COMMITTEE HEARING

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Guns & Butter: Setting Priorities in Federal Spending in the Context of Natural Disaster, Deficits and War

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And Former Member of Congress

Mr. Chairman, Senator Carper and Members of the Committee. I am Charlie Stenholm, a former Member of Congress from the 17th District of Texas and currently a Government Affairs Advisor at Olsson, Frank and Weeda. I am also a member of the Board of Directors of the Committee for a Responsible Federal Budget and the Concord Coalition. This testimony is my own and does not represent any position or conclusion of any of these organizations.

In my twenty-six years in Congress, I worked with many members on both sides of the aisle, including several members of this committee, fighting to leave a better future for our children and grandchildren. We spent many years working extremely hard and casting many tough votes to eliminate the deficit and put us in a position to begin paying down the debt. It pains me to see that so much of that hard work has been squandered.

It has been encouraging over the last few weeks to hear the “deficits don’t matter” rhetoric of the last few years be replaced by expressions of concern about deficit spending. As a long-time advocate of pay as you go budgeting, it is heartening to hear talk about offsetting the costs of legislation to prevent the deficit from increasing. Unfortunately, the leadership in Congress didn’t rediscover the common sense principle of pay as you go until after enacting legislation adding several trillion dollars to our nation’s debt. Even now, the leadership continues to apply this principle selectively, focusing exclusively on spending to assist people harmed by Hurricane Katrina while continuing to refuse to acknowledge and offset the costs of tax cuts.

I applaud efforts to find offsets for the costs of disaster relief in the Gulf Coast. However, it is far more important that Congress offset the costs of legislation that will have a permanent impact on the long-term budget outlook. Focusing on offsetting the one-time, temporary costs of disaster relief while ignoring the costs of legislation that will permanently increase the deficit by a much greater amount over the long term makes no sense.

I would like to believe that the leadership in Congress has undergone a conversion on the road to Damascus in fiscal policy. But the refusal to reconsider legislation enacted over the last several years which has led to our current deficit situation and insistence on moving forward with tax cuts and other legislation that would increase the deficit casts doubts on the seriousness of their newfound concern for the deficit.

Over the years I regularly stood up and criticized my party for being fiscally irresponsible. I am proud that my party has come to recognize the damage that deficit spending does to the values we care about and now stands for fiscal responsibility. I regret that, over the past decade, Republican leaders in Washington who used to agree with me about the importance of fiscal discipline apparently abandoned their belief in the value of balancing our budget.

From Deficits to Surpluses and Back

In the 1990s, a bipartisan consensus in Congress recognized that we could not continue to allow deficits and debt to spiral out of control. We balanced the budget, and the benefits were enormous: the longest peacetime expansion of the American economy in 50 years, four straight years of budget surpluses, record low unemployment and poverty rates, and record high homeownership. In January of 2001, the Congressional Budget Office projected a budget surplus of $5.6 trillion over ten years. We were on path to paying off the publicly held debt. There were even warnings that we were in danger of paying off debt too quickly.

Today, our nation has returned to the era of deficits as far as the eye can see. Just last week, the national debt broke through the $8 trillion barrier, a number that seemed incomprehensible just a few short years ago. The national debt is on track to exceed $10 trillion in debt by 2008 or early 2009. Earlier this year, the Congressional Budget Office estimated that the policies in the budget submitted by the President would produce deficits of $1.765 trillion over the next five years. When the CBO's projections of deficits under the President's policies are combined with the actual deficits of the last four years, total deficits will be more than $9 trillion higher over the ten year period than CBO had projected in 2001.

It is true that our nation has faced unexpected emergencies that have contributed to the deficit, but that is not an excuse for running deficits. Many of us warned that the anticipated budget surpluses were only projections and that it was dangerous to make commitments using all of the projected surpluses without leaving any room for error. We warned that if the projections didn't turn out exactly as hoped, we would return to deficits.

While nobody could have predicted 9-11, hurricane Katrina or the other crises our nation has faced over the last several years that have had an impact on the budget, it was irresponsible to assume that we wouldn't face any unanticipated circumstances when we decided to use all of the projected surplus for tax cuts. We should have set aside some of the projected surplus as a cushion to prepare for unanticipated costs. And when we were faced with those unanticipated costs, we should have gone back and made changes in our budget plans. But instead we simply added those costs on top of the costs of legislation that was enacted when we had projected surpluses.

Deficits Do Matter

Defenders of our current economic and fiscal policies have argued that deficits don't matter. The reality is that deficits do matter, both for our economic security today as well as the future we leave for our children and grandchildren.

The United States has been able to sustain large budget deficits without an increase in domestic interest rates because the increased demand for borrowing has been offset by an increased inflow of capital from global markets. While this inflow of foreign capital helps keep interest rates down in the short term, it creates mortgages on future national income that has to be siphoned off to repay foreign investors who financed government deficits. This will give foreign investors a greater claim on future economic resources provided by American workers. Our increased reliance on foreign capital to finance our deficits places our economic security at the mercy of global bankers and foreign governments. If foreign investors stop buying US bonds we would face higher inflation and higher interest rates, putting our economy at risk of a large scale recession.

Large deficits financed by borrowing from foreign investors are also a major factor contributing to the trade deficits which are exporting jobs overseas. We need to keep the value of the dollar high in order to attract the foreign capital we need to finance our debt. If the value of the dollar declines, US bonds will be less valuable to foreign investors. But the strong dollar we need to help Treasury finance our budget deficits hurts our businesses by making US exports more expensive.

Budget deficits place a drag on the economy and our living standards now and in the future. Federal Reserve Chairman Alan Greenspan has repeatedly warned that deficits undercut the ability of the economy to grow in a way that reduces unemployment and increases the wages of American workers.

The $352 billion we spent last year for interest on our $6.7 trillion national debt represents a "debt tax" that must be paid by all future generations and can never be repealed. The best way to ensure that we, as well as our children and our grandchildren, are overtaxed for the rest of our lives is to keep borrowing money. Any benefits to families today from tax cuts will be outweighed by the debt burden that will be placed on families today and in the future.

Our current borrow and spend policies are worse than the tax and spend policies of the past, because they will leave a crushing debt tax burden for future generations who don't have any say in what we are doing and don't benefit from the tax cuts and spending programs for current generations.

A German philosopher named Dietrich Bonhoeffer once said that the ultimate test of a moral society is the kind of world that it leaves to its children. We cannot leave it to our grandchildren to shoulder the enormous burden of our debt.

Our grandchildren will face ever higher tax burdens simply to cover increasing interest payments instead of addressing other needs such as keeping our military the strongest in the world, protecting our domestic security, providing health care, strengthening Social Security and Medicare, and investing in our education system.

Our grandchildren do not have a vote. That is why it is so easy for us to say here today we can fight two wars, we can fund homeland security, we can fight the war on terrorism, we can rebuild the Gulf Coast and we can keep cutting taxes, because we are going to send the bill to our grandchildren.

One of my proudest moments in Congress was when the House passed the Balanced Budget Amendment to the Constitution, and one of my greatest disappointments was when the Senate fell one vote short of approving it. A Balanced Budget Constitutional Amendment and strong budget enforcement rules would protect the rights of future generations who are not represented in our political system but will bear the burden of our decisions today. If a Balanced Budget Amendment were already in the Constitution, we would not have been able to enact the budget policies advocated by the majority that have resulted in a rapid increase in our national debt.

Balancing the budget will require bipartisan cooperation, as we did in 1997. A serious discussion about balancing the budget will require both parties to make sacrifices. All areas of the budget must be on the table and the burden of deficit reduction should be distributed fairly across the budget. I have always said that those of us in agriculture are willing to accept our fair share of reductions if all other areas of the budget are asked to sacrifice as well, but we aren't willing to shoulder an undue burden of cuts so that other areas of the budget can avoid budget discipline. I believe that this view is shared by advocates of other areas of the budget as well.

It is neither fiscally responsible nor politically viable to make cutbacks in some areas of the budget in the name of deficit reduction while exempting other areas of the budget from budget discipline and going forward with other proposals which would increase the deficit. That is particularly true when deficit reduction efforts focus on the most vulnerable in society, while benefits for those in a better position to accept sacrifices are left untouched. It will take everyone pulling to get the wagon out of the ditch; we won't be able to get it out if some people are riding.

The First Step Toward Getting Out Of The Deficit Hole: Quit Digging

The first step in bringing the deficit under control is to stop digging the hole deeper with tax cuts financed with borrowed money. Rhetoric about controlling the deficit by offsetting increased spending doesn't have much credibility when Congress continues to go forward with plans to enact additional tax cuts

The budget resolution adopted by Congress would allow for an increase in the deficit of $166 billion over the next five years because the tax cuts as well as increased spending for defense and homeland security would dwarf the cuts in domestic spending programs. While there has been a great deal of attention in recent weeks to the $35 billion in entitlement savings required by the budget resolution, it also allows for tax cuts of $106 billion, including $70 billion under fast-track reconciliation procedures that were originally intended to facilitate passage of politically difficult deficit reduction legislation.

We have now enacted three tax cuts based on the theory that tax cuts will stimulate the economy and pay for themselves as a result of economic growth. In 2001, Congress passed a tax cut proposed by President Bush that was described as insurance against an economic downturn. In 2002, we enacted another tax cut as an economic stimulus. In 2003 we passed yet another tax cut that in the name of promoting economic growth plan. Each time advocates of the tax cuts dismissed warnings about the impact on the deficit, yet the deficit continued to grow.

No reputable analyst believes that cutting taxes will result in higher revenues than would have occurred without the tax cut. While some tax cuts may result in economic growth that produces some feedback, there is no credible analysis that claims those potential benefits would offset the revenue. Analyses from the Congressional Budget Office, the Joint Committee on Taxation, the Federal Reserve Board, and others have all concluded that the tax cuts enacted over the last four years will have little or no impact on long term economic growth, and result in deficits larger than they otherwise would have been. Even the President's own economic advisors have stated that there is no evidence that the tax cuts will pay for themselves and increase revenues.

Although some advocates of tax cuts have claimed that recent reports showing higher-than-expected revenue collections last year is evidence that the fiscal policies of the last five years are working, the reality is that the recent increase in revenues just partially begins to restore the decline in revenues over the last several years. The recent increase in revenues follows three consecutive years (2001-2003) in which revenues declined in nominal terms**.**

Even with the unexpected increase in revenues last year, actual revenues in fiscal year 2005 are more than $230 billion lower than they were projected to be in 2001 after taking into account the costs of the 2001 and 2003 tax cuts under so-called "static scoring". There are many reasons that actual revenues have been much lower than Congress and the administration projected when the tax cuts were enacted, but clearly those tax cuts have not paid for themselves by boosting revenues.

Returning To What Has Worked: Reinstate Paygo Budget Enforcement Rules

Any serious effort to restore fiscal discipline should begin with reinstating the pay as you go budget enforcement rules and discretionary spending limits restricting the ability of Congress and the President to enact legislation that would increase the deficit. These budget enforcement rules, which Congress and the President enacted in 1990 and extended in 1997 with bipartisan support, were an important part of getting a handle on the deficits in the early 1990s and getting the budget back into balance. Reinstating paygo rules would not by itself balance the budget, but it would represent an important first step in bringing discipline to the budget process by prohibiting policy changes that would further enlarge the deficit.

The principle of paygo -- if we want to reduce our revenues or increase our spending, we need to say how we would pay for it within our budget – is something all families understand. If we want to reduce our revenues, we need to say what spending we will do without. If we want to increase spending, we need to say where we will come up with the revenues for the new spending or what other spending we will do without.

I would say with all due respect to my Republican friends that if you are sincere in what say about controlling spending, you should not have a problem with reinstating pay as you go for taxes as well as spending because it would force Congress to actually cut spending to accompany tax cuts instead of just promising to cut spending in the future. The problem is that the actions of the majority in Congress haven't matched their rhetoric. Congress and the administration have cut taxes without cutting spending, and have charged the difference to our children and grandchildren by increasing the deficit.

Eliminating Low-priority and Unnecessary Spending

One small step that would help restore a small measure of fiscal discipline is enactment of expedited rescission legislation that strengthen the ability of Presidents to identify and eliminate wasteful or low-priority spending items. Expedited rescission legislation embodies an idea which many Members, both Democrats and Republicans, have advocated for years. Senator Carper was an early leader on this issue, working with Dick Armey, Tim Johnson and others to find a bipartisan consensus on this issue.

Expedited rescission legislation would bring greater accountability to the appropriations process so that individual appropriations may be considered on their individual merits. The current rescission process does not make the President or Congress accountable. Congress can ignore the President's rescissions, and the President can blame Congress for ignoring his rescissions. I believe that it is appropriate to strengthen the President's ability to force votes on individual budgetary items. It will not make a significant dent in our deficit. But it will have a very real cleansing effect on the legislative process and will take a step toward reducing the public cynicism about the political process.

Expedited rescission authority can be an important tool for eliminating wasteful spending, if the President uses this tool. I have been disappointed that President Bush has not exercised his authority under current law to send Congress a rescission list of low-priority spending and pork barrel projects that he wants Congress to eliminate. I would encourage the President to make use of his rescission authority whether or not Congress enacts expedited rescission.

Another tool that Congress should consider to eliminate low-priority spending is sunset legislation to provide for a regular review of the efficiency and public need every federal agency, department and program. This would require agencies to justify their existence to taxpayers and Congress and provide an opportunity for Congress to consider changes in operations of an agency and the programs it administers, create new efficiencies, and eliminate obsolete programs or offices.

Not only would sunset legislation provide for abolishment of obsolete federal agencies and streamline others, it would encourage Congress as well as agencies to look for ways to improve programs to better serve taxpayers. A similar law is used in nearly half of the states including Texas, which has eliminated 44 agencies, saving Texas taxpayers $720 million.

Improving Accuracy of Indexation for Government Programs

One specific proposal that would provide a substantial source of savings I would encourage the Committee to consider is utilizing a more accurate measure for indexing government programs as well as tax brackets and other provisions in the tax code. There is broad agreement among economists that the Consumer Price Index currently used for indexation of government programs overstates inflation. The Bureau of Labor Statistics has begun to publish a new "Chained Consumer Price Index", also known as a superlative index to eliminate the upper level substitution bias in the CPI. BLS has estimated that the Chained CPI will grow about 0.2 percentage points slower than the customary CPI

Using the Chained CPI for indexation of government programs represents sound policy that reflects years of work by economists and other technical experts. Just as importantly, this proposal would achieve substantial budgetary savings – approximately $50 billion over the next five years -- in a way which would spread the burden of deficit reduction fairly across the entire span of government.

Addressing Long-Term Fiscal Problems

While looking for savings to offset the costs for Katrina and address our short term deficit situation, it is even more important that we address the larger budget challenges over the long term, particularly with regard to Social Security and Medicare. I had hoped that this would be the year that Congress and the President would take action to address the financial challenges facing Social Security, but neither party seemed interested in a serious discussion about the tough choices that will be necessary. These challenges will continue to get worse and become harder to address the longer we wait. And as we all know, the challenges facing Medicare and Medicaid are even greater.

Finding a politically viable and equitable solution to these challenges will require bipartisan discussions in which all options are on the table for consideration and there are no preconditions by either side about what must be included or excluded from a final solution. I have come to the conclusion that we should seriously consider proposals to establish a bipartisan commission to objectively review all the options for reforms of our entitlement programs and make recommendations.

Reaching a Bipartisan Consensus on a Responsible Plan to Restore Fiscal Discipline

There is no shortage of options for Congress to consider as part of a plan to bring the deficit under control. I have attached an op-chart published in the New York Times by Maya MacGuineas, President of the Committee for a Responsible Federal Budget, as well as suggestions put forward by the Concord Coalition and the Center for Budget and Policy Priorities. That there is a substantial degree of overlap in the suggestions made by these organizations gives me reason to believe that we could reach broad agreement on a plan to restore fiscal discipline and bring the deficit under control if everyone is willing to come to the table and seriously consider all options for savings.

While each of us may disagree with some of the individual items suggested, all of us must be willing to accept sacrifices in areas we support in order to reach a consensus on a balanced package. As long as everyone advocates balancing the budget by cutting someone else's priorities, talk about deficit reduction will remain just that. As a farmer, I choose to be an optimist and believe that all sides will be willing to put aside their individual political interests to find a solution that is in the best interests of our nation and our children's future.