed at overcoming the effects of the geographic nature of our system of representation after elected policymakers have made the fundamental policy decision. It is quite another thing to try to design a process that reduces the ability of elected officials to make the fundamental decisions themselves. Having a panel of military experts decide which bases to close in order to implement a consensus that our military bases need consolidation is not the same as having a panel decide, for example, whether it is worth raising taxes to provide better health care or education for American children, and if so, which taxes should be raised and on whom and how the proceeds should be allocated.

In contrast to the BRAC concept, I would like to point one final time to the Greenspan Commission of 1983, which restored between about 60 years of solvency to the Social Security trust funds. The recommendations of that Commission were marked up in the House Ways and Means and Senate Finance Committees. Somewhat different versions of the bill were reported in each chamber, many amendments were agreed to in the Senate and in the House, and one especially important amendment — to raise from 65 to 67 the "normal retirement age" for Social Security benefits, a change that was *not* in the commission package — was adopted and became part of the enacted legislation. All of this took considerable floor time, but because everyone had a fair shot and the normal legislative process was followed, the results were much more widely accepted than might have occurred if Members of Congress had been denied the right to offer amendments, and the results have stood the test of time. From my point of view, either this type of approach or the approach exemplified by the 1990 budget summit negotiations is to be preferred.

As I just noted, Congress followed the normal legislative process in enacting the Greenspan Commission's recommendations. A variation would be to use the reconciliation process, as was done with the policies agreed upon in the 1990 budget summit. The reconciliation process has both advantages and disadvantages. The Byrd Rule keeps out much extraneous material, for instance, but might also preclude the inclusion of material that is technically extraneous but nevertheless important to the deal, such as the creation of process rules to enforce the deal over its negotiated lifetime. In addition, the reconciliation process cannot include Social Security legislation, and a long-term agreement might include a Social Security component. On the other hand, reconciliation speeds the process and — most importantly — prevents Senate filibusters from killing legislation that the President, majorities in both houses, and a majority of the public may support. Because it is a close call whether the reconciliation process or the normal legislative process should be used, it is better to let the President and the Congressional Leadership resolve that tactical issue at the time, rather than having enacted legislation pre-determine the legislative procedure that would be used.

In summary, I do not see advantages to enacting legislation to establish a deficit-reduction commission. History suggests that formal commissions are not necessary to enact major deficit reduction packages. And there are potential disadvantages in establishing such a commission. The most likely is that a commission would waste time, talent, and money in circumstances when there is no prospect for a major deal. It also could cause delay and unneeded acrimony if the time *were* propitious for major, substantive deficit-reduction negotiations but the existence of a statutory commission made it easier for lawmakers to make excuses to wait for the commission rather than to move ahead with real steps to reduce the deficit. Finally, arguments in Congress over provisions in commission legislation related to the form that a commission would take and the Congressional rules that would be used for consideration of its product could dissipate some of the goodwill that an initial high-level agreement to undertake serious negotiations would generate.

APPENDIX
Specific aspects of H.R. 3654 that raise concerns

This appendix raises some specific concerns or observations about certain aspects of H.R. 3654. (As the body of this testimony indicates, I do not favor legislation such as H.R. 3654 to establish a commission, but if such legislation were moved, I would recommend some changes in it.)

- H.R. 3654 says that one of the Commission's purposes would be to "improve the *budget process* to place greater emphasis of long-term fiscal issues" (emphasis added). Allowing a Commission to draft changes in the budget process is an invitation for the Commission to avoid difficult substantive decisions about program design or the tax code and instead substitute budget process changes. The failed Gramm-Rudman-Hollings law of the 1980s is an example of why *process* should never be a substitute for *substance*. To quote former CBO Director Rudy Penner, "The process is not the problem; the problem is the problem."

- H.R. 3654 speaks of reforms that "limit the growth of entitlement spending." Entitlements *in general* are not the problem. There are serious issues related to the costs and growth rate of society-wide health care spending, and Social Security faces a long term deficit that must be closed. But other than Medicare, Medicaid, and Social Security, entitlement programs have been a *shrinking* share of GDP for the last 30 years, and under current law, they will continue to grow more slowly than the economy for the indefinite future. As a result, there is not a general entitlement problem, as distinguished from a problem related to Medicare and Medicaid that is largely a problem of rising health care costs systemwide, and to a much lesser extent, problems related to Social Security's long-term imbalance.

- H.R. 3654 speaks of making tax laws "more efficient and conducive to economic growth." While it is hard to argue against efficiency, CBO has pointed out that the economic harm done by deficit-financed tax cuts generally outweighs any efficiency gains that those tax cuts may generate (and, of course, many tax cuts add complexity and *reduce* efficiency). It is undesirable to include language that can be used by supply-side "true believers" to argue against some or any tax increases when additional revenues are likely to be a necessary component of any major bipartisan deficit reduction package.

- H.R. 3654 speaks of "generational equity." It should be noted that future generations are projected to be substantially wealthier than we are (in the aggregate). As a result, asking them to pay a bit more in taxes would still leave them with much higher after-tax income and standards of living than current generations enjoy. It should not be assumed that generational equity implies constant tax rates or a constant revenue/GDP ratio.

- H.R. 3654 would have the Commission draft the legislation, bypass real mark-ups by the committees of jurisdiction, and in general avoid either the normal legislative process or the reconciliation process under the Congressional Budget Act. We do not favor these special processes or the removal of Committees and Members from legislating. Moreover, tactical decisions that would enhance the odds that a deficit reduction package would pass the House and Senate floors cannot be known in advance. We should let the negotiators decide how best to move a package through Congress, not impose a pre-determined procedure that could reduce the prospects for its passage.

- Under H.R. 3654, the Secretary of the Treasury and Director of OMB would be the President's two designees on the Commission. The President should be able to pick her own designees.

- We disagree with the concept of alternative cost estimates that are estimating methods developed by a minority of members of the Commission. The major purpose of such a commission would be to try to develop bi-partisan consensus between the President and Congress. Allowing a minority faction of the commission to force alternative estimates to those that the commission itself believes best is a recipe for undermining consensus and for delay. If a commission member desires both a cost estimate of his or her proposal and a discussion of its possible economic consequences, CBO and the Joint Committee on Taxation can be asked to provide those.

- We disagree with the provision in H.R. 3654 that allows the Commission to include triggers or "stabilizers" to enforce spending and revenue targets. The last thing we need to do is enact a 75-year version of Gramm-Rudman-Hollings and automatic sequestration. Such an effort would very likely fail just as the GRH law did.