



CENTER FOR THE STUDY OF THE PRESIDENCY AND CONGRESS

HEARING ON SAFEGUARDING THE AMERICAN DREAM: PROSPECTS FOR OUR ECONOMIC FUTURE AND PROPOSALS TO SECURE IT

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Chairman Lieberman, Ranking Member Collins, Members of the Committee, it is a pleasure to appear before you this morning to talk about this issue of great national importance.

I testify before you today on behalf of the Strengthening America's Future Initiative at the Center of the Study of the Presidency and Congress funded by the Peter G. Peterson Foundation.

I would like to first commend the previous panel of Chairman Conrad and Senator Gregg for their public calls to action to ensure the stability and sustainability of our nation's finances. They are right to be concerned about the need to address our nation's weakening financial condition, and that only an extraordinary structure will achieve the types of actions necessary to put our federal financial house back in order. We are all well aware of the economic challenges our country has faced in the last 16 months. The bursting of the housing bubble coupled with the near collapse of the financial services sector led to an adverse ripple affect across the economy—leading to a dramatic increase in levels of unemployment and under-employment.

For many Americans, the consequences of this downturn cannot be overstated. While the federal government has taken some action to prevent unemployment and the contraction of the economy from reaching depression levels, our current economic conditions are only the tip of the iceberg. Our nation faces serious structural challenges in financing our government. These challenges are quite real and time is short. If we do not take strong measures to right our course, a far greater crisis waits below the surface and threatens to sink our ship of state. It is important to place blame where it belongs—on ourselves. Fortunately, as our damage is self-inflicted, the solution is still within our control. We must, as a nation and as a government, change our behavior.

Next month, I will be publishing a book entitled *Come Back America: Turning the Country Around and Restoring Fiscal Responsibility* that states simply “The American way of life will go downhill, steadily and inexorably, unless we do something about our growing fiscal imbalance – and do it now.” President Obama has, time and time again, emphasized that we are currently on an unsustainable fiscal course. The American people are calling for help. Unemployment reached a 26 year high in October. Our debt is over \$12 trillion and climbing. Healthcare costs are rising. America's youth are the first generation that is forecasted to have a worse education, lower level of health, and overall lower standard of living than the previous generation.

In September 2008, I became involved with a major national initiative at the Center for the Study of the Presidency and Congress, a non-partisan, public policy organization in

Washington headed by David Abshire. The project, appropriately titled the Strengthening America's Future Initiative, is a comprehensive assessment that has identified the critical challenges and connections between them, and is developing a strategic roadmap to ensure overall sustainability. I serve as one of three co-chairs of the project's steering committee, made up of a bipartisan group of 24 prominent Americans.

I think it is worth looking at the organizing principle of the group, which was taken from the unique way that President Dwight Eisenhower organized what he called "the long haul strategy to fight the Cold War." Eisenhower said that the key to our success during the Cold War depended more on the fiscal solvency of the country than our armies and military forces, and thus every decision had to maintain fiscal responsibility. Today, we not only face escalating deficits and debt; we also face a growing dependency on foreign lenders. We have made China our principle banker, a dependence that this nation has never had in its history.

I have the December 7th issue of *Newsweek* in my hand. When I saw the cover, I concluded that America has been understating the challenge. It shows the U.S. Capitol upside-down and the words, "How great powers fall." The classical statue of the Lady of Freedom points towards the lines of the cover story article by renowned historian Niall Ferguson, "Steep debt, slow growth, and high spending kill empires—and America could be next." Fortunately, there is hope. I like to think that it comes from what the great reformer, and one of my personal models T.R. Roosevelt, called "movement politics."

Roosevelt recognized the necessities of his time, requiring a breakout from normal party structures and demands for reforms from entrenched interests. In any such movement, there are acolytes, catalysts, inspirers. Years ago, my current boss, Pete Peterson, took on the cause in his book, *Running on Empty*, and then, by working with a range of others, including Paul Tsongas and Warren Rudman, formed the well regarded Concord Coalition, a non-partisan, grassroots organization dedicated to educating the public about the causes and consequences of federal budget deficits, the long-term challenges facing America's unsustainable entitlement programs, and how to build a sound foundation for economic growth. Educating and activating the American people is a key part of the Peter G. Peterson Foundation's mission. As we educate the nation about the fiscal challenge, there is growing concern about the sustainability of the nation's current fiscal policy and path.

In late November, the Peter G. Peterson Foundation released key findings from a national survey conducted by Hart Research and Public Opinion Strategies. Surveying a statically valid sample of 700 registered voters, the poll found that eight in ten voters say dealing with our growing budget deficit and national debt should be a high or absolute top priority for the President and Congress. The survey also reflected that roughly two-thirds of voters say our leaders in Washington are not paying enough attention to our federal budget issues. Lastly, and perhaps most importantly, 70% of voters support the proposal to create a bipartisan fiscal future commission. This seventy percent is evenly split among all sub-groups, garnering nearly the same level of support from Democrats, Republicans and Independents. To emphasize the growing concern among Americans, these numbers are all up sharply from a similar poll conducted in February. The bottom line in this study is that voters are abundantly clear about how important they think it is to grapple with the nation's growing budget deficit and debt.

At a glance, as of September 30, 2008, the United States Government's liabilities and unfunded promises stand at a whopping \$56.4 trillion. Broken down, \$36.3 trillion related to promised Medicare benefits not covered by taxes and other contributions; \$6.6 trillion related to promised Social Security benefits not covered by taxes and other income; and \$13.5 trillion related to various federal liabilities, commitments and contingencies. How does this divide out among Americans? \$184,000 per person living in the US, or \$483,000 per American household. It's worth noting that in 2007, the median income per household was only \$50,233. It doesn't take an economist or mathematician to realize that this is unsustainable. The final numbers for 2009 will be available soon, and current projections estimate that the United States Government's unfunded liabilities will rise to the \$63 trillion range.

Regardless of these numbers, many in Washington want to increase the size of government, despite the fact that we have already promised way more than we can deliver, especially in the area of healthcare. I just mentioned that Medicare was underfunded by over \$36 trillion, but Congress is currently debating the creation of more federal health care entitlements without properly addressing the unfunded health care promises we already have.

Do not get me wrong; we need to eventually achieve comprehensive health care reform that is appropriate, affordable and sustainable in the long run. However, first, we need to gain control over health care costs or else we will run the risk of putting a countless amount of more Americans into a fundamentally flawed and unsustainable healthcare system.

In order to create a fiscally responsible health care system, four tests must be met. First, it should pay for itself over ten years. Second, it should not add to federal deficits beyond 10 years. Third, it should result in a significant reduction in the tens of trillions in federal unfunded health care promises that are currently on the table. Fourth, it should result in a reduction in the total health care costs as a percentage of the economy as compared to the status quo.

In achieving these tests, we have to be realistic regarding the assumptions that are used to meet them. Specifically, relying on historically unsuccessful and unsustainable approaches to control provider payments or generate additional revenues may make the numbers work on paper, but they are very unlikely to be sustained over time. In the last four years, I have been to 46 states participating in town hall meetings and conferences, and those travels have helped me to see close up that Americans are tired of creative accounting approaches, unrealistic promises, government bailouts, partisan bickering, and ideological divides.

Unfortunately, our nation's fiscal challenges go beyond our own borders. As I noted previously, our nation is becoming increasingly dependent on foreign lenders to finance our deficit. The numbers are shocking compared to our nation's history: after World War II, America had virtually no foreign held debt, and by 1990, the number had only grown to 19%. Today, over 50% of our nation's public debt is held by foreign lenders, and that number is growing. Not only is America being mortgaged at an alarming rate to foreign holders, but it begs the question of how this situation affects our foreign policy, national security, and even our domestic tranquility over the long term.

On every front, there is a rationale for putting our fiscal house in order. Fortunately, there is available, close-at-hand, a remarkable reform mechanism for immediately sounding a certain trumpet that we will change our course. The best way to do this is to create a new type of Commission designed to accelerate action rather than to continue with the status quo. The Commission should be enacted into law, properly designed and staffed, and sufficiently funded to operate. Most importantly, its recommendations must be guaranteed a full vote in Congress.

Ideally, this would be a bipartisan, independent body comprised of leaders from the legislative and executive branches, as well as selected non-governmental experts. The Commission would engage the American public and other various key stakeholders to review the nation's budget process, entitlement programs, savings rates and tax policies. In other words, everything must be on the table. This is essential for the commission to have a real chance of success. This Commission would propose reforms that, over time, would reduce the nation's deficits, relative debt burdens and our dependency on foreign lenders.

Such a Commission would be granted roughly one to two years to do its job. This includes engaging the American people, analyzing options to confront the nation's financial crises, and issuing legislative recommendations to the Congress. The Commission should engage representative groups of Americans and hold at least one town-hall style meeting in each Federal Reserve District. This would allow those serving on the Commission to brief the public on the nation's fiscal crisis while simultaneously providing the public an opportunity to voice its opinions and concerns. In addition to public meetings, the Commission would hold national hearings to understand the concerns and potential solutions offered by various interest groups. While these groups are maligned by some, it is important that as the Commission addresses our fiscal unsustainability it accounts for the positions, viewpoints and ideas for solutions offered by a wide range of groups.

There are several advantages of designing the commission in this manner. First, the Commission would be able to avoid the political pressures that have doomed previous attempts to reform the nation's budget process, entitlement programs, spending priorities and tax policies. By their very nature, entitlement reform and tax reform are politically charged issues, and many Members have been reluctant to vote on them. Second, the Commission would be able to provide a comprehensive solution to the nation's fiscal problems, as opposed to piecemeal solutions that tackle problems in a more narrow area while ignoring others. Only a fiscal future commission would be able to address the issues of entitlements, other spending, taxation, savings and budget controls in a holistic manner. Such comprehensive reform would prevent the government from battling this issue four, or even ten years from now. Third, the Commission would indicate a timeframe by which the nation can move away from short-term stimulus spending towards reform that reduces deficits and related debt burdens, and increases national savings. Establishing such a timeframe would not only send a message to the American people, but it would let our foreign holders of debt know that the United States Government is committed to putting its fiscal house in order.

Commissions are designed because the standard Constitutional policy-making process cannot always handle particularly divisive partisan disputes. This Commission is unique in that it is not simply a study and analysis of the current problems with our nation's finances. Rather,

this Commission's findings will include proposing specific legislation that will receive guaranteed Congressional consideration and a vote. Its bipartisan nature and guaranteed vote process will enable both partisan and institutional compromises to work.

Some have argued that using the commission to address these issues is the wrong way to go, as the Congress should handle these issues in the regular order. This ignores the fact that the regular order is not working in these critical areas. Some have also argued that this special commission would have too much power. This argument ignores the fact that in the final product, elected Members of Congress and the President must act on any commission recommendations before they can become the law of the land. The Congress and the President still have the final say, which is as it should be under our system of government.

In closing, our current fiscal path is extremely irresponsible, immoral, and totally unsustainable. Our children and grandchildren will end up picking up the bill while we are forced into reducing investments in their future. We are at a tipping point in American history, and we must take steps and make hard choices to address our large, and growing, fiscal challenge. We cannot allow America to fail, as many great nations in world history have. We owe it to ourselves, our country, and our families to do no less.