S. HRG. 110–221

S. 2063, THE BIPARTISAN TASK FORCE FOR RESPONSIBLE FISCAL ACTION ACT OF 2007

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

October 31, 2007—S. 2063, THE BIPARTISAN TASK FORCE FOR RESPONSIBLE FISCAL ACTION ACT OF 2007

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S. 2063, THE BIPARTISAN TASK FORCE FOR RESPONSIBLE FISCAL ACTION ACT OF 2007

WEDNESDAY, OCTOBER 31, 2007

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 9:03 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Kent Conrad, Chairman of the Committee, presiding.

Present: Senators Conrad, Nelson, Stabenow, Cardin, Whitehouse, Gregg, Domenici, and Graham.

Also present: Senator Voinovich.

Staff present: Mary Ann Naylor, Majority Staff Director; and Denzel McGuire, Minority Staff Director.

OPENING STATEMENT OF CHAIRMAN CONRAD

Chairman CONRAD. The hearing will come to order. I want to welcome everyone to today's Budget Committee hearing on the Bipartisan Task Force for Responsible Fiscal Action Act, which Senator Gregg and I have introduced just last month. This hearing is designed to give the Budget Committee feedback on the proposal from key leaders and policy experts. I would like to welcome especially the distinguished witnesses we have here today.

House Majority Leader Steny Hoyer has done an outstanding job in his leadership role in the House, has been a strong advocate for PAYGO fiscal discipline and addressing our long-term fiscal challenges. We are honored to have him with us today.

In addition, we have former House Budget Committee Chairman, OMB Director, and White House Chief of Staff, Leon Panetta, who brings an unparalleled level of Government experience and knowledge to the table. In his role as Co-Chairman of the Committee for a Responsible Federal Budget, Leon Panetta continues his commitment to a sound fiscal future for the country.

We also have with us today the Government Accountability Office Comptroller General David Walker, who has truly driven the national agenda on this issue, and we are indebted to him for his leadership. His convening of the Fiscal Wake-Up Tour is providing a tremendous public service and is getting a very strong response from around the country. We cannot thank him enough for his efforts and for being here today.

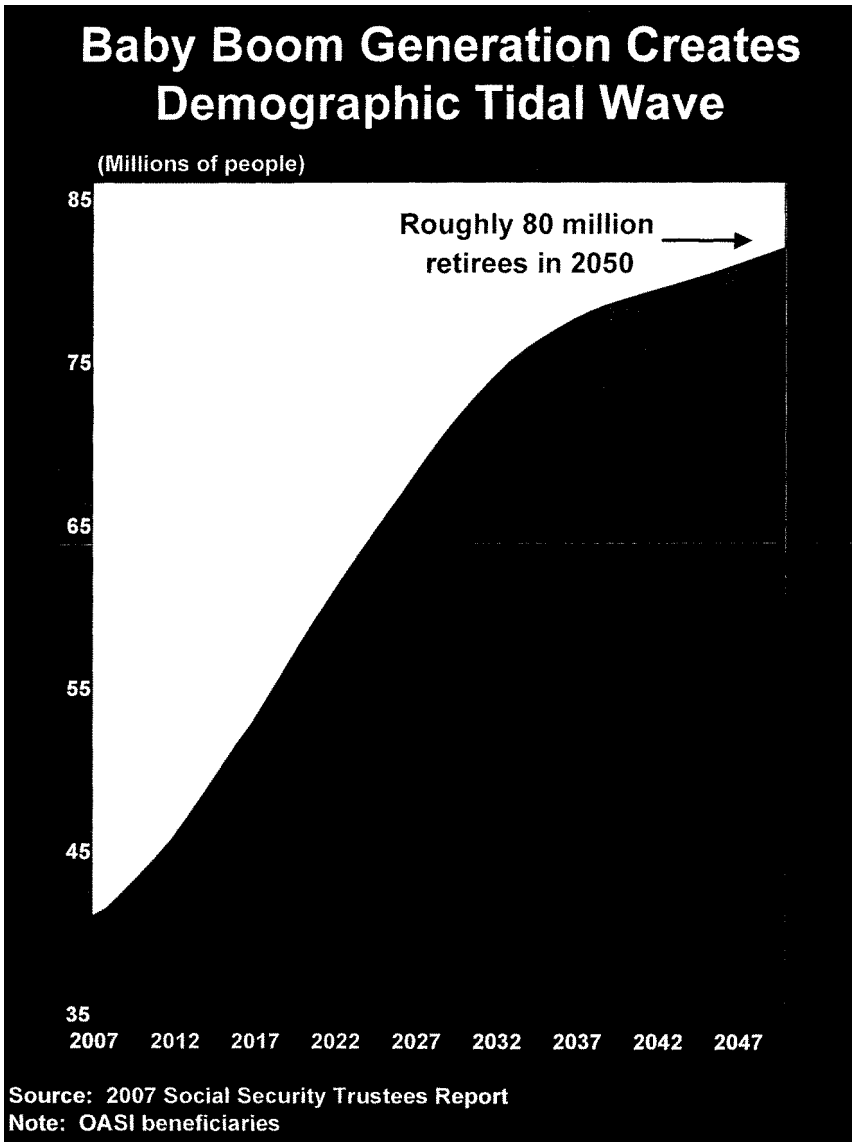
The AARP CEO Bill Novelli brings another important voice to the table. As the leader of AARP, Bill Novelli represents the 38 million members of his organization age 50 and older. We very

much appreciate Bill Novelli and the vision and the leadership that he has brought to these issues.

And we also have with us the Concord Coalition Executive Director Bob Bixby. Bob has joined Comptroller General Walker and Leon Panetta on the Fiscal Wake-Up Tour and has been another leading voice in the fight for fiscal responsibility. And I thank all of these witnesses.

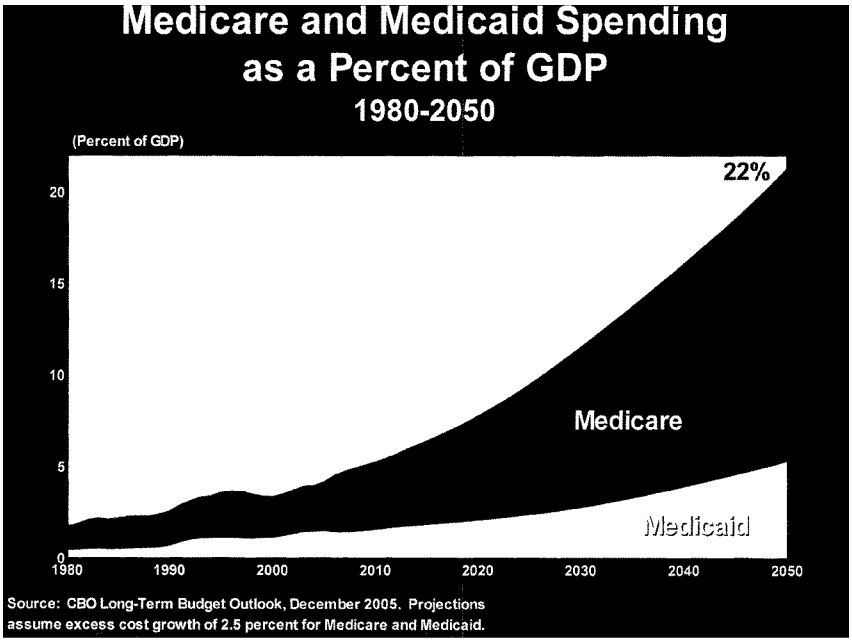
Let me begin by just briefly outlining the problem as we see it and the key elements of the legislation Senator Gregg and I are proposing. Put up the first slide, if we could.

We are facing a demographic tidal wave. The number of retirees is projected to climb to roughly 80 million people by 2050.



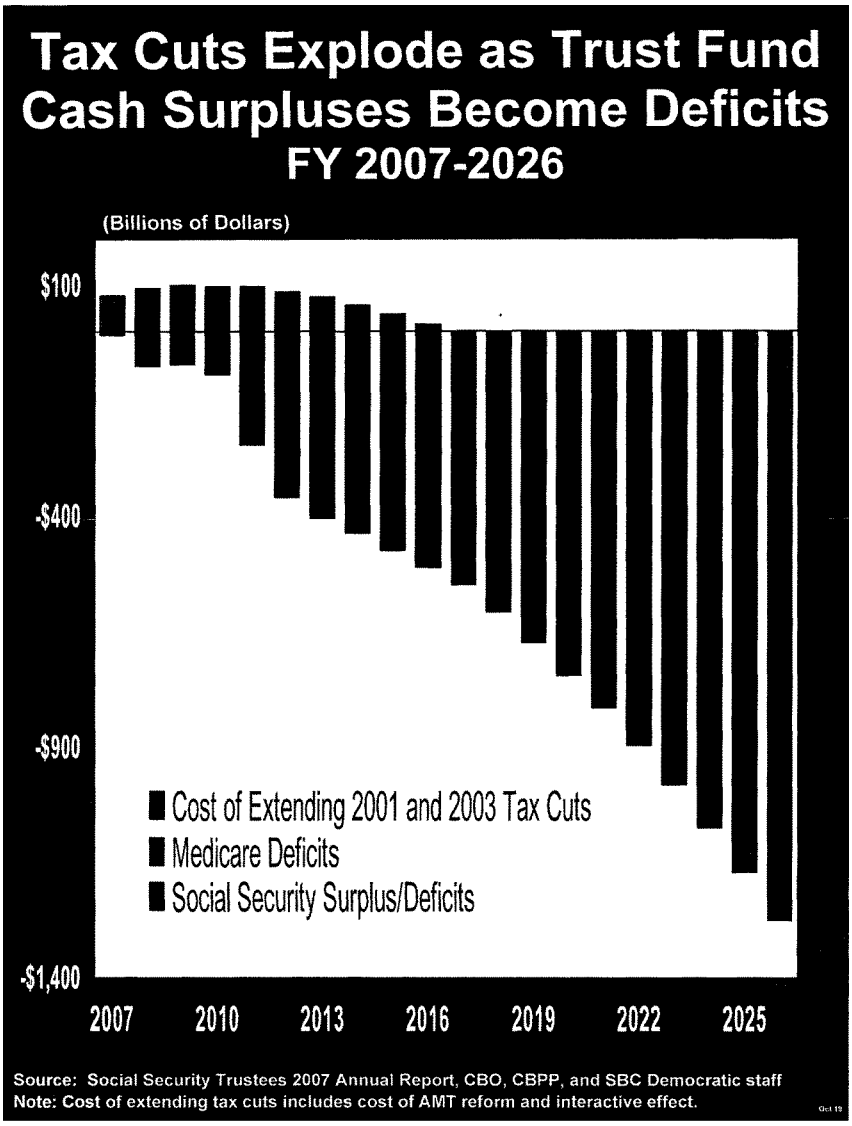
Let's go to the next slide, if we could.

Rising health care costs are compounding the problem by exploding the cost of Federal health programs. By 2050, if nothing changes, more than 20 percent of our gross domestic product will be spent on Medicare and Medicaid alone. That is more than we now spend on the entire Federal Government.



Let's go to the next one.

We do not just have an entitlement spending problem. A lot of the emphasis on this hearing today, I have noticed, is about entitlements, and clearly, they are at the center of what needs to be done. But we also have a larger imbalance between revenues and expenditures. If all of the 2001 and 2003 tax cuts are made permanent without offset, the costs will explode at the same time that the cash surpluses in Social Security and Medicare become deficits. In other words, the tax cuts will dramatically worsen an already deteriorating, long-term budget picture—that is, if they are un-offset either by spending reductions or by other revenue.



Clearly, we have to act, and we have to act sooner rather than later. Here is a quote from the Federal Reserve Chairman Mr. Bernanke making exactly this point. He said, "One might look at these projections and say, well, they are about 2030 or 2040, so we really do not have to start worrying about that yet. But, in fact, the longer we wait, the more severe, the more draconian, the more difficult the adjustments are going to be. I think the right time to start is about 10 years ago. And the reality we confront is that whatever option is chosen, we must have bipartisan support. These problems are simply too big to be tackled by one party alone."

Federal Reserve Chairman Bernanke on Budget Outlook

"... [O]ne might look at these projections and say, 'Well, these are about 2030 and 2040 and ... so we don't really have to start worrying about it yet.' But, in fact, the longer we wait, the more severe, the more draconian, the more difficult ... the adjustments are going to be. I think the right time to start is about 10 years ago."

– Federal Reserve Chairman Ben Bernanke
Testimony before Senate Budget Committee
January 18, 2007

The former Treasury Secretary John Snow made this point earlier this year. He was quoted in the Wall Street Journal as saying, "You cannot do health care reform or Social Security reform without a bipartisan consensus. If we have made a mistake, it was not approaching it in a more bipartisan way."

Former Treasury Secretary Snow Acknowledges Need for Bipartisan Approach to Solving Long-Term Challenges

"You can't do health care reform or Social Security reform ... without a bipartisan consensus.... If we made a mistake, it was not approaching it in more of a bipartisan way."

–Former Treasury Secretary John Snow
As quoted by *The Wall Street Journal*
February 6, 2007

Now, clearly, we must do this on a bipartisan basis. That is why Senator Gregg and I believe our legislation is an approach that could work. Here is a summary of how it works.

Bipartisan Task Force for Responsible Fiscal Action

- To address unsustainable long-term imbalance between spending and revenues
- Everything on the table
- 16 members – 8 Democrats, 8 Republicans (two from Administration, including Treasury Secretary)
- All task force members must be currently serving in Congress or Administration
- Report to be submitted on December 9, 2008
- 12 of 16 members must agree to report
- Fast-track consideration in Senate and House
- Final passage requires supermajority – 3/5 vote in Senate, 3/5 vote in House

It creates a bipartisan task force designed to address the unsustainable long-term imbalance between spending and revenues with a special focus on the long-term entitlements. Everything will be on the table.

It will be made up of 16 members—8 Democrats and 8 Republicans. The Senate Majority Leader and the Speaker of the House will select the eight Democratic members; the Senate and House Minority Leaders will choose six Republican members. The two additional Republicans will include the Secretary of the Treasury Henry Paulson, who would chair the group, and another administration representative selected by the President.

All task force members must be currently serving in Congress or the administration. The task force would submit its report by December 9th of 2008 to be acted upon by the incoming 111th Congress. This will come after the November election, so Presidential politics should not play a part in the outcome.

To ensure a bipartisan result, three-quarters of the task force—12 of the 16—must agree to the report. Each side will have to move off their hardened positions to reach an agreement. To ensure timely action, the legislative recommendations will be given fast-track consideration in the Senate and the House. And to again reinforce the bipartisan nature of the legislation, final passage will require a supermajority—three-fifths of both the House and the Senate. A strong bipartisan vote for legislation will help ensure it receives wide support from the public and is not overturned by a future Congress and administration.

I believe the stakes are enormously high for this country. I believe our Nation's fiscal future is on the line. We simply cannot ignore the coming crisis and hope the future will somehow solve these problems unaided by congressional and administrative action. The longer we wait, the harder the choices will become. The time for action is now.

I know these are difficult subjects. I have had colleagues come to me over the last several days and express concern about the direction we are taking, concern about what Committee of jurisdiction would be affected, concern about one aspect of this, the timing of it, the make-up of the group. All of those are legitimate concerns, and that is why we are having this hearing, to try to get on the table what are serious concerns that could be addressed constructively.

With that, I want to turn to my colleague Senator Gregg, who has been such an able partner in this effort. While Senator Gregg and I sometimes disagree on matters before this Committee, on this we are absolutely joined at the hip. We believe strongly that this is an opportunity to address these long-term fiscal concerns.

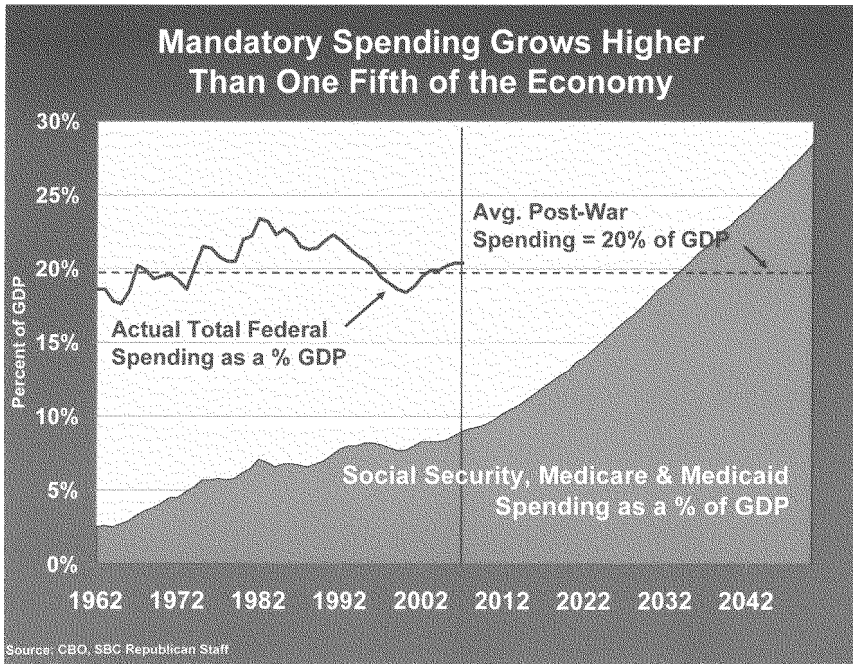
I also want to welcome our colleague Senator Voinovich, who is not a member of the Committee but who has asked to sit in today, and we certainly welcome him. He has been a leader on these issues in the U.S. Senate, somebody that recognizes the long-term dangers of inaction, and we certainly welcome Senator Voinovich to be with us today.

Senator Gregg?

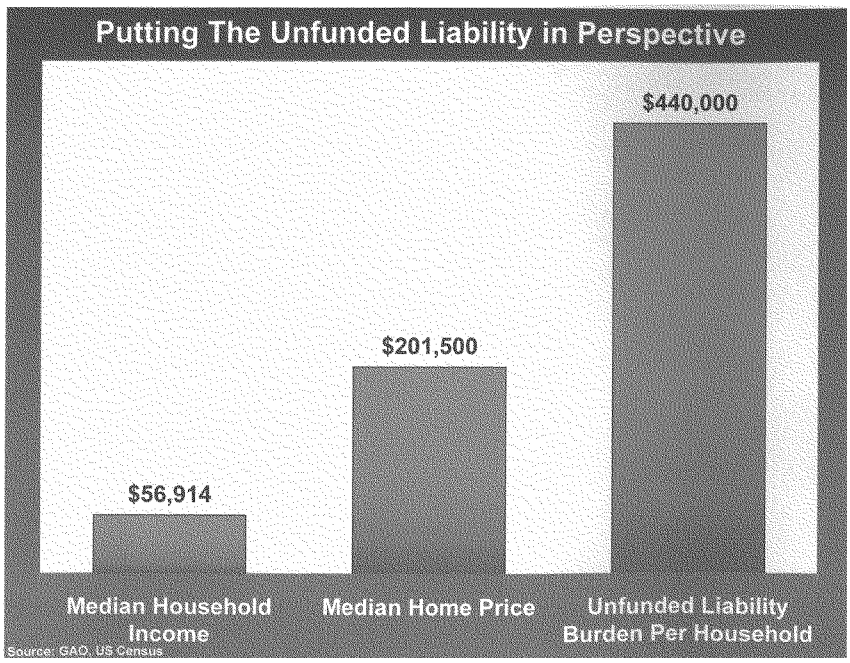
OPENING STATEMENT OF SENATOR GREGG

Senator GREGG. Thank you, Mr. Chairman. Let me once again congratulate you for not only putting your toe in this water, but jumping in completely on the issue of how we address what I consider to be and what you obviously consider to be the single biggest domestic issue which we face as a Nation as we move into the next 10 to 20 years, and that is, how we deal with the retirement of the baby-boom generation, how we continue to deliver quality services to that generation as it retires without overwhelming the ability of our children and our children's children to have a quality of life too.

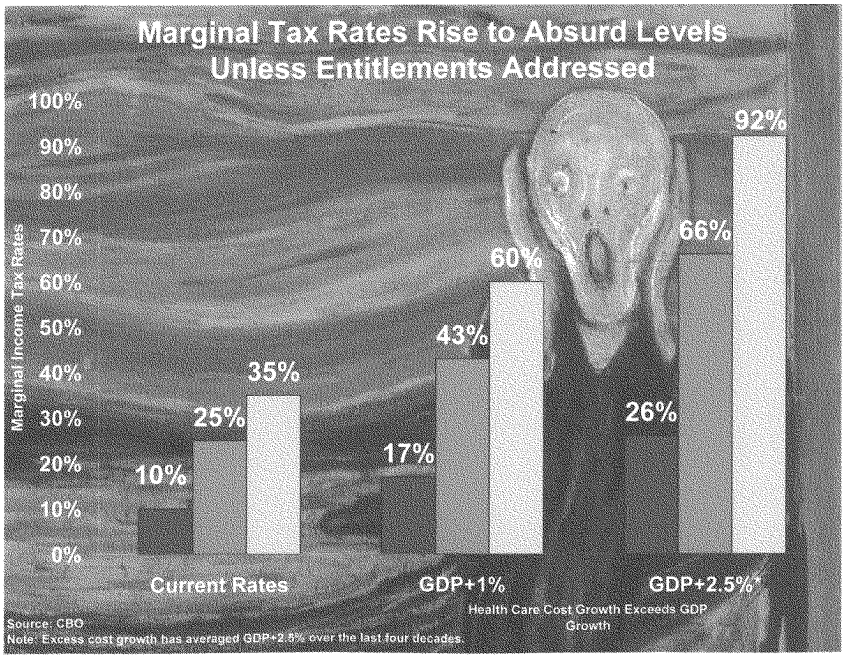
I think you framed the question well. In your first chart, it was pointed out that we double the retirement age. Let me just put up another chart, however, which, of course, we have seen before, which reflects the fact that the issue really comes down to three basic programs, which are the major entitlement programs—Medicare, Social Security, and Medicaid—and the fact that those three programs under their present rate of growth projections—which are not going to change, by the way, because the people who are going to create this issue are alive and they are going to retire, and they are my generation and your generation. And as a result, the cost of supplying the benefits which have been promised to those individuals will exceed the amount that is presently spent by the Federal budget as a percentage of gross national product by the year 2025 and will continue to climb, so that we will end up in the high–20-percent range, probably up around 27 or 28 percent of gross national product, being required to support those three programs alone by the mid-2030 period. And that is simply not sustainable.



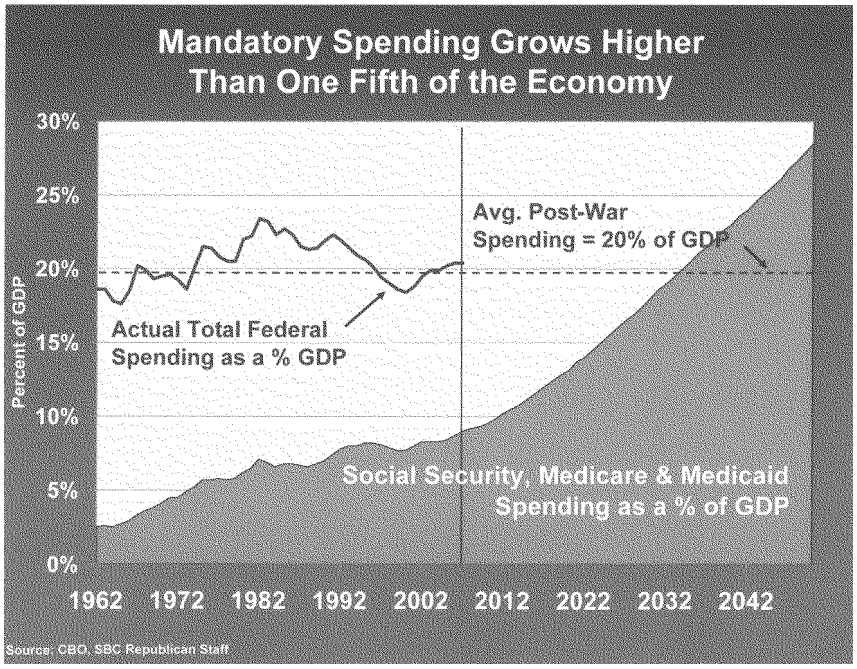
To put it in another context, the median income of the American household today is about $56,000. The median home price of the American family or the value of their home is about $200,000. The unfunded liability—and this is just Social Security and Medicare—for every American family today is $440,000. That means we have on the books an unfunded liability that exceeds by a factor of 2 the value of their home or their assets, and obviously by a significant factor the income of the American people.



Now, you cannot tax your way out of this problem, if we did the tax rates would essentially be out of control on the American people if you simply tried to address this issue on the tax side of the ledger. That does not mean taxes should not be on the table. They should be on the table, and this proposal puts them on the table.



But the problem—go back to the first chart.



The problem is undeniable and it must be addressed, and that is why I congratulate the Chairman for holding these hearings, but more importantly, I appreciate the Chairman being willing to work in a bipartisan way to try to resolve the issue.

And why have we chosen this process? Because we believe that when you put policy on the table, it is good, it gets debated, but it does not go anywhere because the way this system works around here is that, once you put an idea on the table, it immediately is confronted with the naysayers, and the well gets poisoned before the idea can move down the road. So instead of putting the policy on the table first, we have concluded that what we need to put in place a procedure which will drive policy, good policy, and result in action. And, thus, that is why this commission is structured the way it is.

Second, we believe that any resolution of this issue has to be absolutely bipartisan, and it has to be viewed by the American public as absolutely fair. These programs affect so many Americans that unless they perceive the solution to be fairly reached and in a bipartisan way, it is simply not going to work. That is why we especially appreciate the AARP participating today, because you represent, obviously, a huge constituency that is impacted by this.

And, third, we think, the two of us, and those who are sponsoring this bill—and we obviously have people in the House here supporting it, and we especially appreciate the Majority Leader being here today. His imprimatur is absolutely critical to this effort. But we believe that for the procedure to work, you have to put in a room the players who have money in the game, so to say, the people who are responsible for the decision and who understand the policy. And that is why we have limited this to Members of Congress and to the executive branch. Everybody knows the moving parts here, especially on Social Security, and there is no question that you can go to the substance of a resolution fairly quickly if you can back out the politics. And so by putting the players in the room who understand the issue and asking them to work in a bipartisan and fair way to reach a conclusion, we believe we set up a process which will lead to the right policy. And the key to this whole exercise is basically to use fast track. Because we have had a lot of commissions, the Chairman has served on them, really good commissions which have put out really good ideas. But because there has been no action point, nothing has happened because the issues are so hot button and so radioactive.

And so the proposal here is that whatever proposal comes out of this group—remember, it has to come out with 75 percent of the members of the commission agreeing, and then 60 percent of the House and the Senate agreeing—it is fast-tracked for a vote so the decision is made on whether or not it makes sense. Procedure can drive policy, in our opinion, and that is why we have structured it this way.

And so, again, I congratulate the Chairman for his extraordinary work in this area. If we are successful, he will deserve the majority of the credit, and it will be a tremendously appropriate thing to do for the American people.

Thank you, Mr. Chairman.

Chairman CONRAD. I very much appreciate the Ranking Member's kind words, but I was just wondering: In terms of this caricature, was this supposed to be my likeness?

[Laughter.]

Senator GREGG. When Edvard Munch did that, he was thinking of you, even though you had not been born.

[Laughter.]

Senator GREGG. I believe the painting was stolen. I am not even sure they got it back yet.

Chairman CONRAD. OK. Well——

Senator STABENOW. Mr. Chairman, on behalf of the Committee, I would like to say that does not look at all like you.

[Laughter.]

Chairman CONRAD. I thank the Senator, the gentlelady from Michigan.

We now want to turn to the Majority Leader of the House of Representatives, the Honorable Steny Hoyer, somebody who has a sterling reputation on the question of fiscal responsibility. Welcome, Majority Leader.

STATEMENT OF HON. STENY H. HOYER, MAJORITY LEADER, UNITED STATES HOUSE OF REPRESENTATIVES

Mr. HOYER. Thank you very much, Mr. Chairman. I am very pleased to be here with you and Mr. Gregg, and I want to congratulate both of you for your leadership on this critically important issue.

Very frankly, I thought that that picture might be depicting our children 25 years from now as they are aghast that none of us did what was necessary to do to save them from the crisis that will confront them if we do not act. Your proposal attempts to achieve that objective.

I want to say how pleased I am to be here with a number of you with whom I have served, including the distinguished Ranking Member, Mr. Gregg, for a short period of time before he came to the Senate; Debbie Stabenow, my very dear and good friend; and, of course, probably my closest friend, one of my closest friends in life, and certainly in the Congress of the United States, he and I were elected to the General Assembly together in 1966——

[Laughter.]

Senator CARDIN. Can I——

Chairman CONRAD. He now wants personal privilege.

[Laughter.]

Mr. HOYER. Ben Cardin.

Chairman CONRAD. Do you want to deny that he is a friend?

Senator CARDIN. Yes, am I going to be able to correct the record here.

[Laughter.]

Chairman CONRAD. Probably not.

Mr. HOYER. And, Senator Whitehouse, good to be here with you, sir.

I am also very pleased to be here with my dear friend with whom I served so long in the Congress, and he was, of course, a leader in the Clinton administration, Leon Panetta; David Walker, who has been a giant in trying to call the attention of the American

public to the crisis that confronts this; Bill Novelli, who, as you pointed out, Judd, represents an extraordinarily important constituency in participating in solving the problem that confronts us; and Robert Bixby, representing the Concord Coalition, who does such great work in also calling the American public's attention to this crisis.

I want to also say that although I did not serve with him in the Congress of the United States, he and I have become good friends, and I so admire you, Senator Voinovich, for the courage that you have shown in speaking out on tough issues.

Mr. Chairman and Ranking Member Gregg, thank you for inviting me to testify at this very important, timely hearing on proposals to establish a bipartisan task force to address our Nation's long-term challenges. Before I begin, I also want to thank two other witnesses here today: Comptroller General David Walker, whom I have already referred to; and Robert Bixby, the Executive Director of the Concord Coalition; as well as Leon and David.

As Mr. Bixby has stated previously, the basic facts of our fiscal challenges are a matter of arithmetic, not ideology. Two factors stand out: demographics and health care costs. Analysts of diverse ideological perspectives and nonpartisan officials at the Congressional Budget Office and the Government Accountability Office have all warned that current fiscal policy, as both you, Mr. Chairman, and Mr. Gregg have pointed out, is unsustainable. Our long term, even under the most optimistic projections, is not sustainable.

The bottom line is this: Turning a blind eye to our long-term challenges would not only be irresponsible, it would be dangerous to our Nation's continuing success. And I would say Mr. Gregg indicated that this was our largest domestic problem. In the long term, in my opinion, this will be our Nation's critical problem domestically and internationally because it will undermine our ability to fund responses in either arena.

We must consider the consequences that our actions or our failure to act will have on our future and the ability of those who come after us to meet the challenges we face. Those of us who believe that the American people want their Government to invest in national security, health care, education, infrastructure, scientific research, and other priorities have a critical stake in addressing the budgetary pressures that will be created by the growth of entitlement spending. If we fail to act, future Congresses will find their hands tied in meeting new challenges and funding other priorities, and I believe that our Nation will be weakened as a result. Thus, we must act. We do not have time to waste with the first of 78 million baby boomers preparing to retire next year.

And there is plenty of room, of course, for debate over the mix of options that should be considered. Recall that in 1983, President Reagan and Speaker O'Neill worked together across party lines to protect Social Security, setting an example for future generations. In fact, that was not particularly controversial, notwithstanding the fact we took significant actions. It was not because the American people concluded that President Reagan and Speaker O'Neill both believed it was necessary to do, that as difficult as it might

be, perhaps, in fact, it was necessary to do. We need to do the same thing now.

Finding a politically viable, equitable, and financially sound solution to our fiscal challenges will require bipartisan discussions in which all options must be on the table, as both you and Mr. Gregg have pointed out. A solution must be bipartisan. Rigid ideology must give way to workable solutions, and reasonable sacrifice will be required. None of us, of course, like to discuss that.

I would like to believe that Congress could address these issues through the regular legislative process. However, the experience of recent years suggests that this is extremely difficult in the current political environment, and perhaps in political environs in the past. Therefore, as you have and I have reluctantly concluded, a task force or commission may be the best way to bring us to the place where we can spur action on this issue and reach agreement on solutions.

I agree with those who say that we should act sooner rather than later. I think the President is correct on this, and all others who make that observation, because left untended, our challenges only grow greater and solutions more difficult.

Nevertheless, I have reservations about the timetable set forth in the Conrad-Gregg proposal, which envisions the task force putting forward a final plan with legislative recommendations in December of 2008. Under this proposal, legislative recommendations would be developed by a task force that includes members of the current administration, even though the recommendations would not be acted on until the new administration takes office. I see two problems with this idea.

First, this administration, which has refused, in my opinion, to put all options on the table, would have even less of an incentive to make compromises in a process that would not culminate until they left office.

Second, the new administration will have no stake in the success of a proposal that has been put together without its participation.

Now, do not misunderstand this observation. These concerns did not require us to hold off acting in 2008. Instead, I believe we should move forward next year with enabling legislation providing for the establishment of the commission, as you suggest, or task force, so that work on developing recommendations can begin quickly after our new administration is sworn into office. The commission could even begin to move forward with the process of defining the scope of the problem and engaging the American public on the choices, the educational efforts we face, thereby building on the work begun by Treasury Secretary Hank Paulson.

As many of you have, I have spent a lot of time with Secretary Paulson. I think he came to Washington from an extraordinarily lucrative endeavor to give service to his Nation to try to accomplish reform on entitlements. I think he is, like many of us, discouraged, which has led to this proposal.

For example, the Securing America's Future Economy Act, introduced by Congressmen Cooper and Frank Wolf and Senator George Voinovich, sets forth a two-part process in which the commission spends 6 months engaging the public in a dialog and issues an interim report detailing the problems before beginning the second

stage of putting forward recommendations. I am sure that all of you will be discussing, as we will on the House side, that alternative.

However, the process of developing a plan and legislative recommendations, in my opinion, should not begin until we have a new administration inaugurated on January 20, 2009. That is not a criticism of the present administration. It is a recognition that the timeframe in which this will be solved will not be this administration. A new administration is able to provide input into the process, either through direct participation of the task force or through appointments to the task force.

I also strongly believe, Mr. Chairman, that the process for considering the task force recommendations should be revised to allow consideration of alternatives from the administration and Congress or other budget-neutral amendments. Those who oppose the priorities and tradeoffs recommended by the commission should be given, I think, the opportunity to put forward constructive alternatives. However, I certainly agree with Senator Gregg's observations that we need a process that will require consideration. I think you are absolutely right. Having a report, having input, having education is a process that has already been done. What we need is a process to enforce some action.

This approach, which is included in the SAFE Commission's proposal, also would increase the prospects of enacting legislation by making it possible to modify the task force proposal to deal with the elements of the recommendation that proved to be controversial and jeopardize enactment of the entire plan.

A commission, of course, is not a silver bullet. Members of Congress and the administration still must be willing to make tough choices. However, a commission with credibility and bipartisan support could, and hopefully will, provide the leadership necessary to ensure that these issues receive the attention and serious consideration they deserve.

Again, I congratulate both of you for your leadership on this effort and indicate to you that while I am here as an individual—and I do not speak for either my party or the House on this issue—I want to assure both of you that I look forward to working closely with you and with the administration, present and future, addressing this critical issue to our Nation and to our people.

Thank you very much.

[The prepared statement of Mr. Hoyer follows:]

Testimony of House Majority Leader Steny Hoyer

Before the Senate Budget Committee

Bipartisan Task Force for Responsible Fiscal Action

October 31, 2007

As Prepared for Delivery

Chairman Conrad, Ranking Member Gregg, Members of the Committee:

Thank you for inviting me to testify at this very important hearing on proposals to establish a bipartisan task force to address our nation's long-term fiscal challenges.

Before I begin, I also want to thank three other witnesses here today – Comptroller General David Walker; Robert Bixby, the executive director of the Concord Coalition; and Leon Panetta, co-chair of the Committee for a Responsible Federal Budget – for their tremendous contributions in focusing on this critical issue.

As Mr. Bixby has stated previously, the basic facts of our fiscal challenges are a matter of arithmetic, not ideology. Two factors stand out: demographics and health care costs.

Analysts of diverse ideological perspectives and nonpartisan officials at the Congressional Budget Office (CBO) and the Government Accountability Office (GAO) have all warned that current fiscal policy is unsustainable over the long term even under the most optimistic projections.

The bottom line is this: Turning a blind eye to our long-term challenges would not only be irresponsible, it would be unforgivable. We must consider the consequences that our actions – or our failure to act – will have on our future and the ability of those who come after us to meet the challenges they will face.

Those of us who believe that the American people want their government to invest in education, infrastructure, scientific research and other priorities have a tremendous stake in addressing the budgetary pressures that will be created by the growth of entitlement spending. If we fail to act, future Congresses will find their hands tied in meeting new challenges and funding other priorities.

Thus, we must act. We do not have time to waste – with the first of 78 million Baby Boomers preparing to retire in 2008. And, there is plenty of room for debate over the mix of options that should be considered.

Recall that in 1983, President Reagan and Speaker of the House Tip O'Neil worked together, across party lines, to protect Social Security – setting an example for future generations.

We need to do the same thing now.

Finding a politically viable and equitable solution to our fiscal challenges will require bipartisan discussions in which all options are on the table. A solution must be bipartisan; rigid ideology must give way to workable solutions; and reasonable sacrifice will be required.

I would like to believe that Congress could address these issues through the regular legislative process. However, the experience of recent years suggests that this is extremely difficult in the current political environment.

Therefore, I have reluctantly concluded that a task force or commission with special legislative procedures for consideration of the commission proposal may be necessary to reach an agreement on a solution and spur action on this issue.

I agree with those who say that we should act sooner rather than later – because, left untended, our challenges only grow greater the longer we wait. But I have serious reservations about the timetable set forth in the Conrad-Gregg proposal, which envisions the task force

putting forward a final plan with legislative recommendations in December of 2008.

Under this proposal, legislative recommendations would be developed by a task force that includes members of the current administration, even though the recommendations would not be acted on until a new administration has taken office.

I see two problems with this idea. First, this administration, which has refused to put all options on the table, would have even less of an incentive to make compromises in a process that would not culminate until it was out of office.

Second, the new administration will have no stake in the success of a proposal that has been put together without its participation.

Do not misunderstand me: These concerns need not require us to hold off on acting until 2009. Instead, I believe we should move forward next year with enabling legislation providing for the establishment of a commission or task force so that work on developing recommendations can begin quickly after our new President is inaugurated.

A commission could even begin to move forward with the process of defining the scope of the problem and engaging the American public on the choices we face, thereby building on the work begun by Treasury Secretary Hank Paulson.

For example, the Securing America's Future Economy (SAFE) Act -- introduced by Congressmen Jim Cooper and Frank Wolf and Senator George Voinovich -- sets forth a two-part process in which the commission spends six months engaging the public in a dialogue and issues an interim report detailing the problem before beginning the second stage of putting forward recommendations.

However, the process of developing a plan and legislative recommendations should not begin until our new President is inaugurated in January 2009, and the new administration is able to

provide input into the process either through direct participation in the task force or through appointments to the task force.

I also strongly believe that the process for considering the task force recommendations should be revised to allow consideration of alternatives from the administration and Congress or other budget neutral amendments. Those who oppose the priorities and tradeoffs recommended by the commission should be given the opportunity to put forward constructive alternatives.

This approach, which is included in the SAFE Commission proposal, also would increase the prospects of enacting legislation by making it possible to modify the task force proposal to deal with elements of the recommendation that prove to be controversial and jeopardize enactment of the entire plan.

A commission is not a silver bullet that will solve our fiscal problems by itself. Members of Congress and the administration still must be willing to make tough choices. However, a commission with credibility and bipartisan support could provide the leadership necessary to ensure that these issues receive the attention and serious consideration they deserve.

Thank you.

Chairman CONRAD. Majority Leader Hoyer, first of all, thank you for the very thoughtful suggestions that you have made here, and it is, I think, especially helpful to the consideration of this proposal that we will give on this side. And I would just speak for me. I take very seriously suggestions that come from you because you have enormous credibility with me, and I deeply appreciate your taking the time to think through these issues and give us your thoughts.

Senator Gregg, any comments?

Senator GREGG. Well, first off, again, I want to echo what the Chairman says. Your credibility on this is critical to the process, and so the fact that you have been willing to come forward and be so outspoken is just, I think, extraordinarily positive for moving something forward.

You have raised two fundamental issues with the proposal we have got, which is the timing and the amendment process, which are very legitimate concerns. I guess I have less issues with the timing. I think your arguments on timing are probably, as we move down the road, probably very legitimate. I do think there is some advantage, quite honestly, to having it in the divided Government. We have a divided Government now. Whether we will have a divided—I hope we will have one Government the next time around, and it will be a different Government, and I hope it will change the current one we have. But, in any event, let's assume that we do not get a divided Government the next time around. I think it will be more difficult for the process.

Mr. HOYER. I agree.

Senator GREGG. But I think your timing issue is legitimate from the standpoint of that is something that should be able to be worked through.

On the issue of amendment, I just want to make this case, which is that the whole concept here is to have the players at the table, have those players have to reach an agreement which is viewed as fair and bipartisan—that is why we have the supermajority. For the commission to report, it takes 75 percent of the commission; 12 out of 16 have to agree. So either side can kill it if they do not like it, and as a practical matter, both sides have to like it before it could pass. And so the idea is that what they produce should be a package that should be able to go through the process and be voted up or down. And if you give another shot, bite at the apple, so to say, coming out of left field—or right field—you immediately activate the naysayers at a level that probably kills the whole process. You give them a vehicle to say, well, I would do this but I will not do that.

And so I believe very strongly that a non-amendable vehicle along the lines of BRAC is the way to do it, but we can discuss that. But I certainly value your thoughts.

Mr. HOYER. Senator, if I might, I think you make a good argument. I think you can argue it both ways. I think in the final analysis, it is going to depend upon a President and a congressional leadership that wants to do this, whatever the mechanism. I mentioned O'Neill and Reagan. The crisis confronting them was real. They perceived it as real, and they responded in a bipartisan fashion, and that is why we got it done. I think ultimately that is the way we are going to get it done, hopefully.

I want to observe to you that I am disappointed that in the construct that is present today, with a Republican President and a Democratic Congress, Speaker Pelosi—the to-be-Speaker Pelosi and I had lunch with President Bush 2 days after the election. I brought up the issue that we had an opportunity with a Republican President and a Democratic Congress to resolve, hopefully, solutions to these issues. The reason I think that works is because the Republican President can blame the Democratic Congress or the Republican Congress can blame the Democratic President, however you want to perceive it, for that which is difficult for their constituents—whether it is raising revenues or adjusting benefits. Such a nice word, "adjusting" benefits. But they can blame the other side for doing so, which is why it works. And I frankly think—and I think it is unfortunate for our people—we have missed an opportunity in this last 12 months. I think Secretary Paulson believes that as well, and I share his view. But I think a fact of life is, as your commission recognizes, that it does not appear that we are going to make any progress in the current construct.

Senator GREGG. I agree with you, and we did miss an opportunity, and it was missed in January, and certainly not because we did not make an effort to do that. But I think it needs to be pointed out here that whether the next President understands this or not, the next President's Presidency is going to be defined by how they handle this problem, because they are going to be 8 years into the retirement of the baby-boom generation. The baby-boom generation starts to retire now. They are going to be 8 years into that retirement. The wave, which is a tsunami type of event, is going to be not over the horizon. It is going to be on the horizon, and coming at us and starting to break.

So the next President has to address this issue. There is no choice.

Chairman CONRAD. I know, Majority Leader, you have other duties that call, and, again, we thank you very, very much for your contribution here today. It is very thoughtful as always. And I tell you, I think we are approaching a defining moment, and the fact that you are an active advocate for proceeding and trying on a bipartisan basis to present the country with alternatives, solutions, I think is especially important, and we thank you for it.

Mr. HOYER. Thank you, Mr. Chairman. Thank you.

Chairman CONRAD. The Committee will call the second panel led by the Honorable Leon Panetta, the Co-Chair of the Committee for a Responsible Federal Budget and Director of the Panetta Institute; the Honorable David Walker, the Comptroller General of the United States; Bill Novelli, the CEO of AARP; and Bob Bixby, the Executive Director of the Concord Coalition.

I want to thank all the witnesses here. I especially want to thank them for being willing to be part of a panel. We are trying to accommodate time constraints of some of the witnesses here, but we thought this subject is so important and the witnesses that are here are such central voices to this debate that we wanted to accommodate them in every way possible.

With that, I want to welcome Leon Panetta, a man with a remarkable background: Chairman of the Budget Committee in the House of Representatives, the head of the Office of Management

and Budget, Chief of Staff to the President of the United States. I do not know of anybody that has had a broader experience or background in trying to actually come up with solutions on a bipartisan basis than Leon Panetta.

So, Leon, our warmest welcome to you.

STATEMENT OF HON. LEON E. PANETTA, CO-CHAIR, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET, AND DIRECTOR, PANETTA INSTITUTE FOR PUBLIC POLICY

Mr. PANETTA. Thank you, Mr. Chairman and Senator Gregg and my friends and colleagues that I have had the opportunity to work with in the past. I really appreciate the opportunity to be able to come here and testify on behalf of S. 2063, the effort to create a bipartisan task force or commission to try to deal with the fiscal problems facing this country.

I am honored to have this opportunity and appear before you as Co-Chair of the Committee for a Responsible Federal Budget. It is a group that has been working, as many of you know, over 25 years to try to promote the effort for fiscal responsibility.

I have come before you a number of times in the past to fight for budget priorities and for budget discipline. And in the past, I must say, although there were political differences with regards to how we approached this issue, I always felt there was a fundamental commitment by both parties—by both parties—to try to work toward deficit reduction and a balanced budget.

I think you are facing an even greater challenge at the present time because although there are concerns about the debt, the growing debt that we face, there appears to be a lack of will and commitment to make the tough decisions that have to be made if you are going to achieve deficit reduction.

I commend you, Mr. Chairman, Senator Gregg, for the effort that you are putting forward here with this legislation because it is an effort to try to seek bipartisan cooperation and build, frankly, on the lessons of the past. We cannot ignore what we have been through in the past, and I think we ought to learn from those lessons. And that is what you are trying to do with this legislation.

I am here to try to share with you, I think, some of the principles that I learned during the time that I have had the honor to deal with this challenge. As Chairman of the House Budget Committee, as you pointed out, as Director of OMB, and as Chief of Staff to the President, I have participated in almost all of the key budget summits that were held during the past and the negotiations that were held to try to achieve deficit reduction.

We govern in our democracy either by leadership or by crisis. If leadership is there and willing to make the tough decisions, then hopefully we can avoid crisis or, in the very least, control crisis. But if leadership is not there, then ultimately crisis drives policy.

I think we are living at a time when crisis is largely driving policy, whether it is the war, whether it is global warming, energy issues, immigration, Social Security, Medicare, or runaway deficits. And every one of these issues in some way relates to resources and our ability to have resources to confront those challenges.

The failure to have adequate resources to confront each of these issues, I think, in large measure guarantees that probably for the

first time in our history, our children are going to have a lower standard of living, because we are basically burdening them not only with a huge debt, but we are going to fail to invest in their future because we will not have the resources to do that. We cannot invest in their future by borrowing from their future, and that is essentially what we are doing now.

It is clearly a moral imperative to confront this issue. I think it is a fiscal and economic imperative. And I happen to believe that, more importantly, this is an issue of national security because I do not think we can confront any of the major crises that face this country without first confronting the challenge of the budget, establishing fiscal discipline, and providing the resources necessary to deal with all of those crises that we face in the 21st century.

This failure of leadership combined with exploding entitlement programs, as pointed out, changing demographics, the rapid growth of health care costs, the slowing of the labor force, and growing interest costs places us on an unsustainable path to fiscal chaos. What is even more discouraging is that it seems to ignore every lesson we should have learned from the past.

Every President, going back to Washington, had to confront the challenge of dealing with deficits and dealing with debt, and they made it a moral obligation to confront those deficits, whether it was Washington, whether it was Lincoln, whether it was Franklin Roosevelt, whether it was George H. W. Bush, whether it was Ronald Reagan, or whether it was Bill Clinton. Every one of them made a moral commitment that you have to confront Budget issues and that deficits are not going to solve themselves. For many reasons, the Budget Act that we operate under basically recognizes the obligation to be fiscally responsible. That is why the Budget Act was passed, to create that discipline.

In the 1980's and 1990's, the prospect was that we were going to face record deficits going from $250 billion to $500 billion to $600 billion. I think there was one projection that had us at $600 billion going into the 21st century. We faced exactly the same gridlock between Republicans and Democrats at that time. Republicans did not want to raise taxes, cut defense; Democrats did not want to cut domestic spending or deal with entitlements. And so there was gridlock.

With the failure of leadership to confront that challenge, what happened was that crisis then became the engine that forced change. On the one hand, there was manmade crisis, because what we developed with Gramm-Rudman basically cut everything across the board, and as a result, Congress did not want to face the issue of a drastic cut across the board. That was one crisis. But there was also a crisis that took place in the markets with the stock market crash in 1987. And there was real concern that the markets would continue to weaken if we did not exercise fiscal discipline at that time.

To the credit of President Reagan, he convened the first budget summit that was made up of the leadership of both the House and the Senate, along with representatives from the administration, and we developed at that time a bipartisan deficit reduction plan that was put in place. The first summit by a President. It was followed, as you all know, in 1990, by a second summit that was con-

vened by President Bush. That, too, included administration and congressional leaders. We met at Andrews Air Force Base for almost 2–1/2 months. We then brought the negotiations to the Capitol, and what we developed in the end was a deficit reduction package of close to $500 billion that included landmark budget enforcement tools that I can tell you, as Chairman of the House Budget Committee, were very effective tools I had to try to ensure that we stuck to that agreement.

Three years later, President Clinton built on the success of those efforts. When I was OMB Director, we put together the economic plan, and in many ways that economic plan reflected a lot of the same principles included in the 1990 budget agreement. We achieved a deficit reduction package of close to $500 billion that was evenly divided between spending restraints and revenues. While it was not bipartisan, ultimately I think those principles were embraced by a bipartisan agreement with the Balanced Budget Agreement in 1997, which was bipartisan, and which basically endorsed a lot of what was contained in the economic plan. All of that ultimately produced a balanced budget and a surplus that was approaching $5.7 trillion.

As a participant in all of those efforts, the key principles are these, and many of them are included in your legislation:

No. 1, it has to be bipartisan. It has to include Congress and the executive branch and the President. The key leaders of both parties need to be there. The President's key economic team needs to be there. It is important that the committees of jurisdiction be represented. You need Finance, you need Ways and Means, you need Budget, you need Appropriations. Those are the key committees that should be at the table in terms of negotiating.

No agreement that provides for serious deficit reduction can, frankly, be enforced without the support of those key committees and without the support of both Republicans and Democrats.

As pointed out, each party basically provides cover to the other party on some of the tough decisions that have to be made. That is the only way you can deal with all of the issues that face us.

That takes me to the second point: Everything has to be on the table. Everything has to be on the table. If you make exceptions, if you try to exclude certain areas from being considered, then you are dooming the process from the beginning. You have got to put everything on the table. That is not to say everything ought to be considered in terms of a final package, but everything has to be on the table. You have got to work your way through all of the issues.

Third, nothing is agreed to—this is what I call the Tom Foley principle, because he always used to say this at the beginning of the summit. Nothing is agreed to until everything is agreed to. It allows you the opportunity to consider every option, every possibility, but you do not have to necessarily include it until you have seen all of these pieces and finally put together a negotiated package.

Fourthly, there has to be enforcement. You cannot have an agreement if it cannot be enforced. That means that in the final set of policy recommendations you ought to include important budget enforcement tools. They have to be there. Spending caps

and PAYGO have to be considered, as well as an expedited process. I think you do need an expedited process.

I am a little concerned, frankly, about the supermajority requirement because if you are going to put together an effective deficit reduction package, this is tough. You are talking about some very tough choices that have to be there. And even with the support of the President, even with the support of the leadership, you are going to have a lot of members who are going to be very hesitant to support this kind of package. So take a look at that. I think it is sufficient to have a majority, frankly. On the House side, I think the rules will allow for not only an expedited process but for passage. On the Senate side, I think if you operate under budget and reconciliation rules, frankly you can avoid any barriers to trying to get the issue to the floor. I just think you ought to think about that, because if you go through a task force, you go through a commission, you need to get that passed.

No press. This thing has to take place in a confidential setting. You have got to have an honest exchange. If you are going to restore trust, which is the biggest problem you have got right now, the only way you are going to do it is if everybody can talk with each other honestly, without having it play out in public.

And, last, if you do deficit reduction, I think you ought to target it over 5 years. Obviously, entitlement reforms and changes will produce savings beyond that, but I think in a 5-year timetable, you at least have a realistic target area where you can basically try to achieve the goals established in an agreement. That is generally what we did in the past, and I would recommend it to you as an approach in the future.

S. 2063 is very important in the sense that it provides the same kind of framework for the principles that I just talked about, and that is the only way you get this job done.

I want to compliment you for working to put this together. Politically, all of us would like this to pass soon, but I think we all understand the politics that you are dealing with right now. At the very least, it ought to be the framework that a new President and new Congress put in place. And let me tell you, if a new President is going to deal with it, it has to be done in the first year. You cannot wait. It has to happen immediately, and it has to be the first challenge that President is willing to take on. Otherwise, it becomes very difficult to put it together. So I urge both of you to take this kind of proposal to the candidates that are out there and hopefully get their support for it.

We know that a new President and Congress are going to confront an unprecedented set of crises at a time of political divisiveness and at a time of tremendous distrust. The greatest challenge facing our new political leaders will be to establish a healing process in which parties can work together and try to re-establish a degree of trust. It has to begin with the budget because that relates to every other crisis that is going to confront the new President.

As I said, we govern by leadership or crisis. We have crisis. It is time for leadership.

[The prepared statement of Mr. Panetta follows:]

TESTIMONY OF THE HONORABLE LEON E. PANETTA
BEFORE THE
UNITED STATES SENATE COMMITTEE ON THE BUDGET
OCTOBER 31, 2007

Mr. Chairman and Members of the Committee:

Thank you for the invitation to testify before your Committee on S. 2063, the bill that will create a Bipartisan Task Force on Responsible Fiscal Action.

I am honored to have this opportunity to again appear before my former colleagues and friends. I have been here before in different capacities to fight for budget priorities and discipline. Although there were political differences on approach, there was a fundamental commitment by both parties to the goal of deficit reduction and a balanced budget.

Today, I am afraid that you are facing an even greater challenge because while there are concerns about a growing debt, there appears to be little will or commitment to making the tough decisions necessary to achieve deficit reduction.

I commend you, Mr. Chairman and Senator Gregg, for your leadership in trying to encourage the kind of bipartisan cooperation that can build on the lessons of the past. I am here to strongly support your efforts.

I appear today in my capacity as one of the Co-Chairmen of the Committee for a Responsible Federal Budget. As you know, our focus over the years has been the federal budget and the need

for fiscal discipline. Our Board is composed of past Directors of the Office of Management and Budget, the Congressional Budget Office, the Government Accountability Office, and Chairs of the Federal Reserve Board and the Budget committees.

I am here to share with you the principles that I learned over the past 30 years of my career in public life in fighting deficits. As Chairman of the House Budget Committee, Director of the Office of Management and Budget and Chief of Staff to the President, I participated in the key budget summits and negotiations aimed at achieving deficit reduction. My hope was that if this nation could ever achieve a balanced federal budget, that it would never again permit runaway deficits to undermine its economic strength. Unfortunately, events, partisanship, and a failure of leadership on all sides have conspired to produce the kind of irresponsible fiscal behavior that again threatens our future.

We govern in our democracy by leadership or crisis. If the elected leadership of this country is willing to make tough choices and work together, it can avoid, or, in the least, control crisis. If not, crisis drives policy.

Today, policy is largely driven by crisis whether it is the War in Iraq, global warming, energy, health care, immigration, Social Security, Medicare or runaway deficits. Every one of these issues in one way or another relates to resources. The failure to have adequate resources to confront each of these issues guarantees that for the first time in our history, our children are facing a reduced standard of living. We cannot invest in their future by borrowing from their future.

Action on the deficit is not just a moral imperative. It is not just a fiscal or economic imperative. In a very real sense, it is about protecting our national security. The prospect of uncontrolled deficits and a "borrow and spend" addiction erodes the nation's ability to confront every other crisis we face in the 21st century.

This failure of leadership combined with exploding entitlement programs, changing demographics, the rapid growth of health care costs, the slowing of the labor force, and growing interest costs places us on an unsustainable path to fiscal chaos. What is even more discouraging is that it ignores virtually everything we have learned the hard way in the past.

The challenge of large deficits is not new to this nation. In his book, *The Price of Liberty*, Robert D. Hormats traces the concern for fiscal responsibility to the very roots of the United States. George Washington and Alexander Hamilton believed the credibility of a new nation depended on its ability to assume and pay down the debt from the Revolutionary War. It was Washington who said that we should not throw "upon posterity the burdens we ourselves ought to bear." Lincoln pushed through three Revenue Acts to pay for the Civil War. Roosevelt pledged that future generations would not have to bear the burden for the cost of World War II. Even Lyndon Johnson finally passed a surtax to pay for the Vietnam War. This nation historically has never operated on the assumption that deficits will take care of themselves. That was the purpose of the 1974 Budget Act.

In the 1980s and 90s, with the prospect of deficits reaching records of anywhere from $250 billion to $500 billion by the turn of the century, Democrats and Republicans were locked in the same kind of political gridlock we see today. Democrats resisted cutting domestic spending and entitlements and Republicans opposed cuts in defense and any new taxes.

With the failure of leadership to achieve any significant deficit reduction, crisis became the inevitable engine that forced change. The 1987 Stock Market Crash raised serious concerns that unless the federal government exercised greater fiscal discipline, the markets would continue to weaken. President Reagan convened the first budget summit of key administration and congressional leaders to develop a bipartisan deficit reduction plan.

That was followed in 1990 by the second budget summit called by President George H. Bush. Again, key administration and congressional leaders negotiated at Andrews Air Force Base and later at the Capitol to develop a record deficit reduction package of close to $500 billion plus landmark budget enforcement reforms.

Three years later, President Clinton built on the success of these summits by enacting an economic plan that further reduced the deficit by $500 billion over 5 years, evenly divided between spending restraint and taxes.

These efforts combined with the Balanced Budget Agreement of 1997 which extended many of the key budget proposals and disciplines, helped produce a balanced federal budget and a projected $5.7 trillion surplus.

As a participant in most of these historic efforts, the key lessons are clear and, to your credit, many have been incorporated in S. 2063:

1) Bipartisan Congressional and Administration Leadership. The key leaders of both parties need to be at the table along with the Administration's economic team. It is important that the committees of jurisdiction on enforcement – Finance, Ways and Means, Appropriations and Budget – be represented. No agreement that provides for serious deficit reduction can be effectively enforced without the support of both Republicans and Democrats. Each party provides political cover on the difficult choices: Democrats provide cover to Republicans on spending and entitlement restraints and Republicans provide cover on revenue increases.
2) Everything Must Be On the Table. In order to attack the enormity of this fiscal crisis, any final agreement is likely to require some combination of spending reductions, revenue increases, structural reforms and enforcement disciplines. Any preconditions or exceptions to consideration are likely to doom chances for an agreement.
3) Nothing Is Agreed To Until Everything Is Agreed To. In order to allow for a full consideration of all options, the parties must be given the freedom to consider all possible areas without committing to their inclusion. It is only after a discussion of all possible savings and revenues in the budget that the elements of a final agreement can be negotiated.
4) Enforcement. No agreement is worth much if it cannot be enforced. It is vital that any final set of policy recommendations should include important enforcement tools such as

spending caps and "pay go" and be considered on an expedited basis. Although S. 2063 includes the requirement for a supermajority vote, I am concerned that no major deficit reduction plan in recent history has passed by a supermajority of both Houses. I believe that like past agreements, it is sufficient if it follows the key budget and reconciliation rules in the Budget Act. Those are sufficient to avoid the biggest barrier to passage – the filibuster in the Senate.

5) No Press. If negotiations are going to consider the most sensitive areas of the budget, it is essential that all sides protect the confidentiality of those discussions. The toughest challenge is to establish some degree of trust between the participants. There can be no trust without honest and frank deliberations and that will not happen if negotiations are played out in public. Any press statements must be cleared by the participants and the key spokesmen should represent both parties.
6) Deficit Reduction Over 5 Years. The focus should be to achieve a set number for deficit reduction over a 5 year timeframe. To go beyond that may look good but is generally unrealistic. Within a 5 year window, clear and enforceable annual targets can bet set for all discretionary savings, entitlement savings and revenue increases. Both CBO and OMB can confirm whether the targets are being met and what adjustments, if any, are necessary to achieve the required deficit reduction.

S. 2063 provides an important and necessary framework for implementing many of the principles I have outlined. These are the important lessons of the past. We know what works and what does not. Your legislation follows a clear precedent for effective deficit reduction. Both you, Mr. Chairman and Senator Gregg should be complimented for your willingness to

break the present gridlock and establish the necessary forum essential to confronting this serious problem.

Politically, while all of us would love to see this legislation adopted in this Congress, the likelihood is that it will not happen. But it can set the framework for action for a new President and Congress. Taking the tough steps required can best happen in the first year of a new administration. For that reason, I would strongly recommend that the leading candidates in both parties for the presidency should be approached by the key budget leaders in the Congress to gain their support for the principles included in S. 2063.

We know that a new President and Congress will confront an unprecedented set of crises facing the nation at a time of deep political divisiveness and distrust. The greatest challenge facing our political leaders will be to begin the process of working together and restoring some degree of trust. It must begin with the budget because every other crisis depends on restoring fiscal discipline.

We govern by leadership or crisis. We have crisis. It is time for leadership.

Chairman CONRAD. Thank you, Leon. A very powerful statement. I hope people are listening. I really do. I hope colleagues are listening, because the crisis is here. It is a slow-moving crisis, so we are not feeling the pain yet. But it is coming. And we can choose to kick this can down the road or face up to it, and more than anything, I hope we face up to this because we can avoid so much pain for this country and so strengthen our economic future if we act.

General Walker, thank you for being here. Thank you for the leadership you have provided. You have done so much to put this on the national agenda, leading the Fiscal Wake-Up Tour around the country and being a constant voice of reminder. The other day I spoke to a group downtown. They told me you were coming the next day, and I heard that your message and mine closely correlated. So we gave them a double dose.

I very much appreciate your being here today. General Walker?

STATEMENT OF HON. DAVID M. WALKER, COMPTROLLER GENERAL OF THE UNITED STATES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. WALKER. Thank you, Chairman Conrad, Senator Gregg, and other Senators. I appreciate the opportunity to testify. I want to thank you for your leadership on this very important issue.

This is a very important hearing. It should be heard by every Member of the Senate and the House of Representatives. It is a critically important time.

My staff has put together a very thorough and professional statement, which I would like to be entered into the record.

Chairman CONRAD. Without objection.

Mr. WALKER. And I would like now to speak from the head and the heart, and I am going to start and end with the heart, and a have a little bit of the head in between.

My family came to this country in the 1600's. My wife's family came to this country before mine did. Both of us have relatives that fought and died in the American Revolution, mine in South Carolina.

Senator GRAHAM. Sorry about that.

Mr. WALKER. No, it is all right.

[Laughter.]

Mr. WALKER. It was for a good cause, and we were on the right side, Senator.

But in all seriousness, I, like all of you, love my country very much. I have deep roots in this country. I care for it deeply. But I am very concerned about our collective future. We have too many people focused on today and not enough people trying to help create a better tomorrow.

America is the only superpower on Earth today, but that is temporary. There will be at least one more within the next 20 years, and possibly as many as three more. Our key challenge is to maintain our superpower status and to take steps to make sure that our future is better than our past.

We face a range of key sustainability challenges. Our fiscal challenge is the largest and the most overarching one, but it is not the only one. Other examples include health care, education, energy, environment, immigration, and critical infrastructure—just to

name a few. Our current policies in these areas are unsustainable on the present course, and the sooner we recognize that reality, the better off we will be.

From a fiscal standpoint, we have been diagnosed with fiscal cancer. We do not face an immediate heart attack, but that cancer is growing within us, and it threatens our Nation's economy, our standard of living, and our national security unless we begin to treat it now.

We have a false sense of security about where we stand fiscally. It is true that the deficit has come down for 3 years in a row, and obviously smaller deficits are better than bigger deficits. But it is also true that during that same 3-year period of time the total liabilities and unfunded commitments for Social Security and Medicare for the United States have gone up trillions of dollars in current-dollar terms. For example, our deficit this last year was estimated at $163 billion. You can more than double that because we spend every dime of the Social Security surplus. And on top of that, our preliminary estimate is the Nation's total fiscal exposures, liabilities, and unfunded commitments increased during the last year from about $50 trillion to about $53 trillion. By doing nothing, they go up $2 to $3 trillion a year because of known demographics, rising health care costs, and compounding interest costs. And we cannot forget what Albert Einstein, who was a pretty bright guy, said: The most powerful force on this Earth is not nuclear power, it is the power of compounding. And when you are an investor, the power of compounding works for you. But when you are a debtor, the power of compounding works against you.

I have been to over 30 States in the last 2 years, 24 of which were the Fiscal Wake-Up Tour. I have spoken to thousands, if not tens of thousands of people, and in my opinion the American people are starved for two things: truth and leadership. The biggest deficit our Nation faces today, in my opinion—and this is a nonpartisan statement, and it is not just the public sector—is a leadership deficit. It is a very real problem.

Our clock is ticking. Time is working against us. The commission that you propose—or task force, I should say, and other proposals have proposed a commission—I believe is an essential step to setting the operating table for the next Congress and the next administration in order to get a fast start. Presidential leadership is also essential because only the President has the bully pulpit, and that President has to work on a bipartisan basis in order to achieve meaningful change.

Your task force proposal, your legislation, includes a number of key elements that GAO has indentified as being essential for success based upon past commissions. As you know, you have asked us to take a look at the experiences of other countries. We are doing that. And, clearly, we ought to be informed by those experiences because some countries, quite frankly, are ahead of us in this regard.

While your commission or your task force includes a number of proposals that are laudatory and essential, I would have four areas for your consideration.

The first one is membership. I think the number of commission members is reasonable, and while I believe that you ought to have

a significant majority of sitting members, as you do, on it, I would respectfully suggest that you may want to think about slightly reducing the number of sitting members and potentially adding up to four other key players from key stakeholder groups.

Second, I would respectfully suggest that you consider having bipartisan co-chairs, especially given that you have an outgoing administration.

Third, I would respectfully suggest that the commission not report before February of 2009 because the commission needs time to consult with the next President and key players of the next administration in order to try to achieve their buy-in, or at least their willingness to take it seriously.

Fourth, I would suggest that you may want to consider allowing consideration of a limited number of substitutes that meet certain key criteria that are laid out in advance.

And, finally, I would suggest that you may want to consider that while it is fully appropriate, I believe, to have a supermajority requirement for the commission to make recommendations, in my opinion, I think a simple majority should be required to pass the package. So a supermajority of those that are deeply involved, that spend the time, that understand the tradeoffs, that do all the homework, is appropriate, I think, but I think a simple majority is all that you should seek for purposes of passing the package.

In closing, I commend you for your leadership. I believe that it is time that our country exercise its fiduciary and stewardship responsibilities. We are not doing it today, in my opinion. What is going on today is the Federal Government is spending more money than it makes. It is charging the national credit card. It is building up compound interest and expecting our kids and our grandkids and generations yet unborn to pay it off. And that is not just fiscally irresponsible. That is immoral.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Walker follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on the Budget
U.S. Senate

For Release on Delivery
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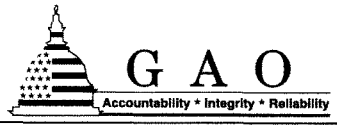
LONG-TERM FISCAL CHALLENGE

Comments on the Bipartisan Task Force for Responsible Fiscal Action Act

Statement of David M. Walker
Comptroller General of the United States



GAO-08-238T

October 31, 2007

GAO
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Highlights

Highlights of GAO-08-238T, a testimony for the Committee on the Budget, U.S. Senate

LONG-TERM FISCAL CHALLENGE

Comments on the Bipartisan Task Force for Responsible Fiscal Action Act

Why GAO Did This Study

GAO has for many years warned that our nation is on an imprudent and unsustainable fiscal path.

During the past 2 years, the Comptroller General has traveled to 24 states as part of the Fiscal Wake-Up Tour. Members of this diverse group of policy experts agree that finding solutions to the nation's long-term fiscal challenge will require bipartisan cooperation, a willingness to discuss all options, and the courage to make tough choices. Indeed, the members of the Fiscal Wake-Up Tour believe that fiscal responsibility and intergenerational equity must be a top priority for the new President.

Several bills have been introduced that would establish a bipartisan group to develop proposals/policy options for addressing the long-term fiscal challenge.

At the request of Chairman Conrad and Senator Gregg, the Comptroller General discussed GAO's views on their proposal to create a Bipartisan Task Force for Responsible Fiscal Action (S. 2063).

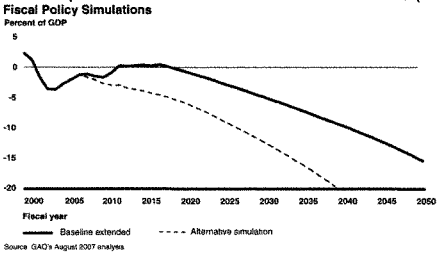
What GAO Found

Long-term fiscal simulations by GAO, Congressional Budget Office (CBO), and others all show that despite some modest improvement in near-term deficits, we face large and growing structural deficits driven primarily by rising health care costs and known demographic trends. Under any realistic policy scenario or assumptions, the nation's longer-term fiscal outlook is daunting. Continuing on this unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security. Our current path also increasingly will constrain our ability to address emerging and unexpected budgetary needs and increase the burdens that will be faced by future generations.

As the Comptroller General stated when the bill was introduced, the Bipartisan Task Force for Responsible Fiscal Action offers one potential means to taking steps to make the tough choices necessary to keep America great, and to help make sure that our country's, children's, and grandchildren's future is better than our past.

GAO noted that the bill incorporates key elements needed for any task force or commission to be successful: (1) a statutory basis, (2) a broad charter that does not artificially limit what can be discussed and does not set policy preconditions for membership, (3) bipartisan membership, (4) involvement of leaders from both the executive and legislative branches—including elected officials, (5) a report with specific proposals and a requirement for supermajority vote to make recommendations to the President and the Congress, and (6) a process to require consideration of the proposals. GAO also made some suggestions it believes could enhance the likelihood that the bill will achieve its overarching goals. GAO suggested the sponsors consider (1) including a way for the next President to be involved in the process of proposal development, (2) permitting alternative packages to be voted on that would achieve the same fiscal result, and (3) eliminating the requirement for a supermajority in Congress. With the same aim, GAO also expressed some reservations about the current approach to specifying the Task Force Chairman.

Unified Surpluses and Deficits as a Share of Gross Domestic Product (GDP) under Alternative Fiscal Policy Simulations



Source: GAO's August 2007 analysis

To view the full product, including the scope and methodology, click on GAO-08-238T. For more information, contact Susan J. Irving at (202) 512-9142 or irvings@gao.gov.

Chairman Conrad, Senator Gregg, and Members of the Committee:

I am pleased to be here today to talk about your proposal to create a Bipartisan Task Force for Responsible Fiscal Action.[1] The two of you are to be commended for your leadership on the issue of fiscal sustainability and intergenerational equity. As I have noted on numerous occasions, our nation is on an imprudent and unsustainable fiscal path. The "baby boom" generation must step up and make the tough choices needed to put us back on a prudent path in order to ensure that our nation's and families' futures are better than the past. In my view, elected officials have a fiduciary and stewardship responsibility that demands action on our large and growing fiscal and other sustainability challenges sooner rather than later. After all, doing what is right is what true leadership is all about.

My remarks are based on our previous reports and testimonies on our nation's long-term fiscal challenges, our review of several policy-oriented commissions in the United States, and our review of the process leading up to other countries' entitlement reforms. These efforts were conducted in accordance with generally accepted government auditing standards.

The Nation's Long-Term Fiscal Challenge

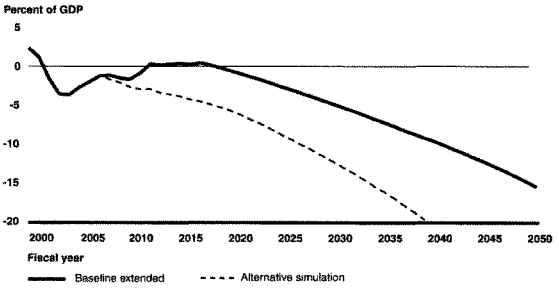
Long-term fiscal simulations by GAO, Congressional Budget Office (CBO), and others all show that despite a 3-year decline in the federal government's unified budget deficit, we still face large and growing structural deficits driven primarily by rising health care costs and known demographic trends. In fact, our long-range challenge has grown in the past three years and the projected tsunami of entitlement spending is closer to hitting our shores. The long-term fiscal challenge is largely a health care challenge. Although Social Security is important because of its size, the real driver is health care spending. It is both large and projected to grow more rapidly in the future.

GAO's current long-term simulations show ever-larger deficits resulting in a federal debt burden that ultimately spirals out of control. Figure 1 shows two alternative fiscal paths. The first is "Baseline extended," which

[1]The *Bipartisan Task Force for Responsible Fiscal Action Act of 2007* (S. 2063, Sept. 18, 2007) would establish a task force to address, and report to the President and Congress on, the Nation's long-term fiscal imbalances, including those attributable to the Medicare and Social Security programs and the gap between their projected revenues and expenditures. Representatives Cooper and Wolf have also introduced a companion bill to the Conrad-Gregg proposal (H.R. 3655, Sept. 25, 2007).

extends the CBO's August baseline estimates beyond the 10-year projection period, and the second is an alternative based on recent trends and policy preferences. Our "Alternative simulation" assumes action to return to and remain at historical levels of revenue and reflects somewhat higher discretionary spending than in Baseline extended and more realistic Medicare estimates for physician payments than does the Baseline extended scenario.[2] Although the timing of deficits and the resulting debt build up varies depending on the assumptions used, both simulations show that we are on an imprudent and unsustainable fiscal path.

Figure 1: Unified Surpluses and Deficits as a Share of Gross Domestic Product (GDP) under Alternative Fiscal Policy Simulations



Source: GAO's August 2007 analysis.

The bottom line is that the nation's longer-term fiscal outlook is daunting under any realistic policy scenario or set of assumptions. Continuing on this unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security. Our current path also increasingly will constrain our ability to address emerging and unexpected budgetary needs and they serve to increase the burdens that will be faced by future generations.

[2]Additional information about the GAO model and its assumptions, data, and charts can be found at http://www.gao.gov/special.pubs/longterm/.

Although Social Security, Medicare, and Medicaid dominate the long-term outlook, they are not the only federal programs or activities that bind the future. The federal government undertakes a wide range of responsibilities, programs, and activities that may either obligate the government to future spending or create an expectation for such spending.[7] In fact, last year the U.S. government's major reported liabilities, social insurance commitments, and other fiscal exposures continued to grow. They now total approximately $50 trillion—about four times the nation's total output (GDP) in fiscal year 2006—up from about $20 trillion, or two times GDP in fiscal year 2000. (See fig. 2.) Absent meaningful reforms, these amounts will continue to grow every second of every minute of every day due to continuing deficits, known demographic trends, and compounding interest costs.

Figure 2: Major Reported U.S. Government Fiscal Exposures (Dollars in Trillions)

	2000	2006	% Increase
• Explicit liabilities	$6.9	$10.4	52
• Publicly held debt			
• Military & civilian pensions & retiree health			
• Other			
• Commitments & contingencies	0.5	1.3	140
• E.g., PBGC, undelivered orders			
• Implicit exposures	13.0	38.8	197
• Future Social Security benefits	3.5	6.4	
• Future Medicare Part A benefits	2.7	11.2	
• Future Medicare Part B benefits	6.5	13.1	
• Future Medicare Part D benefits	–	7.9	
Total	$20.4	$50.5	147

Source: 2000 and 2006 Financial Report of the United States Government.

Notes: Data from 2000 and 2006 Financial Report of the United States Government. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30. Totals and percent increases may not add due to rounding.

During the past 2 years, I have traveled to 24 states as part of the Fiscal Wake-Up Tour. During the tour, it has become clear that the American people are starved for two things from their elected officials—truth and

[7]GAO, *Fiscal Exposures: Improving the Budgetary Focus on Long-Term Costs and Uncertainties*, GAO-03-213 (Washington, D.C.: Jan. 24, 2003).

leadership. In addition to the proposal that both of you are offering, I'm pleased to say that several other members on both sides of the political aisle and on both ends of Capitol Hill are also taking steps to answer the call for fiscal prudence by proposing bills to accomplish similar objectives.[4]

The Bipartisan Task Force

I was pleased to join you when you announced this proposal. As I said at the time, I believe it offers one potential means to achieve an objective we all should share: taking steps to make the tough choices necessary to keep America great and to help make sure that our country's, children's and grandchildren's future is better than our past. Senators Conrad and Gregg, thank you for your leadership.

I was especially pleased to see that the task force that would be created by your legislation was informed by GAO's work on the key elements necessary for any task force or commission to be successful. Last year we looked at several policy-oriented commissions. (See app. I for a summary table on that work.) Our analysis suggests that there are a number of factors that can increase the likelihood a commission will be successful. Examples of those factors—and elements your proposal encompasses—are

- a statutory basis,
- a broad charter—don't artificially limit what can be discussed and don't set policy preconditions (like "must support individual accounts") for membership,
- bipartisan membership,
- involvement of leaders from both the executive and legislative branches—including elected officials,

[4]Senator Voinovich introduced *The Securing America's Future Economy Commission Act, or SAFE Commission Act* that would establish a commission to—among other things—develop legislation to address the imbalance between long-term federal spending commitments and projected revenues (S. 304, Jan. 16, 2007). Representatives Cooper and Wolf have also introduced a companion bill to the Voinovich proposal (H.R. 3654, Sept. 25, 2007).

- a report with specific proposals and a requirement for supermajority vote to make recommendations to the President and the Congress, and
- a process to require consideration of the proposals.

A few of these points deserve elaboration. Having a broad charter and no preconditions is very important. This means that "everything is on the table"—and that is critical in order for the effort to be credible and have any real chance of success. But let me be clear what we mean by "everything is on the table"—it means that everything is open for discussion and debate. It does not mean advance agreement to a specific level of revenues or benefit changes. The only precondition should be the end goal: to put the nation's fiscal outlook back on a prudent and sustainable path for the future.

I believe that having true bipartisanship and active involvement by both the executive and the legislative branches is important. If any proposal is seen as partisan or the product of only one branch, it is unlikely to fly with the American people. Candidly, based on my interactions with thousands of Americans from across the nation during the past two years, there is little confidence in the ability of elected officials to rise above partisan battles and ideological divides. As a result, I believe that any related commission or task force should also involve knowledgeable professionals from selected nonpartisan institutions who have significant expertise and experience.

Finally, the task force or commission will need to move beyond diagnosis to prescription. We know the path must be changed. What we need now are credible and specific legislative proposals that will accomplish that. Furthermore, these should come from a supermajority of the task force or commission members with a mechanism to assure a vote on a majority basis by the Congress.

At your request, we are looking at how other countries have reformed their entitlement programs—not the substance of their reforms but rather the process that led up to the reform. As countries have sought to reform entitlements such as pensions and disability, they have often used commissions as a means to develop reform proposals that became the basis for legislation. For example, the 2003 Rurup Commission in Germany, composed of experts, public officials, and others, made recommendations for reform of public pensions that were enacted in 2004 and 2007. In the Netherlands, the 2000 Donner Commission composed of respected public figures representing the major political parties developed

recommendations that became the basis for major disability reform legislation enacted in 2005. In the early 1990s, a working group of parliamentary members in Sweden developed the concept of a major structural reform of their public pension system that was worked out in detail in succeeding years and enacted in 1998. In addition to these types of commissions, several countries also have permanent advisory bodies tasked with periodically informing the government on pension policy challenges and reform options.

Our related work is not yet complete, but some of what we have found to date would not surprise you. These special groups—whether commissions or task forces—can and do fill multiple roles including public education, coalition building, "setting the table" for action, and providing a means for and cover to act. Leadership is key and public education is also important.

You asked that we comment on some particulars—and on areas where we think further refinements would increase the chances of success. Let me now turn to three areas:

- timing and how to ensure involvement of the newly-elected President,
- congressional action: whether—and if so how—to permit amendments to or substitutes for the commission's proposals, and the supermajority vote requirement, and
- the chairmanship of the commission.

Timing and Involving the Newly-Elected President

A great strength of your proposal is that it calls for the task force or commission to deliberate throughout 2008. As you know, members of the Fiscal Wake-Up Tour believe that fiscal responsibility and intergenerational equity must be a top priority for the new President. We all agree that finding solutions will require leadership, bipartisan cooperation, a willingness to discuss all options and courage to make tough choices. For example, those who argue that spending must come down from projected levels should explain which programs they would target and how the savings would be achieved. Those who argue for higher taxes should explain what level of taxation they are willing to support, the manner in which the new revenue would be raised and the mechanisms that will help to ensure that any additional revenues will be used in a manner that will help rather than hinder our effort to be fiscally responsible. Those who are unwilling to do either should explain how much debt they are willing to impose on future generations of Americans.

Indeed, we have suggested a number of key questions we believe it is reasonable to ask the candidates.[5] These include the following:

- What specific spending cuts, if any, do you propose and how much of the problem would they solve?
- What specific tax increases, if any, do you propose and how much of the problem would they solve?
- What is your vision for the future of Social Security and what strategies would you pursue to bring it about?
- What is your vision for the nation's health care system, including the future of Medicare, and what strategies would you pursue to bring it about?

These questions and others should be addressed by all the (presidential) candidates so the public can assess whether he or she appreciates the magnitude of the problem, the consequences of doing nothing (or making the problem worse), and the realistic trade-offs needed to find real and sustainable solutions.

Although I believe the candidates should recognize the seriousness of this challenge, I also believe it is unrealistic to expect candidates to offer coherent, fully comprehensive proposals at this point in the campaign. In that sense the task force or a similar commission performs a great service: candidates could promise to take seriously any information or proposals and to engage in a constructive manner with the group after the election. They could agree that for the task force or commission to have a chance of succeeding "everything must be on the table" at least for discussion.

That said, it is important to find a way to involve whoever is elected as our new President. After all, it will be the person elected approximately 53 weeks from now who must use the "bully pulpit" and put their energy and prestige behind the effort to help ensure success. Although I think having a deadline is important, I believe that a December 9, 2008, deadline for the commission's report does not offer enough time for the kind of input and involvement that will be necessary. Some way must be found to gain the

[5]These questions can be found on the Fiscal Wake-Up Tour portion of the Concord Coalition Web site at http://www.concordcoalition.org/events/fiscal-wake-up/docs/fwut-candidate-questions.html.

active involvement and buy-in of the incoming President. In any event, it seems likely that the December 2008 deadline would need to be replaced—perhaps with a January or February 2009 date.

Congressional Action on the Proposal

You also asked us to think about the current requirement for a "fast track" up-or-down vote in the House and Senate and the requirement for a supermajority in both houses.

As former Congressman and former Office of Management and Budget (OMB) Director Leon Panetta has said, in any effort to change our fiscal path "nothing will be agreed to until everything is agreed to." This statement also offers a warning about the dangers of picking apart any package. Whatever process is developed for considering the task force's recommendations should protect the proposal from being picked apart amendment by amendment. The task force is charged with developing—and agreeing to—a coherent proposal which, taken as a whole, will put us on a prudent and sustainable long-term fiscal path. Presumably, to reach agreement, the members will have made compromises—any proposal is going to have elements that represent concessions by the various members. In all likelihood those concessions will have been made in return for concessions by others. If individual elements can be eliminated by amendment, the likelihood that the package will achieve its goal will be reduced. The very process of coming up with a coherent proposal means that the package is likely to stand or fall as a whole. In that sense the prohibition on amendments makes some sense.

At the same time, I believe it would make sense to permit alternatives. I say alternatives not amendments because I believe it is important that any alternatives achieve the same change in fiscal path as the task force's proposal. The SAFE bill proposed by Senator Voinovich and by Representatives Cooper and Wolf does permit alternatives—but it holds them to the same standards and criteria as the proposal from the commission. Permitting alternative packages to be offered and voted upon may increase the credibility and acceptance of the end result.

The Task Force bill requires both a supermajority to report out a proposal and a supermajority in both houses to adopt the proposal. The supermajority requirement within the task force (or commission) offers assurance that any proposal has bipartisan support. It offers stronger backing for a proposal that must reflect difficult choices. If a proposal comes to the Congress with a two-thirds or three-fourths vote of the task force, the necessity for a supermajority vote to enact the proposal in the

Congress is less clear. It is even possible that this requirement could offer the opportunity for a minority to derail the process. Any package that makes meaningful changes to our fiscal path is going to contain elements that generate significant opposition. Therefore, although I think requiring a supermajority within the task force makes sense, requiring a supermajority vote for enactment of the task force or commission's proposal by the Congress is inappropriate. In my view, such a requirement puts too many hurdles in the way of making tough choices and achieving necessary reforms.

Chairmanship and the Role of the Outgoing Administration

Finally, Chairman Conrad, Senator Gregg, let me raise a question about the role envisioned for the outgoing Administration. I believe you are correct to include executive branch officials. In this regard, I have the utmost respect for the current Secretary of the Treasury. I have met with him on several occasions and am well aware that he has made several statements about the need for action on our long-term fiscal challenge. At the same time, I believe that designating a cabinet official in an outgoing administration as the task force chairman presents some serious challenges and potential drawbacks.

Both the strength and the weakness of having the Secretary of the Treasury participate is that he will be seen as representing the outgoing President. While participation by the executive branch at the highest level will be important, having an outgoing Administration official serve as chairman may serve to hinder rather than help achieve acceptance and enactment of any findings and recommendations. Given the fiscal history of the first 7 years of this century and the experience with the Commission to Strengthen Social Security, I would question whether having the Treasury Secretary or any other current Administration official serve as chairman is the right way to go.

Common Ground and Commitment to Sustainability

Before concluding, I would like to say a few words about what I hope is a renewed push to find a vehicle for addressing this very important challenge. Senator Voinovich has proposed the SAFE Commission. Its membership is different than your Task Force proposal but it seeks the same goal—improving our fiscal path. As I noted, Congressmen Cooper and Wolf have joined to introduce companion bills in the House: both to the SAFE Commission and to the Conrad-Gregg Bipartisan Task Force. As a result, both the Senate and the House have before them bills that seek to create vehicles for executive-legislative bipartisan development of credible, specific, legislative proposals to put us back on a prudent and

sustainable fiscal path in order to ensure that our future is better than our past. We owe it to our country, children, and grandchildren to do no less.

These are encouraging signs. I hope there is movement in this Congress. At the same time I think we must recognize that achieving and maintaining fiscal sustainability is not a one-time event. Even if a task force or commission is created and succeeds in developing a proposal and that proposal is enacted, it will be necessary to monitor our path. In that context I note that the proposal by Senators Feinstein and Domenici for a permanent commission would require periodic review and reporting of recommendations every 5 years to maintain the adequacy and long-term solvency of Social Security and Medicare.[6] In our work looking at other countries we note that reform is an ongoing process and that no matter how comprehensive initial reforms, some adjustments are likely to be necessary. Something like the ongoing commission suggested by Senators Feinstein and Domenici may be a good companion and follow-on to the Task Force/Commissions envisioned by either the Bipartisan Task Force or the SAFE Commission bills. We will need to be flexible in our response to early challenges and success as we move forward.

Conclusions

Changing our fiscal path to a prudent and sustainable one is hard work and achieving reform requires a process with both integrity and credibility. In our work on other countries' entitlement reform efforts, we see that reforms are sometimes the culmination of earlier efforts that may have seemed "unsuccessful" at the time. For example, a 1984 Swedish commission on pension reform did not reach consensus on a proposal but its work helped set the stage for a process that resulted in a major reform. Similarly, the recent reforms of public pensions in Germany and disability in the Netherlands built upon a long series of incremental reform changes. Each reform effort can move the process forward and each country must find its own way.

Today we can build on previous efforts in the United States. In this country we have been discussing Social Security reforms and developing reform options since the mid-1990s. We have had two major commissions

[6]Senators Feinstein and Domenici introduced the *Social Security and Medicare Solvency Commission Act* (S. 355, Jan. 22, 2007) that would establish the National Commission on Entitlement Solvency to review and report to the President and the Congress on the Social Security and Medicare programs every 5 years with respect to their financial condition and long-term sustainability.

on entitlement reform in the last decade—a Presidential commission on Social Security in 2001 and a Congressional commission on Medicare in 1998. There have also been discussion, studies and commissions on tax reform. As we said in our report on the December 2004 Comptroller General forum on our nation's long-term fiscal challenge,[7] leadership and the efforts of many people will be needed to change our fiscal path. The issues raised by the long-term fiscal challenge are issues of significance that affect every American. By making its proposal, this Committee has shown the kind of leadership that is essential for us to successfully address the long-term fiscal challenge that lies before us.

The United States is a great nation, possibly the greatest in history. We have faced many challenges in the past and we have met them. It is a mistake to underestimate the commitment of the American people to their country, children, and grandchildren; to underestimate their willingness and ability to hear the truth and support the decisions necessary to deal with this challenge. We owe it to our country, children and grandchildren to address our fiscal and other key sustainability challenges. The time for action is now.

Mr. Chairman, Senator Gregg, members of the Committee, let me repeat my appreciation for your commitment and concern in this matter. We at GAO stand ready to assist you in this important endeavor.

[7] *Highlights of a GAO Forum: The Long-Term Fiscal Challenge*, GAO-05-282SP (Washington, D.C.: February 2005).

Appendix I: Selected Commissions Summary

	Greenspan Social Security 1983	Kerrey-Danforth Bipartisan Commission on Entitlement and Tax Reform 1994	Breaux-Thomas Commission on the Future of Medicare 1998	Bush Committee to Strengthen Social Security 2001	9/11 Commission 2002	Mack-Breaux Tax Reform 2005
Statutory basis?	No; Executive order but agreement by the Congress	No; Executive order	Yes; Balanced Budget Act 1997	No; Executive order	Yes; Pub. L. No.107-306	No; Executive order
Imminent crisis or other action-forcing event?	Yes	No	No	No	Yes	No
Presidential leadership and commitment to success of effort?	Yes	No	No; President strongly disagreed with proposed recommendations	Yes	Partial	No
Within the general charter was scope broad or restricted (and how)?	Broad	Broad; entitlement spending and tax reform	Broad	Restricted; had to include individual accounts	Broad	Restricted; required revenue neutrality and keeping incentives for homeownership and charitable giving, and encouraging savings; required to consider equity and simplicity too
Number of commissioners (No. of current elected federal officials / No. of others)	15 (7/8); 4 Senators, 3 House Representatives, and non-elected (included 2 former Members of Congress; also insurance, labor, business representatives)	32 (22/10)	17 (9/8)	16 (0/16); Included 3 former Members of Congress	10 (0/10)	9 (0/9); Chair and Vice-Chair were former Senators; 1 former House Representative on panel; also included 4 professors and 2 "tax practitioners"

	Greenspan Social Security 1983	Kerrey-Danforth Bipartisan Commission on Entitlement and Tax Reform 1994	Breaux-Thomas Commission on the Future of Medicare 1998	Bush Committee to Strengthen Social Security 2001	9/11 Commission 2002	Mack-Breaux Tax Reform 2005
Appointments by both President and Congress?	Yes; 5 by President, 5 by Senate, and 5 by House	No; presidential appointments only	Yes; 1 of 17 (Chair) by both President and Congress; 4 others by President; others by congressional leadership (Republicans appointed 4 each house and Democrats 2 each house) = 8 by each party	No; presidential appointments only	Yes; 1 by President (Chair); 1 by Senate Minority Leader with House Minority Leader consult (Vice Chair); 2 each by Senate Majority Leader and House Speaker; 2 each by Senate and House Minority Leaders	No; presidential appointments only
Bipartisan?	Yes	Yes; of the 22 Members of Congress, 11 Democrats and 11 Republicans	Yes	Yes; 8 Republicans and 8 Democrats	Yes	Yes
Co-chairs?	No	Yes, functionally; technically Chair and Vice-Chair	Yes, functionally; technically Breaux = Chair; Thomas = "Administrative Chair"	Yes	Yes, functionally; technically Chair and Vice-Chair	Yes
Open/transparent process including public hearings?	Yes; but found way to do smaller conversations	Yes; all meetings and hearings were televised on C-SPAN. All commission documents, transcripts, and reports made public on a CD	Yes	Yes	Yes	Yes
Commission resulted in report? (month, year issued)	Yes (Jan. 1983)	Yes; failed to reach consensus on specific recommendations (Jan. 1995)	No; proposed recommendations failed to gain required 11 votes	Yes (Dec. 2001)	Yes (July 2004)	Yes (Nov. 2005)

	Greenspan Social Security 1983	Kerrey-Danforth Bipartisan Commission on Entitlement and Tax Reform 1994	Breaux-Thomas Commission on the Future of Medicare 1998	Bush Committee to Strengthen Social Security 2001	9/11 Commission 2002	Mack-Breaux Tax Reform 2005
Report set forth specific, actionable recommendations?	Yes	No; but recommended 5 broad principles for crafting "solutions to our fiscal problems"	n.a.	Report set forth 3 reform models	Yes	Yes

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Chairman CONRAD. Thank you very much for a very powerful statement, General Walker.

Mr. Novelli, thank you very much for agreeing to be here. You lead a group, probably the single most powerful, potent group with respect to representing people over 50 in this country, and so it has special significance for you to be here today. Please proceed.

STATEMENT OF WILLIAM D. NOVELLI, CHIEF EXECUTIVE OFFICER, AMERICAN ASSOCIATION OF RETIRED PERSONS (AARP)

Mr. NOVELLI. Thank you. Good morning. On behalf of AARP's more than 39 million members, I appreciate the opportunity to present our views regarding the bipartisan task force for responsible fiscal action, and I would like to commend Chairman Conrad and Senator Gregg for coming together in a bipartisan way to address our country's long-term fiscal problems and to help break down the gridlock that is so prevalent in Washington.

Taking on these issues in a bipartisan fashion is truly significant. They affect everybody—Republicans, Democrats, Independents, and, most importantly, our children and our grandchildren, many of whom are not yet old enough to declare their allegiance to one party or to another. How we address these issues is going to determine what kind of lives they will have and what their future will be. And as we just heard, their future is not going to be very bright if they are drowning in the red ink of budget deficits or if they cannot afford health care or cannot attain long-term financial security.

The majority of Americans today believe that the coming generation is going to be less well off than their parents, and if that happened, it would be the first time in American history, and it would be a major step backward for the American dream. And that is why we at AARP appreciate very much your willingness to tackle these tough issues. We welcome your willingness to consider every aspect of the problem. And to us, this means both revenues and expenditures; it means tax entitlements as well as spending entitlements; and most of all, the health care system and its skyrocketing costs.

The projected rapid growth in Federal spending for the big entitlements—Social Security, Medicare, and Medicaid—over the next 30-plus years is frequently attributed to three great demographic trends: the retirement of the boomers, increased longevity, and low fertility rates. But the primary source of our future budget problems is the growth in health care costs throughout the system. These costs have grown faster than the economy, even in times of prosperity, and well before Medicare and Medicaid ever came on the scene.

As Congressional Budget Director Peter Orszag has said, and I am quoting, "The long-term fiscal problem is fundamentally one involving the rate at which health care costs grow and much less about the aging of the population." So, yes, we have a deficit problem in this country, but we have a health care crisis. Health care costs are the key fiscal problem for the Federal budget. If we do not do something about rising health care costs, we will not be able to control the costs of Medicare and of Medicaid. And health care costs are also the great challenge facing parents and their families,

business and labor, and State and local government as well. And not only are health care costs too high, but we are not getting our money's worth in terms of health outcomes from our system.

At a time when individuals and families are at most risk of health and financial insecurity, we urge you to look beyond the conventional response of either raising revenues or reducing benefits. Some of these both may well be necessary, but they are not the only options. Nor are they even the best options for American families. They are not going to help families make ends meet or when their children get sick or as they get older. There is another option that can work for everyone, and that is to lower the overall cost of health care to make it affordable and sustainable.

And that is why it is so important to make health care reform with cost containment a key element and a central part of the task force's mandate. This means shaping a more effective delivery system with improved information technology, greater coordinated care, and focus on chronic illness, more and better use of comparative effectiveness research, and greater transparency about the cost and the quality of care.

Now, how does Social Security fit into this? It is surely the most successful domestic Government program in history. It keeps millions of people out of poverty, and it creates a critical safety net for people as they get older, for people with disabilities, and for young people whose parents have died. If the proposed task force could muster the bipartisanship necessary to fix Social Security's long-term solvency problem, that would be a great accomplishment.

Now, we all know what the options are, but we need to have an honest, bipartisan debate, consider all the tradeoffs, and reach decisions that are fair and equitable. Strengthening Social Security is going to require some tough choices, and our members are prepared to make those choices. They want Social Security to be there for their kids and their grandkids.

While we support the mission of the task force, we do have some concerns about it. Its work is going to affect everyone in every part of this country. This is not like a military base closing. This is about what kind of society we are going to have and what kind of future our young people can look forward to. It is going to require major transformations in public and private practices and individual behaviors.

We believe that the proposed task force should allow for a thorough, thoughtful examination of these huge, complex issues. The fast-track approach that is proposed seems to us to be a bit too fast. It lessens the opportunity to conduct a full analysis and debate and to enable interested parties to present their views.

The inability of Congress to amend the task force proposals contributes further to these limitations. We would like to see these elements considered and changed.

If the task force is set up in a bipartisan fashion with time for discussion of the issues in the task force and in the Congress, including revenues and expenditures, with health care costs a key element, then AARP will be a constructive partner. We believe that we can play a very constructive role, and by this I mean that we will take its deliberations and its ideas to our members and to their families and to the public of all generations, and we will bring

their ideas and concerns to you. We have the ability to do that in the spirit of engagement and education in States and in communities across the country, and we will.

These are critical issues affecting all Americans, and their voices and concerns need to be heard. We look forward to working with you to assess this and address it in a bipartisan way for the benefit of all Americans.

Thank you.

[The prepared statement of Mr. Novelli follows:]

TESTIMONY BEFORE THE

SENATE BUDGET COMMITTEE

ON

A HEARING ON S. 2063,
THE BIPARTISAN TASK FORCE
FOR RESPONSIBLE FISCAL ACTION ACT OF 2007

October 31, 2007

WASHINGTON, D.C.

WITNESS: WILLIAM D. NOVELLI
CHIEF EXECUTIVE OFFICER

For further information
Contact: Evelyn Morton
Federal Affairs Department
Government Relations and Advocacy
(202) 434-3760

AARP appreciates the opportunity to present its views regarding S. 2063, which would create a bipartisan task force for responsible fiscal action. We commend the Chairman and Ranking Member for their commitment to addressing our nation's long-term deficit in a balanced and bipartisan manner. Our nation's fiscal health has a direct impact on our economy, our people, and our international standing. Solving the fiscal problems that confront us is a daunting and, in many ways, thankless task that will require enormous effort and cooperation. The choices we make matter not only to the budget, but more importantly, to the long-term health and economic security of the American people. Program and revenue changes are more than just budget savings -- they have a direct impact on the lives of every American now and in the future.

People need to be able to count on affordable, quality health and financial security for a lifetime – for themselves, their families and future generations. The long-term challenge is to make sure that current and future generations have health and financial security by maintaining the integrity of Social Security and Medicare in a fair and fiscally responsible manner.

AARP applauds efforts such as this that can also help educate the American people about the dangers of large and continuing federal deficits. We welcome this and other opportunities to reframe the national debate on health and financial security to include the concerns of everyday Americans. AARP members understand that deficit reduction is vital for the future of our children and grandchildren. The solution must be fair and involve everyone: government, business, and individuals. AARP shares the view that we must address the long-term budget deficit in a bipartisan and balanced way, and dealing with it sooner will avoid more dire consequences later. Prompt action means the options

will be more moderate and will provide for greater opportunity for people to prepare for changes over time.

A necessary first step, proposed in this legislation, is a review of the causes of the deficit – both in the long and short terms. AARP believes it is critical to focus on the real drivers in the budget. We strongly urge all policy makers, not just this task force, to reject the misperception that often-blamed "entitlements" are the chief cause of the federal budget deficit. We do not have an entitlements crisis in this country – we have a health care crisis. Blaming all entitlement spending ignores the reality that only health care spending is growing faster than the economy. As a result, it is the health care costs that are the big drivers of our long-term budget outlook. Yet, reducing the rate of growth of health care costs must be accomplished on a system-wide basis, and cannot be achieved by focusing only on Medicare and Medicaid because they merely reflect the rapid growth of health costs throughout the economy. Failure to take a broad look at our health care system will simply result in cost shifting to individuals, businesses and other parts of government and will further destabilize our already fragile health care system with enormous consequences for health security.

We applaud the bill's sponsors for recognizing that deficit reduction cannot be accomplished solely through spending changes; we must also have adequate revenue to finance our nation's priorities. In addition to exploring the traditional revenue base, AARP would recommend particular focus on tax expenditures, that – similar to spending entitlements - confer direct benefits automatically, require no advance appropriation under the law, and have a large impact on the federal budget.

We also urge policymakers to acknowledge the importance of other policies, such as measures to increase personal and national savings and to encourage extending working lives, that would improve our economy and our fiscal health and make the transition to an aging society more manageable.

I. An Aging Population is not the Problem

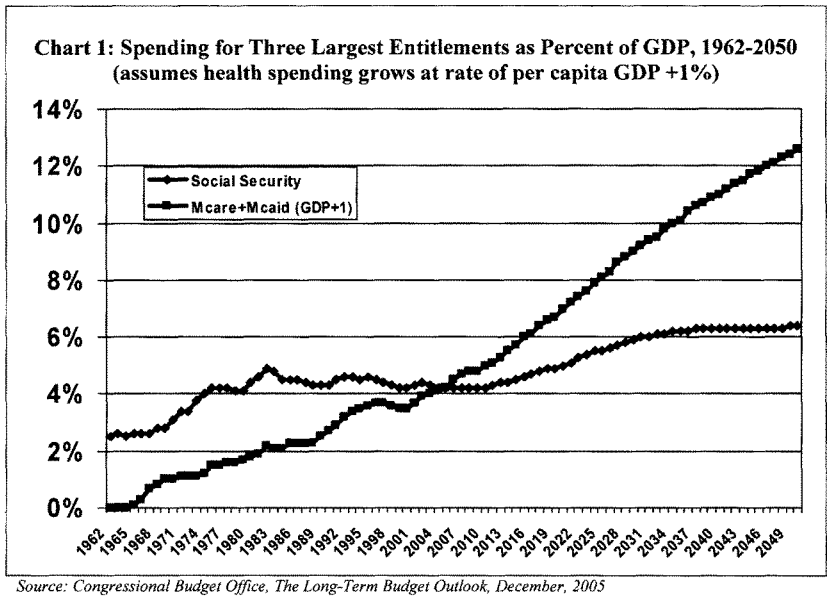
The fact that America is an aging population is well established, although the consequences are often exaggerated. AARP believes that as a nation we can balance the advancements of longer life spans with the pressures the aging of the boomers and increased longevity place on our government and our society. While demographics play a role, the real budget culprit is a fragmented and disorganized health care delivery system. We hope this task force can help put to rest the notion that our country's fiscal problems are caused primarily by the aging of its citizens. The Congressional Budget Office (CBO) has repeatedly pointed out that the aging of the population is not the primary factor affecting the growth of entitlement programs. If this myth continues to dominate policy decision-making, we run the risk of developing ineffective solutions.

The old refrain is to cut back on entitlement spending, particularly for Medicare and Social Security, because they will consume a large share of our available resources as the boomers start retiring. This refrain reflects two fundamental flaws: it lumps all entitlement spending together, and it overemphasizes the budget impact in dollar-and-cents terms, rather than by the impact they have on people's lives.

Demographic aging, while significant, is not a sufficient explanation for either current or projected future growth in entitlement spending. Chart 1 shows spending for Social

Security compared to spending for the two largest health programs, Medicare and Medicaid, as a percentage of GDP from 1962 to the present and projected out to 2050.[1] If demographic aging were the problem, we would see similarities in the growth of Social Security and Medicare.[2] Instead, we see a very striking difference in the past and future growth patterns of Social Security and Medicare. A fairly steep increase in overall entitlement spending as a share of GDP between 1962 and 1982 was followed by a 25-year window of stability; with entitlements fluctuating between 10 and 12 percent of GDP. Those differences confirm that demography as an explanation misses much of the story. Social Security's growth "bump" from 2010 to 2035 is due almost entirely to the retirement of the boomer cohort, while the steep health spending trajectory is largely due to non-demographic factors.

[1] CBO projects spending for Social Security, Medicare, and Medicaid through 2050 based on growth in beneficiary populations as well as other programmatic assumptions. Other entitlements are simply assumed to grow at the same rate as GDP.
[2] Both programs do have a substantial share of beneficiaries who are under 65.



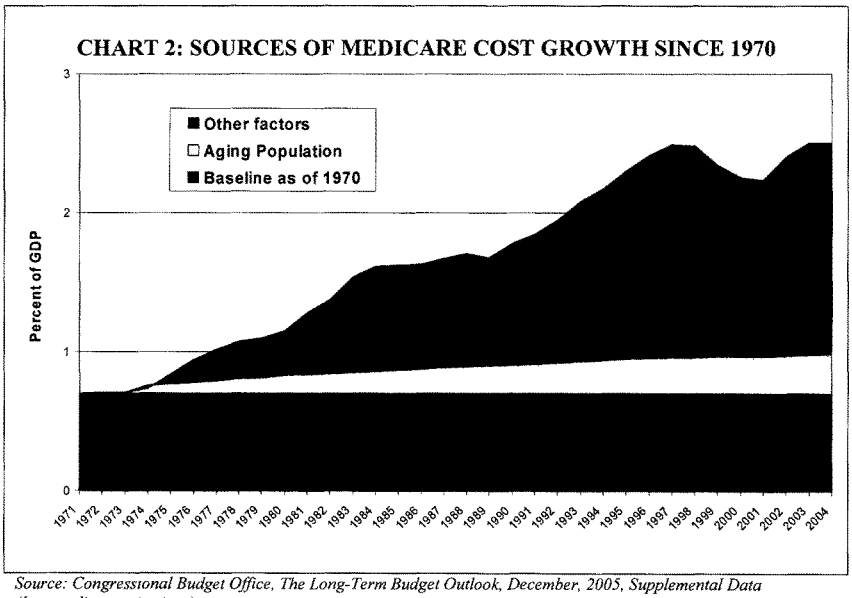
Source: Congressional Budget Office, The Long-Term Budget Outlook, December, 2005

II. Skyrocketing Health Care Costs

While the numbers point to Medicare and Medicaid, the underlying problem is not really with those programs themselves; rather, the problem lies with the overall growth in costs in the health care system. Those rising costs dominate the policy agenda for consumers, employers and unions, state governments, and, with Medicare and Medicaid, the federal government.

In 2007, Social Security accounted for about 4.2 percent of GDP, and Medicare and Medicaid together accounted for only slightly more - about 4.6 percent of GDP. The Congressional Budget Office projects that Social Security spending will increase to about 6.4 percent of GDP by 2050. Medicare and Medicaid, in contrast, are projected to surpass Social Security and grow to more than 12 percent of GDP – primarily because

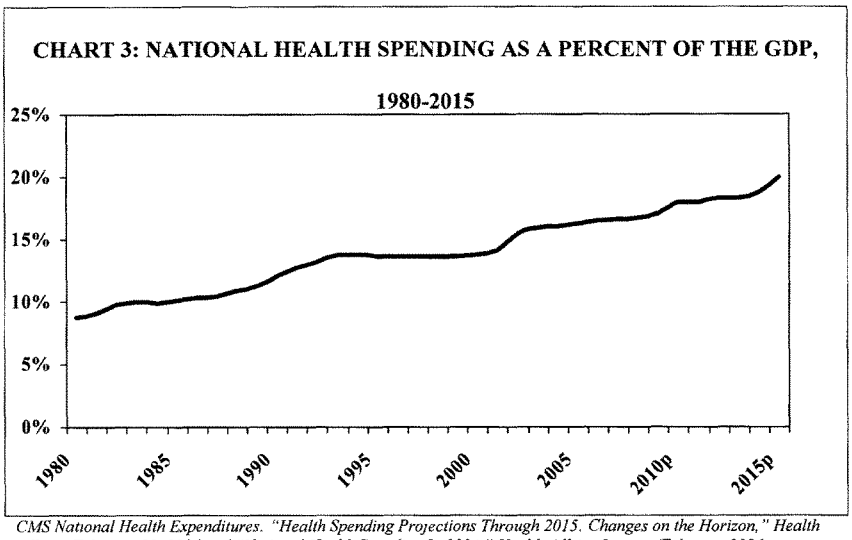
spending is driven less by aging and more by underlying health care costs increasing faster than the rest of the economy. Health care costs are the key fiscal challenge, not just for the federal budget but for patients and their families, business labor, and state and local governments.



Source: Congressional Budget Office, The Long-Term Budget Outlook, December, 2005, Supplemental Data (Intermediate projections)

The facts are well known, but they remain compelling:

- Health care costs in the United States, which accounted for 12 percent of GDP in 1990, reached 16 percent in 2005. Health costs are projected to reach 20 percent of GDP by 2015.

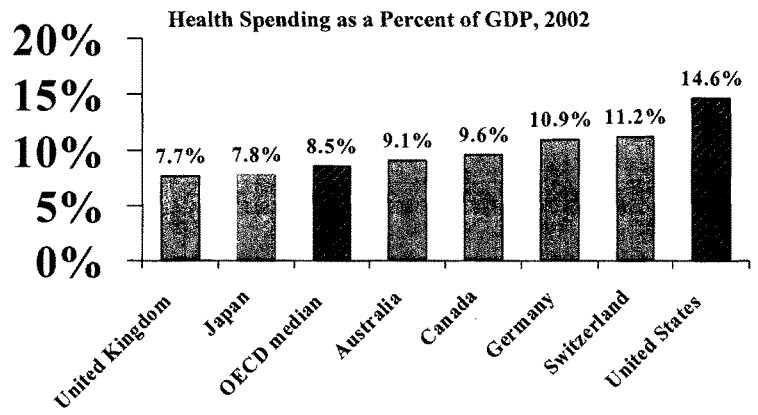


CMS National Health Expenditures. "Health Spending Projections Through 2015. Changes on the Horizon," Health Affairs, February 22, 2006 and "National Health Spending In 2004," Health Affairs January/February 2006.

After flattening at around 14% of GDP from 1995 – 2001, health spending is again increasing as a percent of GDP. It reached 16% of GDP in 2004, and is projected to reach 20% by 2015.

- U.S. health care spending is substantially higher than that of any other developed nation, despite the fact that we are the only nation that doesn't assure coverage for its citizens. In 2002, for example, health care spending was just under 15 percent of GDP in the U.S. That was about one-third higher than spending in the next highest country, Switzerland, where health care spending reached just over 11 percent of its GDP. The median developed nation spent just 8.5 percent of its GDP on health care.

CHART 4: U.S. HEALTH CARE SPENDING MUCH HIGHER THAN OTHER COUNTRIES



"U.S. Health Spending Habits Grab International Attention," Health Affairs July/August 2005 Note: Most recent data show that NHE as percent of GDP in the U.S. in 2002 were 15.4% not the 14.6% given in the graph.

High and increasing health care costs have dramatic implications for projected future spending for Medicare and Medicaid. The underlying growth in health care costs is the key variable for projected federal spending. CBO sets out three scenarios:

- Low cost: if we could slow health care cost growth to the growth in the GDP, Medicare and Medicaid would reach just 7 percent of GDP by 2050.
- Intermediate cost: if health costs increase just 1 percentage point faster than GDP, Medicare and Medicaid would account for about 12.6 percent of GDP by 2050.
- High cost: if health costs increase by 2.5 percentage points faster than GDP, Medicare and Medicaid would account for nearly 22 percent of GDP by 2050.

As these scenarios make clear, the overarching issue in the debate over projected federal spending generally, and entitlements specifically, is the underlying growth in health care costs.

The cost issue must be viewed in the context of the systemic quality problems in our health care system. The Institute of Medicine of the National Academy of Sciences has issued a path-breaking series of reports, notably "To Err is Human" and "Crossing the Quality Chasm." They document tens of thousands of annual deaths due to medical errors and the need to completely transform health care to achieve the aims of a high quality system in the U.S.

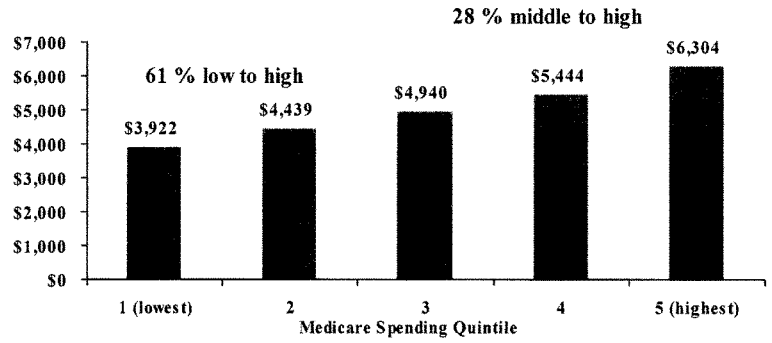
Of most compelling interest for the long-term Medicare spending debate is the link between higher costs and quality concerns. The key finding is that we have reached a level of overall health care spending in this country at which incrementally higher aggregate Medicare spending does not appear to be associated with higher quality.

The most prominent research is from the health care studies group at Dartmouth Medical School, publishers of the Dartmouth Atlas of Health Care. That team has for years conducted careful research using the Medicare data base. They find substantial cost differences in Medicare among different geographic regions around the country, even after adjusting for all of the relevant demographic factors.

For example, after all of the adjustments, Medicare spending still varies by about 61 percent from the regions in the lowest spending quintile (lowest spending 20 percent) to those in the highest spending quintile in the country. And the higher spending regions

(and states) are NOT associated with higher quality. In fact, they achieve lower quality/service scores.

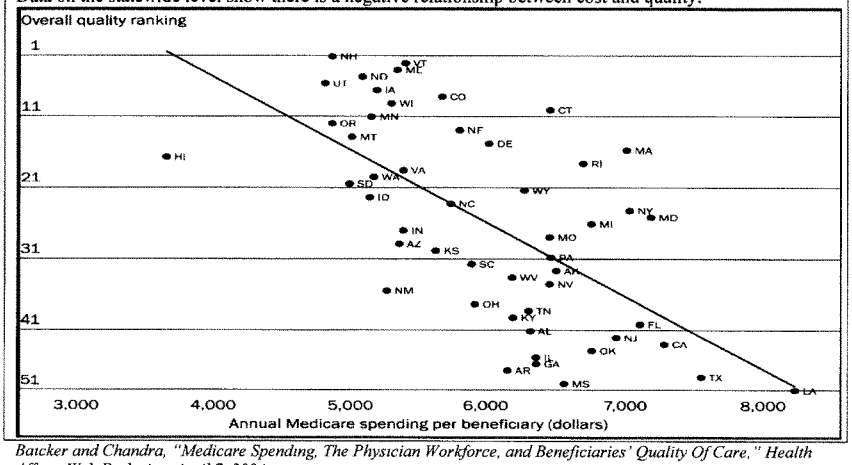
CHART 5: MEDICARE SPENDING PER CAPITA VARIES SIGNIFICANTLY AMONG HOSPITAL REGIONS



Fisher, et al., "The implications of regional variations in Medicare spending. Part 1: The content, quality, and accessibility of care." Annals of Internal Medicine, 2003:138(4)

CHART 6: HIGHER SPENDING NOT ASSOCIATED WITH BETTER QUALITY – STATEWIDE

Data on the statewide level show there is a negative relationship between cost and quality.



Baicker and Chandra, "Medicare Spending, The Physician Workforce, and Beneficiaries' Quality Of Care," Health Affairs Web Exclusive, April 7, 2004

What accounts for the differences? A key driver, accounting for more than 40 percent of the difference in spending among regions of the country, is the structure of the underlying health care delivery system. The researchers find that the higher cost/lower quality areas have more hospital beds per capita, more specialists per capita, and fewer primary care physicians per capita. That leads to higher costs and lower quality because it appears that providers in those communities provide more "supply sensitive" care.

The good news is that there are areas of the country, and states, in which beneficiaries get better quality and service outcomes, at lower cost to Medicare, and lower total coinsurance for patients. We can accomplish that in Medicare in this country under the right conditions – and in particular, if payment incentives are better aligned. The bad news is that beneficiaries in the other areas get worse quality at higher costs. And all beneficiaries and all taxpayers pay more for premiums, cost-sharing, and taxes to pay for the high cost inefficiencies.

But even in the good areas there is substantial room for improvement because efforts to coordinate care and provide the most effective treatments are hampered by a lack of data. There is no comprehensive national health information technology system in place to ensure that physicians and other caregivers have all the relevant information about each patient they are treating. And there is little reliable scientific evidence on which drug or procedure is the most effective option for a given patient in a specific circumstance.

Moreover, according to the U.S. Centers for Disease Control and Prevention, the problem of chronic diseases – such as cardiovascular disease, cancer, and diabetes – must be addressed if we are to tackle escalating health care costs. Chronic diseases account for

more than 75 percent of the approximately $2 trillion Americans spend each year on health care.

It is critical to view Medicare and Medicaid in two ways:

- as participants in that health care system, subject to the dynamics of the underlying health care system in which it purchases care; and
- as leaders and a source of leverage for change in that system. Medicare has a long history of leadership and innovation, especially in payment policy. Innovations have included prospective payment, first for hospitals and now for a full range of providers, as well as the resource-based relative value scale for physicians.

Implications for policy

It is critical to balance Medicare's participant and leadership roles in addressing the cost and quality issues.

- The long-term imperative is to shape and support a more effective health care delivery system for all, including the Medicare population: a system designed to provide high quality and affordable health care for all patients.
- At the same time, it is important to recognize the reality of the need for short-term changes in Medicare where necessary – and for Medicare to help lead toward longer-term structural solutions.

That calls for a clear policy framework to assure that the short-term changes are supportive of long-term directions – or at least are not detrimental to those directions. There are a number of key cost and quality policies to pursue, including:

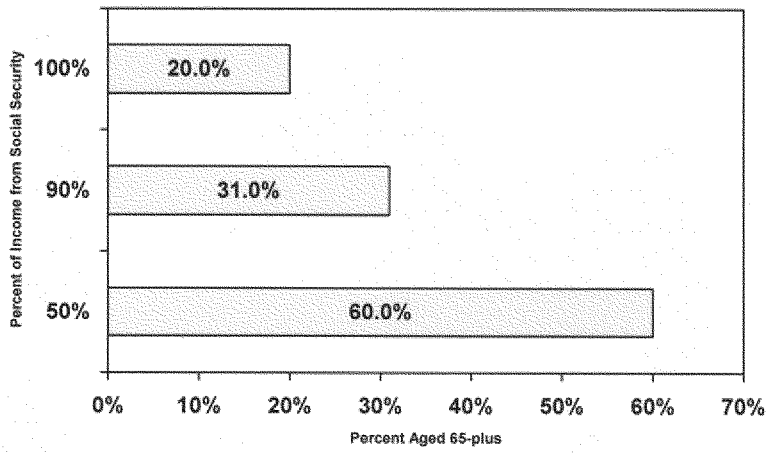
- A much stronger infrastructure of information technology to support the clinical and cost decisions made by health care providers and their patients.
- A much more robust national program of comparative effectiveness research.
- Improving the efficiency of health care delivery by increasing the use of primary care services and encouraging coordination of care. Coordination of care is important for individuals with multiple chronic conditions and especially as individuals move across care settings.
- Providing much better and clearer information about the cost and quality of care for providers, patients, families, and communities. Quality and service issues should be as transparent as possible, as that will stimulate the improvement that both clinicians and patients' desire.
- Avoiding the types of automatic and arbitrary, across the board cuts, driven by the annual budget process or the general revenue "trigger," that have no grounding in policy. With an issue as complicated and critical as health care, this is no time to put health care policy on a budget-driven automatic pilot.
- Reshaping payment incentives across Medicare: provider payments in the traditional program, and health plan payments and competition in Medicare Advantage. All parts of Medicare must work in parallel to provide incentives to restructure care to better serve beneficiaries, and the public at large.

III. Social Security

Social Security is one of our nation's most popular programs among people of all ages. By providing a guaranteed standard of living, Social Security is the hallmark of responsible society. It is financed through workers' contributions that establish eligibility for retirement and disability benefits for workers and eligible family members, and survivor benefits for the loved ones that workers of any age and retirees leave behind upon their death. Social Security has reduced poverty among beneficiaries more effectively than any explicitly anti-poverty program, and it gives countless millions of Americans the freedom to live the lives they choose. We must continue to ensure that the defined benefit promise is preserved and made secure, and that benefits remain adequate.

Most Americans would not have a viable retirement without Social Security, and given our nation's low savings rate and diminished pension system, it will continue to be a critical pillar of retirement income in the future. Today, nearly 1 in 3 retirees count on it for at least 90% of their income and 3 out of 5 rely on it for the majority of their income. We need to make Social Security financially strong over the long-term so that our children and grandchildren can have the same rock-solid foundation on which to build a secure retirement that current beneficiaries enjoy, and so that all Americans can have greater peace of mind.

Chart 7: Relative Importance of Social Security to the Aged 65-Plus Population, 2004



Source: Social Security Administration, *Income of the Population 55 or Older, 2004, Table 6A.1.*

Social Security does not require draconian changes or a major overhaul. Unlike health care, it is not projected to drain the federal budget. In fact, Social Security spending is a smaller share of GDP today than it was in Ronald Reagan's first term. By 2016, it will still consume about the same share of the economy as it did when Reagan was first elected president. Eventually, Social Security's costs will rise, but its growth will largely reflect the eligibility of the boomer cohort, which will occur between 2008 and about 2030. When the last boomer has retired, Social Security costs will resume a gradual and manageable growth path.

While Social Security faces no immediate crisis, it does face a serious, though manageable, long-term financing problem. Viewed from the perspective of the Social Security Administration actuaries, even with no changes, Social Security can pay full

benefits through 2040; after that date, Social Security can pay almost three quarters of promised benefits for decades thereafter.[3]

Of course, delay is neither desirable nor likely. Social Security's long-term solvency can be resolved by relatively modest adjustments if we make them sooner rather than later. The first priority of Social Security reform must be to strengthen the long-term solvency of this guaranteed, defined-benefit program. As in 1983, the path to successful reform of Social Security is likely to combine additional revenues with changes to the benefit structure in a way that maintains the integrity and adequacy of the program but also ensures its long-term viability. Solutions must also be evaluated in the broader context of retirement security so that tomorrow's retirees are not put at greater risk.

IV. Revenue

Any meaningful examination of deficit reduction should include a look at both traditional revenue sources and tax expenditures. While taxes are visible to all of us, tax expenditures – often called tax entitlements - are not.

The federal revenue base has eroded over the past seven years. Federal revenues dropped by nearly 5 percent of GDP in only four years (between 2000 and 2004) and spending increased by 1.5 percent of GDP[4] sending the budget from a surplus of 2.4 percent of GDP in 2000 to a deficit of 3.6 percent of GDP in 2004. Although revenues recovered

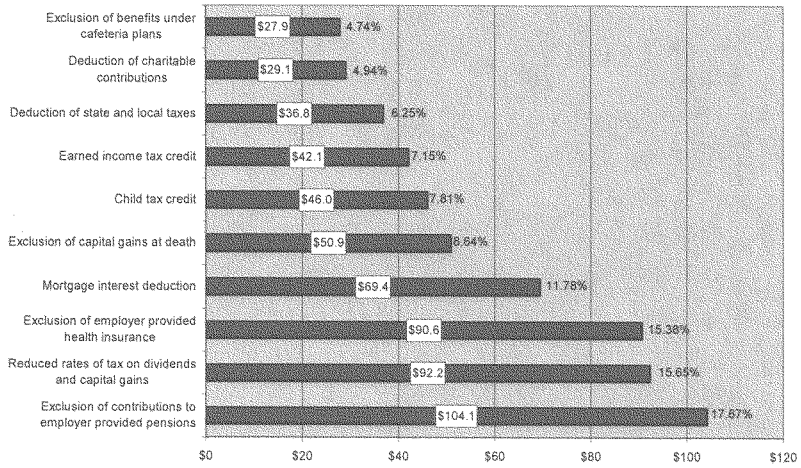
[3] OASDI Board of Trustees, 2007.
[4] Five percent of GDP in 2006 is about $650 billion, more than twice the budget deficit for FY2006. This decline was from an all-time high of revenues as a percentage of GDP, which reached 20.9 percent of GDP in 2001.

somewhat in 2005 and in 2006, they are still well below their peak of 2000, and below levels needed to finance our increasing domestic and global commitments.

The tax code contains a multitude of tax provisions that automatically convey benefits, similar to spending entitlements, but they have very different distributional effects. Chart 8 shows the top 10 tax entitlements.

These "tax entitlements" entail significant amounts of foregone revenue and thus have a deficit impact similar to spending entitlement programs. The benefits of tax entitlements are generally skewed toward more affluent workers. Unlike programs like Social Security and Medicare, which spread their benefits broadly, tax entitlements are highly skewed to the most affluent 20 percent of the U. S. population.

Chart 8: Ten Largest Tax Entitlements in Billions of 2006 Dollars and as Percent of Total Top Ten Tax Entitlements, 2006



Source: U. S. Congress, Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 2006-2010.

V. Other Considerations

A number of policy and behavioral changes might mitigate adverse long-term budgetary trends. The promotion of longer worklives would have many benefits, both personal and social, including increased ability to save for retirement, reduced number of retirement years to finance, and increased revenues to finance federal programs. The promotion of greater individual saving would improve workers' and families' retirement prospects, particularly as traditional pensions become scarcer.

A. Encouraging Older Workers to Remain in the Workforce

The experience of younger retirees, those about-to-retire, and future retirees will be markedly different than it is for older Americans today. Boomers view retirement as a transition of lifestyles rather than the abrupt end of a job, a new opportunity rather than the conclusion of a career. Nor do boomers necessarily view any particular age as the end of an active life, including work. Indeed, nearly 70 percent of boomers report that they expect to continue working in their retirement years. [5]

According to Bureau of Labor Statistics (BLS) data, a growing number of workers age 65 and over are remaining in the workforce. Earnings from a full-time or a part-time job have become increasingly important for retirement security for many older workers who work out of necessity.

A concerted effort to encourage workers to voluntarily remain in the workforce longer would have significant benefits for our society. If workers age 50 and over remain in the workforce longer, the government's fiscal picture would improve because of added

[5] AARP, Staying Ahead of the Curve: The AARP Work and Career Study, Washington, DC: AAPR, 2003

income tax and payroll tax. Encouraging 50+ workers to voluntarily stay in the workforce would help employers avert potential labor shortages projected as a result of the retirement of the Boomers. Workers age 50+ have years of experience, have valuable skills, and a strong work ethic – their continued work can improve productivity and benefit both the employer and the employee. By working longer, individuals will also have an opportunity to accumulate additional retirement income and stay physically and mentally engaged in society.

B. Increasing Retirement Assets

Roughly half of all working Americans age 50 and older have current pension coverage, a percentage that has not changed in over three decades. We must find ways to raise the national savings rate – particularly for those without access to employer-paid plans – in order to improve individuals' financial security. Particularly promising are automatic enrollment for 401(k) plans and providing workers who currently lack employer provided retirement plans with an opportunity to save in the workplace through automatic payroll deductions.

An increasing number of employers are offering automatic enrollment and employee participation has risen as a result. About half the American workforce -- approximately 75 million workers -- do not have access to workplace saving plans of any kind. For some of these individuals, one option is the saver's credit, which provides tax credits to low and moderate-income individuals and couples who put money into retirement accounts. The credit should be expanded to cover more moderate-income savers. Another promising approach is to provide a payroll deduction mechanism, such as an Automatic Individual Retirement Account, or Auto IRA, for those whose employers do

not provide them with a pension plan or an opportunity to save for their retirement in the workplace.

VI. The Bipartisan Task Force on Fiscal Responsibility

Over the years, the growing federal deficit, long-term financial problems in specific spending programs, such as Medicare and Social Security, and the need for tax reform have resulted in the creation of specific commissions and many more calls for them. The key to success for any policy process, whether a Congressional debate, a task force, or a commission, is to properly define the fundamental nature of the problem and to propose solutions that can garner political and popular support.

Successful ones, such as the 1983 Greenspan Commission, have a specific charge, are bipartisan, take sufficient time to deliberate, and allow our elected officials the opportunity to make changes. The ultimate success of the 1983 commission's recommendations depended on the willingness of key Administration officials and Congressional leaders to come together and finish the job the commission started.

Another successful commission was used for base closings and serves as a model for this task force. The base closing commission, however, had a limited mission, and its recommendations affected a smaller group than this proposal. The importance and scope of spending and revenue changes do not lend themselves to the procedures that were used for closing military bases or other more narrowly focused objectives. While the bipartisan nature of the task force is a plus, the accelerated timetable for non-amendable consideration of the task force recommendations does not allow for an in-depth consideration of the issues or an adequate opportunity for public comment.

Commissions are not a substitute for the willingness of our nation's leaders to come together and solve these problems. Finding solutions will also require the engagement of the American people-- raising their awareness, getting their input, and winning their support. The fast-track process suggested in the proposed commission would largely bypass the input of the American people. Given that the issues at stake go to the heart of the health and financial security of every American, a full and open debate is not only important, but necessary. In fact, increased public engagement is the reason AARP, the Business Roundtable, and SEIU have joined together in an effort called "Divided We Fail" to urge action to secure a brighter future for everyone. Today, people remain concerned about their health and long-term financial security -- only about one-third of Americans believe the next generation will have a better quality of lives than their parents.

AARP, SEIU, and the Business Roundtable, which together represent tens of millions of Americans, are calling upon elected officials to find bipartisan, broad-based solutions to pressing problems. These solutions will involve the American people, our elected officials, and the business community. Divided We Fail is designed to help create an environment for making change happen by bringing together organizations that hold different views. A first step - one that a fast-track approach shortchanges - is to hear what everyday people have to say - about the problems we face and the suggested solutions. Ensuring that Congress and the American people work through these key issues is at the heart of our democracy.

VII. Conclusion

The United States is reaching a tipping point with millions of Americans concerned about their health and long-term security. As policy makers seek to deal with budgetary issues, they must do so in a way that addresses the issues of retirement and health security that most people worry about every day .

The debate over government spending, especially Medicare and Social Security, and its impact on the budget, has focused primarily on projected costs, with less attention given to the beneficial impact these programs have had on people's lives. The debate has also failed to focus on the underlying problem of system wide health care costs, which largely drives the increase in projected entitlement spending. The challenge is to improve the quality of people's lives while finding ways to keep pension, health care and other systems affordable and sustainable. These are complex issues that will require the involvement of every sector of society. Meaningful solutions are the responsibility of all of us -- governments, businesses and individuals -- all. Working together, with the right focus and framework, we can ensure affordable quality health and financial security for current and future generations.

Chairman CONRAD. Thank you, Mr. Novelli, and thank you for the leadership that you have shown. Thanks for the willingness to engage on these issues and the recognition that we simply must act. That is critically important to the process, and obviously you are a powerful voice across the country, and your willingness to engage your membership and others in a constructive dialog about how we begin to solve these problems is critically important.

Mr. Bixby, welcome. The Concord Coalition has been one of the most responsible voices, continuing to press Congress and the administration for fiscal responsibility, and we appreciate your participation in the Fiscal Wake-Up Tour as well. Welcome and please proceed.

STATEMENT OF ROBERT L. BIXBY, EXECUTIVE DIRECTOR, THE CONCORD COALITION

Mr. BIXBY. Thank you, Chairman Conrad and 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. The Concord Coalition is often critical of congressional initiatives and things that come out of the administration, and it is a pleasure to be coming up to say something praiseworthy about an initiative because I think this is a very important initiative, and both of you are to be congratulated for focusing attention on such a vital subject for our Nation's future.

There is very little dispute that the current fiscal policies are unsustainable and that future generations are the ones most at risk from inaction. 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. So by focusing attention on this critical issue and insisting that it must be addressed in a bipartisan manner, you are certainly setting a very positive example.

The economic and moral case for long-term reform of fiscal policy is pretty clear. As has been mentioned often, we have an unprecedented demographic transformation taking hold, and it is important to realize that this is happening in the backdrop of rapidly rising health care costs and steadily falling national savings. And all of that is a very dangerous combination for the future health of the economy. While it may seem that there is no immediate crisis, according to a broad bipartisan consensus, current policy is indeed on an unsustainable path.

People often ask us on the Fiscal Wake-Up Tour, When is a crisis going to hit? Can you tell us when a crisis will hit? What year? What is it going to look like? Well, nobody can say when all of this might end up in a crisis or exactly what it might 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, that is a dismal prospect, and doing nothing now to avoid it would be an act of fiscal and generational irresponsibility.

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

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

So the central problem, as we look at the charts going forward, is this: some people can make a good case that we should keep revenues at about 18 percent of GDP and spending at about 18 percent of GDP, and you could make a case that we could let revenues go up to 25 or 30 percent of GDP, if that is where we wanted to spend. But no reasonable person would argue that you should keep revenues at 18 percent of GDP and spend at about 27 or 28 percent of GDP. And, unfortunately, on our current path that is where we are headed. Deficits of that size would truly be unsustainable.

So the sooner we get started, the better. Inaction now only increases the prospects of more severe choices later.

In looking at the proposal for a task force, it is logical to begin by asking why can't the traditional process handle this. I would like to highlight two factors: political realities and a budget process that is focused on the short term.

Changing course is obviously going to 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 will attack it. And, similarly, neither side wants to discuss possible compromises of its own priorities out of fear that the other side will simply take the concessions and run. Unfortunately, these fears are justified.

Partisan divisions in Washington have now become so wide that the Concord Coalition believes that a task force or a commission may now be the only way forward on this issue. As for the budget process, it 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 5- or 10-year window, much less take corrective action. So without some mechanism such as this task force to put the hard choices between spending commitments and taxes on the record, everyone can continue to ignore the long-term consequences of current policy.

Now, what are the criteria for success? The Concord Coalition Co-Chairmen, Bob Kerrey and Warren Rudman, two of your former colleagues, wrote an op-ed that we all considered at Concord for the Washington Post last year and outlined some criteria, which I will go over. And it is repetitive of what a lot of others have said, so there seems to be pretty good consensus.

First, it must be truly bipartisan. Any perception that the purpose is to facilitate swift enactment of a partisan agenda would doom the task force to failure. We, too, believe that it should have bipartisan co-chairs and equal representation.

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 should examine all aspects of fiscal policy, as your proposal would do.

Third, there must be no preconditions. If either side sets preconditions, the other side will simply not participate. Your task force recognizes that and puts everything on the table.

Fourth, it must engage the public. In Concord's experience with the Fiscal Wake-Up Tour, when people are armed with the facts and given the opportunity for honest dialog, they are willing to set

priorities and make some hard choices. And, moreover, it seems highly unlikely that the public would react well to a reform package for which it was unprepared.

Fifth, and finally, its recommendations should be voted on in Congress. They should be guaranteed some sort of up or down vote. Absent this element, the report would simply join many others on the shelf.

I would just make a couple of comments about changes. I mentioned bipartisan co-chairs. We do think that would be important. There is a lot in a name, such as the Kerrey-Danforth Commission or the Hart-Rudman Commission or the Breaux-Thomas Commission or the Greenspan Commission. If this were called the Paulson Commission, it would look like something coming out of the current administration, and you might—I think it would be good to have bipartisan co-chairs just for that purpose and also because it would establish more credibility, I think, across party lines.

I would also join others in encouraging a slightly more flexible amendment process, although I realize when you get into that, you know, there is a very tough line as to where to stop. But it could be that allowing for amendments might be a mechanism for helping the new administration become involved in the process, or perhaps even just letting off steam of people that wanted to say that they had an alternative to vote for before they had to make the hard choice and vote for the tough package. But I certainly would not get carried away with amendments. It should be limited in some fashion if you did them.

Another recommendation that I would say—and I would end with this—is to take advantage of the authority you have provided to have some public hearings, and I would agree with Mr. Panetta that your negotiations, the dialog between members is not something that you want to do in public. But I do think there should be some public hearings about the nature of the problem and the realistic options for doing this. This is really what we do on the Fiscal Wake-Up Tour. We have had a very positive response. People love to see folks from Brookings and Heritage who acknowledge up front that they do not agree with each other on the solutions talk about how they do agree on the magnitude of the problem and the nature of the choices that must be confronted. So some sort of process for involving the public and making the public aware of your activities would help, I think, raise the comfort level of members and would also help ease passage if people were prepared for the types of recommendations that the task force would come up with.

One thing—and I will close with this—we emphasize on the Fiscal Wake-Up Tour, this is not a numbers issue. This really is a moral issue. It is about the legacy that we are going to leave to future generations. Right now we are building a house for them to move into that we know is structurally unsound. We would not do that in our personal lives. We should not do it with our public policies as well.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Bixby follows:]

THE CONCORD COALITION

Statement of Robert L. Bixby
Executive Director, The Concord Coalition

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.

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[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

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[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 stated 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.

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[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 may 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.

Senator GREGG [presiding]. Thank you, and I thank the entire panel. I join with the Chairman in his acknowledgment and appreciation of the panel's presentation.

The Chairman had to take a call dealing with the farm bill, talking about problems.

I will reserve my time, and Senator Graham has been sitting through the whole hearing, and then we will come to Senator Domenici. Obviously, if the Chairman returns, he will take over.

Senator GRAHAM. Well, thank you, Senator Gregg.

One, I appreciate everyone coming to the Congress and telling us the same thing over and over again.

[Laughter.]

Senator GRAHAM. And I do appreciate the Chairman and the Ranking Member for actually doing something. We have got something we can rally around now. I am not too optimistic that we will seize the moment here, but I watched the Democratic debate last night, which says a lot about my life. But I thought it was interesting about Social Security. They had a real confrontation, and I would like to put on the record, I appreciate what President Bush tried to do. He really went all over the country trying to explain the problem that looms with Social Security, and I am going to focus my time on Social Security because, Mr. Novelli, I agree with you in this regard: A solution to Social Security is probably more achievable than health care because literally it is a math problem, and it is the gateway to solving every other entitlement.

So, Mr. Panetta, let's start with Social Security. You are someone who has been around the town a long time and in very different important positions. Can you imagine solving the Social Security problem without somehow adjusting the age for retirement?

Mr. PANETTA. Well, I certainly think that has to be one of the things on the table, and I personally would have no problem adjusting the retirement age with the fact that people are growing older at the present time.

Senator GRAHAM. Can you imagine a bipartisan solution that did not include some source of new revenue regarding Social Security?

Mr. PANETTA. No. You have to increase the revenue.

Senator GRAHAM. Can you imagine many Republicans coming on board without some new growth potential in Social Security?

Mr. PANETTA. Growth potential?

Senator GRAHAM. Yes, that people can get better rates of return than the current system offers, younger workers. I will answer that for you. The answer is no. Now——

[Laughter.]

Mr. PANETTA. I guess you can answer for me.

Senator GRAHAM. Yes, yes. I am just trying to—I just do not believe there would be a whole lot of Republican support for the solution that takes the growth opportunity off the table.

Now, Mr. Novelli, there is an add-on account and there is a carve-out account, and I understand the AARP is opposed to a carve-out account in terms of achieving new growth. Is that correct?

Mr. NOVELLI. Yes, it is.

Senator GRAHAM. Would you be open-minded to an add-on account as a way for younger workers to achieve new growth?

Mr. NOVELLI. Yes, we would. We promote and welcome the idea of add-on accounts. We think it is a very good idea.

Senator GRAHAM. And, Mr. Panetta, I think President Clinton at one time suggested that.

Mr. PANETTA. That is correct.

Senator GRAHAM. Now, General Walker, can you imagine a solution to Social Security that does not have some form of recalculating benefits based on income?

Mr. WALKER. No. I think that would be part of a likely solution where you provide somewhat lower replacement rates for middle- and upper-income individuals and possibly strengthen it for people near the poverty level.

Senator GRAHAM. Because it is virtually impossible to tax your way into solvency. Is that correct? You just could not raise revenues enough to solve the Social Security problem by just raising taxes.

Mr. WALKER. Well, you could, but I do not think that would be a desirable way to do it. In fact, I think it is possible to exceed the expectations of every generation of Americans without raising taxes for Social Security. But you are going to have to have additional revenues for health care. There is no way you can get away——

Senator GRAHAM. Right, right. The point I am trying to make is that there is no one way to do this. You put a little of this, and you put a little of that.

Now, from the Concord Coalition's point of view, I really appreciate your organization's leadership on this. Can you imagine a solution to this problem that does not involve all the things I have just said?

Mr. BIXBY. Well, I have a vivid imagination, but I think what——

[Laughter.]

Senator GRAHAM. Well, let it flow.

Mr. BIXBY. I think what you have described is the likely solution, with all of those things. I can well imagine a solution with all of those elements in it, and I think a solution that did not have all of those elements in it would not be a complete solution.

Senator GRAHAM. In the next 52 seconds, really, the problem is leadership. Unlike other aspects of entitlement reform, Social Security, I believe, is probably the easiest to solve. And we have talked about growth, revenue, age adjustment, and recalculation of benefits. Those are the four moving parts. And I bet if we got in a room, we could do this in about an hour. The question for each of you is: Do you believe that together you can provide political support to help people on this Committee have a breakthrough that we have yet to be able to achieve? Will you commit to providing that political support, each of you, rallying around a bipartisan document that has all these moving parts when it comes to Social Security? And you can answer in any order you would like to answer.

Mr. PANETTA. There is no question that we would certainly support that effort, but I also have to caution you that I really think you have to address the whole deficit issue, and it is not just Social Security. It is also health care costs. It is also the fact that deficits are increasing rapidly. Particularly if you extend the tax cuts, you are going to have even greater deficits. So it is all of those issues

that have to be on the table if you are going to confront the challenge that faces us.

Mr. WALKER. Senator Graham, I have already been to over 30 States outlining possible frameworks for a variety of reforms, including Social Security, so I am already there. But I would respectfully suggest that one of the reasons that the President's effort failed, despite his sincere efforts to try to achieve reform, was that the process he employed was fundamentally flawed, and process matters. You are not going to make tough changes dealing with Social Security, health care, tax policy, unless the process has integrity and credibility.

Mr. NOVELLI. Senator, I know you are zeroing in just on Social Security, but to reiterate what Mr. Panetta said, you know, it would be good to look at these things in the broad context, as this task force is designed to do. But just on Social Security, regarding support, what I want to tell you is that we do this all the time. We have had many, many, many community-level meetings across the country where we say to our members Social Security has a long-term problem. There are a variety of ways in which it needs to be addressed. Here are 10 or 12 of them. Tell us what you think.

And I can tell you that inevitably they look at both sides of the equation. They look at the revenue side, and they look at the benefit side. They do not run away from anything. I do believe that there is support among the public to make Social Security strong for future generations.

Mr. BIXBY. The package that you describe is one that the Concord Coalition would certainly support, and I harken back to the days of the Clinton initiative in 1998 when Concord worked with AARP on organizing forums. And I was talking to Mr. Novelli before, and we would certainly be willing to enter into some sort of effort like that again on Social Security or anything else.

But I think that those are the elements, and we would be happy to support it.

Senator GRAHAM. Thank you.

Chairman CONRAD [presiding]. Thank you, Senator Graham, and thanks for your long-time interest in these subjects and your willingness to think outside the box. That is, I think, going to be critical to the process, and you have certainly been a strong voice for proceeding sooner rather than later, which we appreciate as well.

I have listened very carefully, and that is really what this hearing is about. What are the things that we need to do or at least take into consideration as we proceed? And I am hearing timing. I am hearing alternatives. I think some of you have suggested actuarially equivalent alternatives at least being a consideration. And I am hearing the question of supermajority for the panel, but maybe majority vote in the Congress.

Senator GREGG. Co-chairs.

Chairman CONRAD. Co-chairs. Bipartisan co-chairs. From General Walker, the possibility of some outside members.

Let me ask this question, because I have heard this repeatedly: that this should be done through the regular order. We should just let the regular legislative process, the committees of jurisdiction proceed in the regular order to address these issues.

Mr. Panetta, what would you say to those who suggest that alternative?

Mr. PANETTA. It will never happen. The committees of jurisdiction will never take on the kind of challenges that are involved in this kind of effort. You know, they are committed to obviously doing the things that they do best within their committees, and the last thing they want to do is to make the kind of tough decisions that hurt people in this process. And you are going to have to make tough decisions that in one way or another are going to require sacrifice by all of the American people. And most of these committees, frankly, are not going to rise up to that challenge unless they are at a table and unless this is the requirement that has to be accomplished.

Every summit I participated in—and Pete Domenici was there at everyone that I was involved with—every one, I have to tell you, the Chairmen of those committees were not particularly anxious to be there, but the fact was that the President and the leadership asked them to be there. And as a result of that, they felt a commitment to meeting those requirements. If you just leave them under their own jurisdictions, that will never happen.

Chairman CONRAD. General Walker, what is your take on that?

Mr. WALKER. Well, as you know, my client is the Congress of the United States, so I will say something that is a little bit of a risk. I think the regular order is dysfunctional as it relates to these types of issues. And it is, quite frankly, understandable because you are talking about putting together a package that crosses many different jurisdictions. In order for this thing to be successful, among other things, not only does it have to be bipartisan and everything has to be on the table, but you have got to put together a package that makes sense. And the idea that that would end up emerging from the regular order I think is just totally unrealistic.

Second, you really need more meaningful and effective public engagement and interaction than you get in congressional hearings. You just do not get meaningful and effective public engagement. Town hall meetings—and I had the privilege to be involved in the effort in 1998 between AARP and the Concord Coalition on Social Security reform, are just totally different than when you get into congressional hearings.

And, last, I think realistically you are going to need a package that will provide political cover to all parties. That is going to be essential, because there are going to be things in here that some people do not like but they are necessary in order to help make sure our future is better than our past.

Chairman CONRAD. Mr. Novelli, what would be your reaction to those who say, well, just leave this to the normal process?

Mr. NOVELLI. Senator, we have been doing a lot of research among the public, among our members, and I think that there are two important lessons learned. One is that the public is very worried. The average person out there is worried about his or her price of health care, whether they can afford it, whether they can keep it. They are worried about the fact that they may have kids at home and they are caring for aging parents. They are worried about their own adult children and the fact that they do not have

insurance or coverage or the ability to save for retirement. So you have got that sense, that high level of worry.

So when we say that the pain is not here yet, actually the pain is here. The public is feeling pain. But there is another aspect of what the public is feeling, and that is anger. The public, if I may say so, is fed up with Washington. The public is angry at the Congress and at the administration, and basically what they are saying is, "Enough is enough."

And so I think that extraordinary means are necessary. I think a task force to do what Mr. Panetta said, which is to regain trust, to do the public hearings that General Walker is talking about, is in order. Business as usual is not going to get it done.

Chairman CONRAD. Thank you.

Mr. Bixby?

Mr. BIXBY. I agree. I think one of the problems with the current budget, with the budget process, is that it does focus on the 5- or 10-year budget window or even just the current year. And the problems that we are concerned with here on the Fiscal Wake-Up Tour and with your task force is the long term, things that will have consequences in 20, 30 years. And there is nothing in the traditional process that forces any attention to that, so I think the task force may well be essential, in addition to reasons that others have mentioned, to provide a process for looking at the long term.

Chairman CONRAD. All right. Senator Domenici?

Senator DOMENICI. Thank you very much——

Chairman CONRAD. Maybe I could just say, Senator Domenici, a long-time Chairman of this Committee, has probably participated in more of these efforts than all the rest of us combined. So he brings a special understanding.

Senator GREGG. He has his own bill.

Chairman CONRAD. He does. He has his own legislation on this as well. Senator Domenici?

Senator DOMENICI. Well, thank you very much. I noted this on my calendar, this hearing, and I noted that the two of you had introduced a resolution, and that prompted me to come up here because I am really thrilled with the idea that maybe you will pass either your resolution or it modified or whatever it would be. And I know that you had a House leader over here, which leads me to think that you are really serious. I urge that you be serious about getting one. I think the fact that Senators are so frightened and House Members so frightened to do anything about Social Security and Medicare I do not think means that they are too frightened to vote for a resolution of creating a commission. I am with you. I have one in. Mine is a pretty good one. It took a long time to get it done. Senator Feinstein is my cosponsor. It probably ought to be looked at when you put yours together. It is different in some respects. But it was a prominent Democrat who was feeling how her caucus might feel that got on it. Senator Feinstein made me make certain changes because of the Democratic input she was feeling.

I think it is time. If we could say, well, maybe we would put it off again for this or that, frankly I think you would exert the best kind of leadership if you said we want to do it as quick as we can, we want to challenge these Senators to say, OK, we know we cannot do it, we ought not let America suffer the downfall because we

cannot do this one. We ought to let a commission try. It almost worked with the last commission. You remember that, under the previous President, Democratic President. It had one person change your mind, or we would have had a terrific recommendation. We would have been fighting over here, but I think we might have gotten it done. We all know what happened, and that was totally political. You have got to learn from that and try to prevent it so that it can happen. We hope it can.

And I would say in reading yours I just had a couple of concerns. I think you should only be covering entitlements. Your language seems to indicate that you are talking about all expenditures. I surely would not have this commission work on appropriated accounts, and I asked the former Chairman, now Ranking Member, when you were out, and he said he did not think you all intended to go beyond entitlements.

I do not know what entitlements beyond Social Security and Medicare you ought to do. I mean, should you bring in veterans and ask for more problems? I do not know. They are getting—to my way of thinking, get the two big ones if you can and get going. Maybe there is something else to it.

I want to say to all of you, we need you because, you know, the people do not believe anymore that we will do what we say. You must know that, Mr. Novelli, from the seniors that you poll frequently. And I honestly believe that the Senate is filled with pretty decent, hard-working Senators. This issue is impossible politically unless we find a way to do what we are talking about.

I had coined a word once because it was so difficult to even ask for a vote on this issue, because the Senators were wondering who voted first, to see if they voted or not. So I said we have to—this vote has to pass the "simultaneity" test. Everybody has to vote at the same time so that——

Senator GREGG. Simultaneous combustion.

Senator DOMENICI. Yes, simultaneous combustion, because if you ask the Democrats to vote, then the Republicans will say they did it. I do not know if democracy, acting normally in regular order, can meet this kind of challenge. But you better do what you have told us and put a resolution together. We hope we can get good people. Do you want more Congressmen and less lay people? Or, Mr. Chairman, what is your—do you want more Congressmen and -women? That is what I did in mine, too. Only two laymen, the rest were Congressman and -women. What is yours, do you remember?

Senator GREGG. No. It is all Members.

Chairman CONRAD. All Members.

Senator DOMENICI. All Members of Congress.

Senator GREGG. And the administration.

Chairman CONRAD. Administration and Congress.

Senator DOMENICI. That is mine, the same way. That is good. Well, yes, sir?

Mr. WALKER. Senator Domenici, for your consideration and for Chairman Conrad's and Senator Gregg's, I actually think one of the things you ought to think about is taking the best portions of your bill, the task force bill, and possibly others including that of Senator Feinstein and Senator Domenici because in my view we really have two things we have to deal with. We need to make a signifi-

cant downpayment on what now is estimated to be a $53 trillion imbalance. And realistically, I think that is going to mean budget controls, comprehensive Social Security reform, round one of health care reform, and round one of tax reform. Realistically, you have got to do at least those four.

I think Senators Domenici and Feinstein have recognized that the best you are going to do the first time out is a significant downpayment and that we are going to have recurring problems on the mandatory side. I would respectfully suggest it is not just mandatory spending like entitlements, although that is the biggest one, I agree with you, Senator Domenici. We also have a lot of mandatory back-door spending that are called "tax preferences," $800 to $900 billion a year. And I think that one of the things that they recognize in their bill which I think has merit is you are going to want to periodically come back and make some recommendations beyond the initial downpayment because, this $53 trillion hole is going up $2 to $3 trillion a year by doing nothing.

So I would encourage you to think about whether or not you might be able to work something that combines the best of both proposals.

Senator DOMENICI. You are saying ours is permanent.

Mr. WALKER. It is a standing commission that would report, at least as I recall, every 5 years, if I recall.

Senator DOMENICI. That is correct.

Mr. WALKER. Or it could report—one of the things we have talked about during the Fiscal Wake-Up Tour is to have mandatory reconsideration triggers for both mandatory spending programs and tax preferences that when a trigger is hit, this commission could have to come back and, make a recommendation in advance of 5 years if some trigger is hit.

But I think you have to have it apply to both spending and tax policy; otherwise, I do not think you will get the agreement.

Chairman CONRAD. Let me just say that I am entirely in agreement with you. What you just outlined is what has always been in my head, that you have got to deal with long-term entitlements; you have got to deal with what I would consider round one of health care, because we are not going to solve the health care issue at one convening. That is not going to happen. That is the 800-pound gorilla. Mr. Novelli made it very clear. I agree with that entirely. That is the thing that can swamp this boat. And it is going to swamp this boat if we fail to act. And I think tax reform is critically important as a component. You have got to deal on the revenue side, you have got to deal on the spending side, and I think increasingly we have got to look at what makes our country more competitive. The world has fundamentally changed since the pillars of the tax agenda of the country was put in place. The world has changed fundamentally, and we are going to have to seriously, I think, reconsider the way we do the tax business of the country.

I would say Senator Domenici and Senator Nunn a number of years ago had a very thoughtful proposal about fundamental tax reform looking at making America more competitive. I think we have to go back and look at proposals like that one.

Do you want to go next, Senator Gregg?

Senator GREGG. Sure.

Senator DOMENICI. Thank you for letting me go ahead of you. I appreciate it very much.

Senator GREGG. It is a courtesy. I am happy to do it as a courtesy to the former Chairman, the long-time Chairman and leader on this issue who has always got good thoughts on these points.

I want to return to the point that the Chairman made and to another issue, which is the points which have been raised here about how the commission should be set up are very legitimate but extremely resolvable. I mean, we can come up with a process here. With the exception of the amendability, I think I can be in agreement with almost any ideas that have been thrown on the table here. The issue is the institutional resistance to actually getting a commission passed.

The Chairman highlighted one, which is the issue of the jurisdictional question, other committees being concerned that their jurisdiction is being stepped on, and I think your answers were right on, that you cannot do this type of a long-term policy under the present regular order, regrettably. We have proven that over and over again.

The second institutional impediment to this is I believe a lack of public support for the approach, and I am wondering how we energize people to be more sensitive. I mean, you are obviously doing your tours, which have been extraordinary. But is it possible that the AARP should or would be willing to participate in calling for this type of an event? Because, honestly, if this is not entered into the Presidential debate as an element of the debate, if the candidates for the nomination or the candidates who are nominated are not willing to say when we come to entitlements, Medicare and Social Security, it has got to be bipartisan and it has to be fairly structured and we probably have to do it this way, we are probably not going to make any progress.

Is there something further that we can do to energize this? Because right now we are being sort of slow-walked because some of our colleagues—on both sides of the aisle, regrettably—see these issues as the bludgeons which get people elected, tax policy on our side, Social Security policy on the other side, and they do not want to give up that club to use in the next election. And we have got to come up with some way to say, hey, the American public tells you you cannot use these clubs, we have to make progress here.

Do you have any more thoughts? I mean, I really congratulate General Walker and the Concord Coalition for the tour. I mean, they have been exceptional. They came to New Hampshire and it was great. But I do not think we have gone the next step, which is to say to people do not use the club of tax policy and use the club of Social Security policy as a way to not allow a commission to go forward because you need those political tools.

Does anybody have any thoughts on this?

Mr. PANETTA. You are absolutely right. You have hit on the fundamental problem here, which is that members do not want to walk into the buzz saw that is going to be involved in making the kind of choices we are talking about because those are used as clubs on both sides to beat each other up, and, you know, you are largely engaged in partisan trench warfare up here, and everybody

is basically in their trenches, and nobody wants to get up and have to deal with it.

I think you need to look at history here. The only way it developed is that, A, there was crisis, and whether or not crisis will happen in the markets as a result of this, who knows, over what period of time. But, clearly, crisis does drive this institution to try to respond. It is a lousy way to govern, but it clearly is one of the ways.

Senator GREGG. But this may be, as Mr. Bixby pointed out, a slow developing cancer where crisis is never really identified at a public level of intensity.

Mr. PANETTA. You are right. The other thing I was going to point to is there was a guy named Ross Perot who made this a national issue during a Presidential campaign. And the fact was that the public responded to his appeals to try to deal with the deficit and what it was causing, and that in large measure, I have to tell you, working for President Clinton, it was Perot's campaign that produced some of the impetus to move an economic plan that dealt with the budget deficit.

So, clearly, the Presidential candidates have to address this issue and make it a priority. If they do, then whoever is elected obviously then has at least the political impetus to go to the American people and say I am going to do what I said I was going to do and try to bring those parties to the table.

So there has to be that political process of educating the public to the need to deal with this issue. I think the public is ready for this message. There is the fact that wherever Gen. Walker, Bill Novelli, and Bob Bixby go to talk to the public, they respond. Every group I talk to responds to this issue. But it is going to take a Presidential candidate on both sides to be willing to address this issue and the need to take action. That ultimately is going to be the only way you are going to bring players in this institution to the table.

Mr. WALKER. As I said, Senator Gregg, while I believe that a task force or a commission along the lines of what you propose is an essential element to achieve sustainable success in this area, I also believe that Presidential leadership is also essential to be able to attain it as well. And while the Fiscal Wake-Up Tour has been very successful, it is but one of many things that are going on right now.

For example, I have spoken with Ross Perot on more than one occasion. He is going to fund a website to try to be able to get some more visibility in this area.

Second there is a commercial documentary that is going to be released next spring in time for the Presidential general election campaign to try to gain more visibility on the issue.

I think it is absolutely critical that the next President make fiscal responsibility and intergenerational equity, which includes at least the four things we talked about before, one of their top three priorities. If they do, I think we can turn this thing around. If they do not, I think it is only a matter of time before we will get a crisis. And, you know, so that is what we are trying to do. The Fiscal Wake-Up Tour and others, we are trying to make this a general election issue through a variety of different efforts, and this task force would compliment that effort because it would help to set the operating table early in the next Congress and the next adminis-

tration to try to be able to make that downpayment and get some momentum to improve credibility and confidence.

Chairman CONRAD. General Walker, do you have any idea in the movie who will be playing the Chairman of the Senate Budget Committee?

[Laughter.]

Chairman CONRAD. I was hoping for George Clooney.

Mr. WALKER. Believe it or not, since this is a documentary, it is going to have real players in it.

[Laughter.]

Mr. WALKER. Real players.

Mr. NOVELLI. Senator Gregg, I think that it is clear that the public does want action. I mean, we are at a moment in time when we can build on the public concern and demand for action.

As I think you know, we started Divided We Fail with the Business Roundtable and SEIU, and tomorrow we are going to announce a major additional partner in this coalition. And we have been going around the country. We have got in your State, in all the early primary States, caucus States, we have been basically training hundreds and hundreds of volunteers to essentially ask the candidates what are they going to do about Social Security, what is their plan for health care.

I really believe that we could add to this educational effort the idea of this task force. I think there is an up side and a down side to it. The down side would be if this does not happen—or if it does happen and it becomes another shelf document, as Mr. Bixby said—then the public is going to be even more angry and more disappointed. The up side is good, though. This is a task force that is specific. It is something the public can understand. It is something that they can actually engage in and support.

So, yes, I believe we could put this task force into the Divided We Fail message, but I think that if we do it, something has got to happen.

Senator GREGG. Well, I would simply state that the task force as structured requires that something happen. That is the whole point of it. And, obviously, if you folks made it the cause du jour, it would have a huge impact in the process.

I apologize for my phone. It has got to be my children.

Mr. BIXBY. One other thing that I would mention, there was—back when Congressman Stenholm and Congressman Kolbe had a Social Security bill, they came up with this "Get Out of Jail Free" card, which was anybody that supported on a bipartisan basis the bill, they would agree to rebut negative campaigning against that person in their re-election campaign. So as a hypothetical, if, you and I were running against each other and I started accusing you of wanting to destroy Social Security and Medicare, then, Mr. Graham, who may have supported you in this effort, would agree to rebut that in your home State and say, Bixby does not know what he is talking about, something like that.

So, you know, that is just sort of fighting fire with fire politically if people signed up for this.

Chairman CONRAD. OK. Senator Nelson?

Senator NELSON. I want to encourage you on this task force, and you certainly have my support, because it is only by these kinds

of attempts of building consensus that we are going to get any kind of headway in an extremely poisoned, highly partisan atmosphere. And I come to these conclusions simply out of the experience that I have had.

Leon and I were in the House at the time, in 1983. Social Security was within 6 months of getting to the point that it was not going to have sufficient revenues coming in for the payouts. And two old Irishmen, bitter enemies, political enemies—personal friends, and there is a lesson in that, that they could fight like the dickens in the day, but at night they had a personal relationship that they could sit down and talk to each other. And, of course, you know who I am talking about: the President and the Speaker of the House. And they said we are going to take Social Security off the table as a political issue in the next election, and we are going to use a vehicle something like this task force. It was called a commission. And they put all the highly visible people on there, including Claude Pepper, and they came out extracting a little bit of pain from everybody in the process and made Social Security actuarially sound for the next 80 years.

And so when you get to these highly emotional issues, these politically radioactive issues, like Social Security, Medicare—indeed, the health insurance system of this country, which has got to be completely overhauled. But there are so many players in it, you just cannot get it done in a normal circumstance. I wish I could believe that we could get this kind of leadership emerging out of the Presidential election, but I do not think it is going to be there because of the radioactivity of these issues. So the leadership and the bipartisanship is going to have to be built by the next administration. And that means that they are also going to have to set the table for working together with the parties, like the two of you do. We do not get a lot of bipartisanship on this Committee on the issues, but we sure get the bipartisanship in the way that the two of you can work together. And so, too, it has got to be with the next President and the Republican leadership in the Congress.

Now, I am not very optimistic because I see the—I do not see the leadership like Tip O'Neill and Bob Michel or Whoever was the Democratic leader back then and Bob Dole. And they could cut deals. They could work things out. They had a good personal relationship. And we have got to get back to that in order to be able to hit a consensus on these kind of very thorny issues. But what you all are doing is certainly the right track: try to build a consensus.

Now, I have offered—this is a side issue. We have got a huge problem of insurance for catastrophe. Nobody paid any attention until finally Katrina came along, but it was not Katrina in the sense of windstorm insurance., because that did what it normally would do, a Category 3 hitting the Mississippi coast. It was just because it was an unusual kind of thing, which was filling up the canals in New Orleans and the bowl filled up that you had this huge economic loss from Katrina. But it underscored the problem that we have got a problem that no one State and no one insurance company can withstand the big one when it hits, and the big one is a $50 billion insurance loss storm hitting a major metropolitan area direct from the water or an 8-point-plus on the Richter scale

earthquake hitting San Francisco or Memphis. And it is coming, but we cannot build consensus because everybody has got their own little selfish interest to protect.

I have offered to try to build it with this, what we called an emergency commission on insurance, on catastrophe insurance, and we are having trouble even getting that out of the Congress.

So I commend you, Mr. Chairman, for what you are trying to do.

Chairman CONRAD. Well, I thank you, Senator Nelson.

One thing I have learned is that the Senator from Florida is absolutely serious about fiscal responsibility, and he is willing to cast tough votes to achieve it, and I respect that enormously.

Senator Gregg, do you have additional comments?

Senator GREGG. I just want to thank you again for being the engine behind this effort and thank the panel, especially the Majority Leader of the House, for being willing to step forward and make the case, because you have got the credibility and the bipartisanship that we need in order to make progress here. We thank you for being willing to be advocates.

Thank you very much.

Chairman CONRAD. Yes, let me just conclude by thanking the witnesses here today: Congressman Hoyer, the Majority Leader, who led off this hearing.

Leon Panetta, former Chief of Staff to the President of the United States, a former House Budget Committee Chairman, former head of the Office of Management and Budget. Nobody has dealt with these issues over a long period of time or shown more leadership for fiscal responsibility than Leon Panetta, and we very much appreciate your being here.

General Walker, who has really helped put this issue on the national agenda by leading the Fiscal Wake-Up Tour. I remember your talking to me about this several years ago. I was just delighted to see that you have carried through, and you are unrelenting, and that is exactly what it takes.

Bill Novelli, you came to me some months ago and said that AARP recognizes fully that we are on an unsustainable course, and collectively we have got to find a way to address these long-term issues. And for you in your position and with the full weight and muscle of your organization behind that stance, you can make a big difference here in whether or not we take this on or whether this can gets kicked down the road one more time. I can say Senator Gregg and I are really struggling to find a formula that can put in place a process to lead to the beginning of a solution to these problems.

And, Mr. Bixby, and the Concord Coalition, thank you for the leadership you have shown all across the country. Thanks for continuing to remind our colleagues that these are issues that really matter and really are central to whether the United States is going to continue to be a great power, because that is really how big this is.

I hope all of you will remain available for additional discussions. I think one thing we need to do is find a way to pull together a consensus proposal, and then to have people push it aggressively because that is going to take—you know, I tell you, I hear from our

colleagues on both sides. They would just as soon we went away. They really would.

Senator GREGG. Well, that is just you they are talking about.

[Laughter.]

Chairman CONRAD. I think it is because of the picture. You know, maybe not so much that Senator Gregg and I go away on a personal basis, but that this issue go away. You know, honestly, I really hear from my colleagues—and I get the drift. I know what they are saying. They are speaking in code. Nobody is so crass as to say, gee, we wish you—well, that is not true. I had a Senator yesterday say he really wished we would not bring this up and that we would not push it, it is OK to have a hearing, but do not do anything more than that.

But, look, the stakes are enormous for this country, and, Leon, you said it so well. You either deal with problems by crisis or through leadership. And we sit around here and wait for the roof to cave on, or we can act. How much better would it be for this country if we acted. We can do this. This country has faced up to World War I, World War II, Vietnam, Korea, the Great Depression, the flu epidemic. We can certainly take this on.

But it is going to take will. It is going to take will. And it would be very helpful if you continue to press and to say to our colleagues that kicking the can down the road is no answer. That is just going to make eventual solutions far more difficult.

With that, I want to again thank the witnesses and especially thank my colleague Senator Gregg for his determination to carry on.

[Whereupon, at 11:02 a.m., the Committee was adjourned.]

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United States Senate
COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510–6025
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October 30, 2007

The Honorable Kent Conrad
Chairman
Senate Budget Committee
Washington, D.C. 20510

The Honorable Judd Gregg
Ranking Minority Member
Senate Budget Committee
Washington, D.C. 20510

Dear Chairman Conrad and Senator Gregg:

I write to express my concerns about S. 2063, the Bipartisan Task Force for Responsible Fiscal Action Act of 2007.

S. 2063 would establish a task force to propose solutions to close the long-term gap between projected revenues and expenditures of the Federal government. This is a commendable goal, but I am troubled to note that the bill would also require the Senate to vote on the task force proposal after 100 hours of debate, and require Senators to forgo amendments.

Before the Budget Committee proposes to ask Senators to waive their rights to debate and amend, it is important to remember that the Congress successfully addressed perpetual deficits and financial shortfalls in the Social Security and Medicare programs before, and it did so without having to resort to such measures.

No matter how worthy the ends, they can never justify relieving the Congress of its legislative responsibilities under the Constitution. As currently drafted, I would feel compelled to oppose this measure.

With the hope of working with you to address these issues as the legislative process continues, I am

Sincerely yours,

Robert C. Byrd

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