

THE CONCORD COALITION



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**The Bipartisan Task Force for Responsible Fiscal Action Act of 2007
(S. 2063)**

Senate Budget Committee, October 31, 2007

I. Introduction

Chairman Conrad, Senator Gregg, and members of the Committee, thank you for inviting me to discuss S. 2063, The Bipartisan Task Force for Responsible Fiscal Action Act of 2007. It is an important initiative to address our nation's unsustainable long-term fiscal and economic outlook.

I am here representing The Concord Coalition, a nonpartisan organization dedicated to strengthening the nation's long-term economic prospects through sound and sustainable fiscal policy. Concord's co-chairs are former senators, Warren B. Rudman (R-NH) and Bob Kerrey (D-NE). They, along with Concord's President former Commerce Secretary Peter G. Peterson and our nationwide membership, have consistently urged Washington policymakers to produce a credible, generationally responsible, plan for long-term fiscal sustainability.

There is very little dispute that current fiscal policies are unsustainable and that future generations are the most at risk from inaction. Yet, too few of our elected leaders in Washington are willing to acknowledge the seriousness of the long-term fiscal problem and even fewer are willing to put it on the political agenda. By focusing attention on this critical issue and insisting that it must be dealt with in a bipartisan manner, you are setting a very positive example.

This legislative proposal, and others like it that are now being put forward, are very welcome. The Concord Coalition's experience with the Fiscal Wake-Up Tour, which has now been to 24 states, is that the public is hungry for a nonpartisan dialogue on the long-term fiscal challenge. When presented with the facts, they appreciate that each of the realistic options comes with economic and political consequences that must be carefully weighed, and that there must be tradeoffs. The task force you have proposed would help to clarify those trade-offs and establish a process for resolving them.

II. The Need For Action

The economic and moral case for long-term reform of fiscal policy is clear.

An unprecedented demographic transformation is taking hold against the backdrop of steadily rising health care costs and steadily falling national savings. This is a dangerous combination for the future health of the economy. It may seem that there is no immediate crisis, yet according to a broad bipartisan consensus current fiscal policy is on an unsustainable path.

The baby boomers' imminent retirement is ushering in a permanent shift to an older population — and a permanent rise in the cost of programs such as Social Security, Medicare and Medicaid, which already comprise 42 percent of the federal budget. There is no plan to pay for it all other than running up the national debt.

No one can say when all this might end up in a crisis, nor what a crisis would look like. Indeed, there may be no crisis at all — just a long slow erosion in our nation's standard of living. In either case, it is a dismal prospect and doing nothing now to avoid it would be an act of fiscal and generational irresponsibility.

The basic facts are a matter of arithmetic, not ideology. Two factors stand out: demographics and health care costs.

Over the next 25 years, the number of Americans aged 65 and up is expected to nearly double, growing from 12 percent of the population to 20 percent. The working age population will grow by only 10 percent over this time, shrinking from 60 percent of the population to 55 percent. As a result, the ratio of workers paying into Social Security and Medicare relative to the number of beneficiaries will fall by roughly one-third.

This portends an era of extraordinary demands on the economy and the nation's workforce, which will be called upon to transfer a large and rising share of resources from workers to retirees. At the same time, one of the major engines of economic growth — an expanding workforce — will slow substantially due to the large exodus of older workers from the labor force and lower birth rates following the baby boom.

Even without a fiscal crisis, future standards of living are at risk. As Federal Reserve Board Chairman Ben Bernanke has observed, "the aging of the population is likely to lead to lower average living standards than those that would have been experienced without this demographic change."¹

Demographic change, however, is only part of the problem. Health care costs have consistently outpaced economic growth since 1960. If this phenomenon persists, it will greatly compound the growing fiscal problems attributable to the rising number of aged.

¹ Remarks before The Washington Economic Club, Washington, D.C. October 4, 2006.

Assuming that the growth rate of health care costs does not slow, Medicare and Medicaid will grow by nearly five times as a share of the economy (GDP) by 2050. They will absorb as much of our nation's economy by the late 2040's, as the entire federal budget does today. Most of that increase would come from the rising cost of health care rather than demographics alone.

All of this has ominous implications for the size of government relative to the size of the economy. By the time today's 20-year olds reach retirement age, the overall cost of government as a share of the economy is on track to reach levels not seen since World War II — the big difference being that instead of spending the money on a life and death struggle against totalitarian aggression we would be spending it on an ever-rising stream of benefit payments.

This raises some obvious questions:

- Are all these future benefit promises affordable?
- Who's going to pay the bill, and how?
- What resources will be left for other priorities?
- What steps could we take now to change course?

Borrowing our way through the problem is not a viable option because the rising cost of Social Security, Medicare and Medicaid is not a temporary blip. It gets bigger with time. Incurring permanently rising debt would result in staggering interest costs and ultimately a total debt burden that would crush the economy.

The real choices require scaling back future health care and retirement benefit promises, raising revenues to pay for them, or — most likely — some combination of both.

If we are to face these choices honestly, the magnitude of the gap must be clearly understood. It goes far beyond what minor tweaks can cure. Raising revenues to cover projected spending would require an increase over today's level from between one-third to one-half by 2030 depending on the growth of health care costs.

On the other hand, if we try to keep revenues at today's level and pay for the increase in Social Security, Medicare and Medicaid by reducing spending on other programs, it would require a cut of between one-half to four-fifths by 2030, again depending on the path of health care spending. With a fiscal "reality gap" of this size, it seems highly unlikely that it can be filled entirely with spending cuts or entirely with revenue increases.²

Beyond fiscal imbalance, the policies embedded in today's budget threaten to place ever-tighter constraints on the ability of future generations to determine their own fiscal priorities or to meet challenges that cannot be foreseen. As the share of federal resources

² These measurements are expressed as a share of the economy (GDP).

pledged to retirement and health care benefits grows, it will leave shrinking amounts for all other purposes.

Some people might believe that the federal government should both tax and spend at about 18 percent of the Gross Domestic Product (GDP), while others might believe it should tax and spend at about 30 percent of GDP. No reasonable person, however, would argue that the government should tax at 18 percent and spend at 30 percent. The resulting annual deficits and accumulated debt would shatter the economy. Yet, this is the future we will get if we try to fund the spending required by current law with today's level of taxation.

Generational fairness requires a change in course. The choices we make *today* will determine what kind of society our children and grandchildren inherit 20 and 30 years from now. There is little time for political gridlock. With the first of the 77 million baby boomers on the verge of retirement, the window of opportunity to act is rapidly closing.³

The sooner we get started the better. Inaction now increases the prospects of severe changes later. By contrast, even modest changes in retirement and health care programs, enacted promptly and phased-in over many years, could have a substantial impact in bringing future costs down to a more sustainable level.

Similarly, eliminating or even reducing the budget deficit over the next few years would lower government borrowing from the financial markets, provide a much needed boost in national savings and reduce our reliance on foreign lenders. Acting sooner would also reduce interest costs and permit the "miracle" of compound interest to work for us rather than against us. When it works against us, as it does now, it is more of a nightmare than a miracle. Anyone who has tried to live on rising credit card debt knows the difference all too well.

It is often said that our political system only responds to a crisis. If that turns out to be true, our children and grandchildren are in big trouble. The question you are posing to your colleagues with this legislation is whether we, as a nation, will face up to these challenges and fulfill our generational stewardship obligation or instead put the future at risk by waiting for a crisis.

III. Traditional Methods Have Failed

It is logical to begin an assessment of this proposal by asking why the traditional legislative process cannot be counted on to deal with the long-term fiscal challenge. There are at least two key factors: 1) political realities, and 2) a myopic budget process.

³ The oldest segment of the baby boom generation will begin drawing "early retirement" Social Security benefits next year. In 2011, they will be eligible for Medicare.

Political realities

Changing course would require substantial spending cuts from projected levels or equivalent tax increases. Neither party wants to be the first to propose these tough choices out of fear that the other side would attack it. Similarly, neither side wants to discuss possible compromises of its own priorities, out of fear that the other side will take the concessions and run. Unfortunately, these fears are justified.

Despite the clear warning signals, elected leaders and political candidates face enormous pressure to look the other way. The problem is not that the public cannot handle the truth. The problem is the poisonous political environment in Washington and a process for nominating candidates that rewards the most obstinate forms of partisanship. The very idea of bipartisan cooperation seems highly offensive to ideological purists of both left and right. Politicians who truly wish to seek consensus solutions are thus confronted with the double burden of working out their differences, which can be substantial, while fending off their ideological guardians who insist that any compromise is both unnecessary and unwise.

Partisan divisions in Washington have become so wide that a task force or a commission may now be the only way forward on this issue. If everyone insists on only changing someone else's priorities, talk about fiscal sustainability will remain just that. The best way to end this standoff is to agree on an open, credible process without preconditions — including entitlement and tax options — and negotiate the necessary trade-offs.

The myopic budget process

Aside from political obstacles, the budget process itself is stacked against long-term planning. There is nothing in the budget process that requires Congress to review the current-law outlook beyond the next ten years, much less take corrective action. Every corporation in America must account for and defray the cost of its long-term commitments. But the federal government does not, even though its commitments are thousands of times larger than those of any corporation.

The current budget process encourages short-term thinking by focusing on a 5 or 10-year window. Yet, our truly unsustainable fiscal problem stems from commitments that extend far into the future. The task force could take a major step in improving the transparency of our future obligations and encourage actions to deal with them by producing targets and estimates of its policy proposals stretching out far beyond the current window.

A five or ten year budget window may have been adequate back when most federal spending was appropriated annually. It is insufficient when most of the budget consists of entitlement programs set on a rising autopilot. A window of 30 or 40 years is now needed to establish a reasonable expectation that our fiscal policies are sustainable.

To remedy this situation, The Concord Coalition has recommended that Congress establish long-term targets for revenues and outlays by major spending category as part

of the annual budget resolution. Congress should note how major legislative proposals assumed in the resolution would affect these targets and how the targets differ, if at all, from current law as projected by the CBO. Separate targets could be established, as a share of GDP at five-year intervals through 2040, for total revenues, defense spending, domestic discretionary spending, Social Security, Medicare, Medicaid, other entitlements, and net interest.

This proposal would inject strategic vision into the budget process. In the continuing absence of such vision, however, S. 2063 could fill the void. Without some mechanism to put the hard trade-offs between spending commitments and taxes on the record, everyone can continue to ignore the long-term consequences of current policy. With such a process, they must begin to talk concretely about the size and shape of the government they want and the choices needed to achieve that vision.

IV. Criteria for Success

Since the regular legislative process has been incapable of dealing with the impending fiscal crisis, a different route makes sense as a means of jump-starting serious action.

The Dean of my law school had a saying that seems apt to the political task ahead. When referring to unlikely solutions to tough problems he would remind us that, "Water doesn't run uphill without a pump."

Reducing promised benefits or raising taxes strikes me as the political equivalent of expecting water to run uphill. It goes against nature and is unlikely to happen without some intervening force. One such force would be a crisis. A far better one would be a bipartisan process to act in advance of a crisis — provided that it is implemented in a way that recognizes fiscal and political realities.

In The Concord Coalition's view, any non-traditional effort to bring about action, whether through a congressional task force as you have proposed or a commission as proposed by Representatives Cooper (D-TN) and Wolf (R-VA) in the SAFE Act (H.R. 3654), would need five elements to succeed:

- **First, it must be truly bipartisan.** Any perception that the purpose is to facilitate swift enactment of a partisan agenda would doom it to failure. It should have bipartisan co-chairs and equal representation. Doing otherwise in the current partisan environment would be a waste of time and money.
- **Second, it must have a broad mandate.** While it is critical to control the growth of entitlements, particularly Medicare and Social Security, the task force or commission should examine all aspects of fiscal policy.
- **Third, there must be no preconditions.** If either side sets preconditions, the other side will not participate.

- **Fourth, it must engage the public.** In Concord’s experience, when people are armed with the facts and given the opportunity for honest dialogue, they are willing to set priorities and make hard choices. Moreover, it seems highly unlikely that the public would react well to a reform package for which it was unprepared.
- **Fifth, its recommendations should be voted in Congress.** Absent this element, the report would likely join many others on a shelf.

A process with these attributes would give all parties the political cover they need to tackle the tough choices and develop a bipartisan consensus for solutions. This would be invaluable regardless of who controls Congress or the White House in 2009.

The Concord Coalition commends S. 2063 because it recognizes the importance of these criteria. The Act would establish a bipartisan task force of 16 policymakers appointed by the President and Congressional leaders of both parties. The requirement of a three-quarters majority (12 votes) to approve the report of the task force insures that there can be no purely partisan outcome. Equally as important, the task force would be allowed to consider all policy options to address the nation’s long-term fiscal imbalance. This increases the prospects for solutions that are both substantive and politically viable. Most important of all, the report of the task force could not simply be ignored, as so many good reports in the past have been, because it would be given an up or down vote in Congress. The requirement of supermajority approval (three-fifths vote) in both the House and Senate would require consensus solutions.

In the spirit of your openness to changes, The Concord Coalition believes the task force would have greater credibility if it had bipartisan co-chairs. This could easily be accomplished by providing that one of the eight Democratic Members be designated as Co-Chair, perhaps by joint appointment of the Democratic Leaders.

We would also encourage you to consider a slightly more flexible legislative process, which would allow for greater debate of policy tradeoffs by allowing the consideration of budget neutral amendments. Those who oppose the priorities and tradeoffs recommended by the task force should be challenged to say what they would do instead and given the opportunity to put forward alternative policies to address the problem.

Amendments could, and should, be limited in some manner. For example, H.R. 3654 (SAFE) would only allow amendments in the nature of a substitute from the Administration and the Chairmen and ranking Members of the respective Budget Committees. Allowing for such amendments also holds the prospect of giving the incoming administration a role in shaping the final legislation — something that would be valuable and, most likely, essential for success.

Another recommendation is that the task force should take advantage of the authority you have provided for it to hold hearings in places outside of Washington. Indeed, Concord would prefer to see this written into the legislation, as in H.R. 3654, which calls for “at least 1 town hall style public hearing within each Federal reserve district.” The SAFE Act

also provides that “the Commission shall present to the public, and generate comments and suggestions regarding, the issues ... [and] policies designed to address the issues, and tradeoffs between the policies.

The public should be treated as if it were, in effect, a member of the task force. Doing so will enhance the visibility and credibility of the task force and help build acceptance for its recommendations. The choices that must be debated involve vitally important issues, such as the future of Social Security, Medicare and taxes. For that reason, the active involvement of the American people is critical. Without greater understanding of the problem among the public, community leaders, business leaders and home state media, elected leaders are unlikely to break out of their comfortable partisan talking points — and unlikely to find solutions.

In this regard, the experience of The Fiscal Wake-Up Tour may prove useful. The Tour is a joint initiative by The Concord Coalition, the Budgeting for National Priorities Project at The Brookings Institution, The Heritage Foundation and U. S. Comptroller General David Walker. In our public presentations we explain in plain terms why budget analysts of diverse perspectives are increasingly alarmed by the nation's long-term fiscal outlook. Our emphasis is on the key areas in which we have found consensus, such as:

- The overall dimensions of the problem;
- The nature of the realistic trade-offs that must be confronted in finding solutions;
- The adverse and inequitable consequences for future generations if we fail to make serious changes, sooner rather than later.

We try our best to cut through the usual partisan rhetoric and stimulate a more realistic public dialogue on what we want our nation's future to look like, along with the required trade-offs. The public has been very receptive to this approach, as has the local media in the 24 states we have visited.

As with a bipartisan task force of congressional Members, participants in the Fiscal Wake-Up Tour do not necessarily agree on the ideal levels of spending, taxes and debt. However, we do agree on the following key points:

- Current fiscal policy is unsustainable.
- There are no free lunch solutions, such as cutting waste fraud and abuse or growing our way out of the problem.
- The best way to make the hard choices is through a bipartisan process with all options on the table.
- Public engagement and understanding is vital in finding solutions.
- This is not about numbers. It is a moral issue.

We do not recommend specific policy solutions. Indeed, we are upfront about the fact that we do not necessarily agree on solutions. However, we remind audiences that each of the realistic options comes with economic and political consequences that must be carefully weighed, and that there must be tradeoffs.

Our experience is that when audiences are told the facts, and shown that if they demand their "rights" to programs or policies it will have damaging economic effects to other groups or generations represented in the audience, they begin to accept the need for tradeoffs.

In addition to the Fiscal Wake-Up Tour, the same group of analysts from The Concord Coalition, The Heritage Foundation and The Brookings Institution have been working with Public Agenda and ViewPoint Learning, (both chaired by Dan Yankelovich) on a project called "Facing Up To The Nation's Finances. It is designed to provide insight into how attitudes evolve as people discuss difficult trade-offs with regard to long-term fiscal policy.

A report issued by the Facing Up Project in December 2006 made the following observations:

- The public is strongly averse to big increases in the size of the national debt and, with the right kind of leadership, is prepared to accept sacrifices to avoid it.
- For most people, the overriding concern is not resistance to taxes but a profound lack of trust in government. People are willing to pay for what they want so long as they can be satisfied that government will spend the money wisely and for the purposes intended.
- Americans are willing to make changes in entitlements, but again on condition that trust and accountability exist.
- While there is continued strong support for defense spending, it is accompanied by the widespread perception that funds are misallocated and often wasted.
- Americans want to be engaged in addressing these issues and are frustrated by the lack of engagement that contributes to their mistrust of government

VI. Conclusion

If nothing changes, future taxpayers will be forced to pay far higher taxes than we pay today, or they will either have to accept much lower spending for all other public purposes--including national defense, homeland security, and education--or face rapidly escalating deficits and the resulting negative consequences for the economy and future standards of living.

We could cross our fingers and hope that the U.S. economy is sufficiently resilient to overcome anticipated fiscal challenges without any change to current policies. However, that outcome is highly unlikely. Wishful thinking is not a sound fiscal strategy. A far more prudent and secure path to bettering the fiscal outlook would be to reassert budget discipline.

Changing course will require substantial spending reductions from projected levels, equivalent increases in revenues, or a combination of both. It will also require a willingness to compromise. Starkly partisan proposals may appeal to true believers and party loyalists, but a plan to ensure long-term fiscal sustainability is unlikely to stand up over time without broad bipartisan support from the start.

Each of the realistic options comes with economic and political consequences that must be acknowledged and carefully weighed. There must be tradeoffs. Those who favor spending reductions should explain which programs they would target and how the savings would be achieved. Those who favor higher revenues should explain what level of taxation they are willing to support and the manner in which the new revenue should be raised. Those who are unwilling to either cut spending or raise revenues should explain how much debt they are willing to impose on future generations.

Daunting as the long-term projections are, there is nothing inevitable about a fiscal crisis. The problems we face -- essentially a structural imbalance between what government promises and what it collects in taxes to pay for those promises -- is one that can be cured in a timely way if we begin to address it now. In other words, the solution is in our own hands. As Concord Coalition President and former Commerce Secretary Peter G. Peterson has written in his 2004 book, *Running on Empty*:

If America chooses the right future, it will be because we learn again to cooperate politically and embrace a positive vision of what our nation can become. Yes, we have to make some tough choices. But instead of obsessing over the tax hike that outrages us, or the benefit cut that shocks us, we need to focus on everything our nation can achieve if we all made an effort to come to terms with our future.

There is no better time to begin such an effort than now. The lessons of Hurricane Katrina have important implications for our long-term fiscal challenge. Known dangers should be acknowledged in advance of a crisis and dealt with in a straightforward manner. By all means, we should debate the options and trade-offs. But we must act. Economic growth alone will not be enough to close the gap. Moreover, the sooner action is taken, the more gradual the remedies can be. The political system can adjust to unexpected good news. More problematic are the potentially harsh adjustments of deferring action on bad news projections that prove correct.

What is needed now is a clear commitment to address these issues in a straightforward, generationally equitable and manner. Achieving consensus around the hard choices that must eventually be made will require open minds and bipartisan cooperation. Your legislation would establish a process to do just that.

You deserve great credit for your willingness to undertake the difficult but absolutely essential task of focusing attention on the tough choices our nation faces. The Concord Coalition stands ready to assist in any way that we can.