

# THE SAFE COMMISSION ACT (H.R. 3654) AND THE LONG-TERM FISCAL CHALLENGE

---

---

## HEARING BEFORE THE COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES ONE HUNDRED TENTH CONGRESS SECOND SESSION

HEARING HELD IN WASHINGTON, DC, JUNE 24, 2008

**Serial No. 110-36**

Printed for the use of the Committee on the Budget



Available on the Internet:  
*<http://www.gpoaccess.gov/congress/house/budget/index.html>*

U.S. GOVERNMENT PRINTING OFFICE

43-148 PDF

WASHINGTON : 2008

---

For sale by the Superintendent of Documents, U.S. Government Printing Office  
Internet: [bookstore.gpo.gov](http://bookstore.gpo.gov) Phone: toll free (866) 512-1800; DC area (202) 512-1800  
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON THE BUDGET

JOHN M. SPRATT, JR., South Carolina, *Chairman*

ROSA L. DeLAURO, Connecticut,	PAUL RYAN, Wisconsin,
CHET EDWARDS, Texas	<i>Ranking Minority Member</i>
JIM COOPER, Tennessee	J. GRESHAM BARRETT, South Carolina
THOMAS H. ALLEN, Maine	JO BONNER, Alabama
ALLYSON Y. SCHWARTZ, Pennsylvania	SCOTT GARRETT, New Jersey
MARCY KAPTUR, Ohio	MARIO DIAZ-BALART, Florida
XAVIER BECERRA, California	JEB HENSARLING, Texas
LLOYD DOGGETT, Texas	DANIEL E. LUNGREN, California
EARL BLUMENAUER, Oregon	MICHAEL K. SIMPSON, Idaho
MARION BERRY, Arkansas	PATRICK T. McHENRY, North Carolina
ALLEN BOYD, Florida	CONNIE MACK, Florida
JAMES P. McGOVERN, Massachusetts	K. MICHAEL CONAWAY, Texas
NIKI TSONGAS, Massachusetts	JOHN CAMPBELL, California
ROBERT E. ANDREWS, New Jersey	PATRICK J. TIBERI, Ohio
ROBERT C. "BOBBY" SCOTT, Virginia	JON C. PORTER, Nevada
BOB ETHERIDGE, North Carolina	RODNEY ALEXANDER, Louisiana
DARLENE HOOLEY, Oregon	ADRIAN SMITH, Nebraska
BRIAN BAIRD, Washington	JIM JORDAN, Ohio
DENNIS MOORE, Kansas	
TIMOTHY H. BISHOP, New York	
GWEN MOORE, Wisconsin	

PROFESSIONAL STAFF

THOMAS S. KAHN, *Staff Director and Chief Counsel*  
AUSTIN SMYTHE, *Minority Staff Director*

## CONTENTS

	Page
Hearing held in Washington, DC, June 24, 2008 .....	1
Statement of:	
Hon. John M. Spratt, Jr., Chairman, House Committee on the Budget .....	1
Additional submissions:	
Statement of the American Association of Retired Persons (AARP) .....	1
Statement of Hon. Barbara B. Kennelly, president and CEO, National Committee to Preserve Social Security and Medicare .....	7
Hon. Paul Ryan, ranking minority member, House Committee on the Budget .....	11
Hon. Peter G. Peterson, chairman, Peter G. Peterson Foundation .....	14
Prepared statement of .....	16
Hon. David M. Walker, president and CEO, Peter G. Peterson Foundation, former U.S. Comptroller General .....	17
Prepared statement of .....	19
Robert Greenstein, executive director, Center on Budget and Policy Priorities .....	23
Prepared statement of .....	26
Henry J. Aaron, Bruce and Virginia MacLaury senior fellow, the Brookings Institution .....	31
Prepared statement of .....	32
Alison Acosta Fraser, director, Roe Institute for Economic Policy Studies, the Heritage Foundation .....	37
Prepared statement of .....	39



## THE SAFE COMMISSION ACT (H.R. 3654) AND THE LONG-TERM FISCAL CHALLENGE

TUESDAY, JUNE 24, 2008

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON THE BUDGET,  
*Washington, DC.*

The committee met, pursuant to call, at 10:05 a.m. in room 210, Cannon House Office Building, Hon. John Spratt [chairman of the committee] presiding.

Present: Representatives Spratt, Cooper, Schwartz, Becerra, Doggett, Blumenauer, Boyd, McGovern, Tsongas, Scott, Etheridge, Moore of Kansas, Ryan, Barrett, Diaz-Balart, Hensarling, Conaway, Campbell, Tiberi, Smith, and Jordan.

Chairman SPRATT. I will call the hearing to order and welcome our witnesses.

Before we have opening statements, a few housekeeping matters. One is to ask unanimous consent that we include in the record for this hearing statements submitted by the AARP, the American Association for Retired Persons, and the National Committee to Preserve Social Security and Medicare.

Is there objection?

Hearing none, so ordered.

[Statement of the AARP follows:]

### PREPARED STATEMENT OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS (AARP)

AARP appreciates the opportunity to present its views regarding H.R. 3654, the Securing America's Future Economy Commission Act, or SAFE Commission Act, which would create a bipartisan commission to address our nation's structural deficit, encourage a higher savings rate, lower our debt to foreign nations, and improve the congressional budget process. We commend Congressmen Cooper and Wolf for their commitment to addressing our nation's long-term deficit in a 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.

Our fiscal 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. At the same time, AARP members understand that deficit reduction is vital for the future of our children and grandchildren. The solution to our structural deficits 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 our long-term deficits. AARP believes it is critical to focus on the most significant drivers of our budget shortfall. We strongly urge all policy makers to reject the misperception that often-blamed “entitlements” are the chief cause of the Federal budget deficit. Blaming all entitlement spending ignores the reality that health care spending across all sectors is growing faster than other spending. As a result, it is health care costs that are the biggest 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 those programs 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 and the economy as a whole.

Deficit reduction policies should be balanced and the long-term deficit should not be accomplished solely through spending reductions; we must also have adequate revenue to finance our nation’s priorities. H.R. 3654 would be significantly improved if it acknowledged more explicitly the role that revenue reductions play in our long-term deficits. 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.

Finally, we commend the legislation’s goal of increasing the national savings rate, and urge policymakers to acknowledge the importance of measures that encourage greater personal savings and extended working lives. Such measures can improve our economy and our fiscal health and make the transition to an aging society more manageable.

#### I. AN AGING POPULATION IS NOT THE MAIN CULPRIT

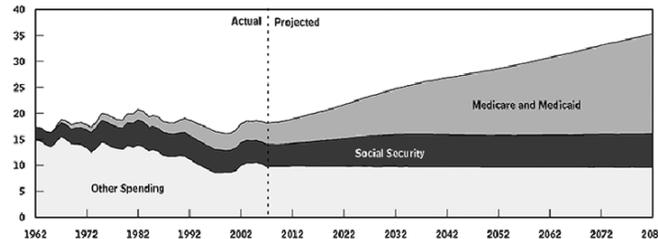
A call to reduce the deficit exclusively by cutting back on entitlement spending, particularly for Medicare and Social Security, reflects two fundamental flaws: it lumps all entitlement spending together, and it overemphasizes the budget impact in dollar-and-cents terms, rather than by the impact they have on the lives of individuals. AARP believes that as a nation we can balance the advancements of longer life spans with the pressures that longevity place on our government and our society. While demographics play a role in increased Social Security and Medicare spending, the real budget culprit is a fragmented and disorganized health care delivery system, as the Congressional Budget Office (CBO) has repeatedly pointed out in numerous reports. The myth that an aging population is primarily to blame for long-term deficits must be carefully examined and rejected or we run the risk of developing ineffective solutions.

Demographic aging 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 2082.<sup>1</sup> If demographic aging were the main problem, we would see similarities in the growth of Social Security and Medicare and Medicaid.<sup>2</sup> Instead, we see a very striking difference in the past and future growth patterns of Social Security and Medicare and Medicaid. In 2007, Social Security accounted for 4.3 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 6 percent of GDP in 25 years and will stabilize after that. Medicare and Medicaid, in contrast, are projected to surpass Social Security and grow to 12 percent of GDP by 2050 and to 19 percent of GDP by 2082. The differences in growth illustrate 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. By contrast, according to a recent CBO report, more than half of the growth in federal spending on Medicare and Medicaid is attributable to health care costs per person growing more rapidly than per capita GDP.

<sup>1</sup> CBO projects spending for Social Security, Medicare, and Medicaid through 2082 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.

<sup>2</sup> Both programs do have a substantial share of beneficiaries who are under 65.

CHART 1: SPENDING FOR THE THREE LARGEST ENTITLEMENTS AS A PERCENT OF GDP, 1962–2082



Source: Congressional Budget Office, The Long-Term Budget Outlook, January, 2008

## II. SKYROCKETING HEALTH CARE COSTS

Health care costs threaten our nation's fiscal well-being as well as the economic health of patients and their families, and of business and labor.

The facts are well known, but they remain compelling. 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 2006, and is projected to reach 20% by 2017. 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 universal coverage for its citizens. In 2005, for example, health care spending was 15.3 percent of GDP in the U.S. That was about one-third higher (32 percent) than spending in the next highest country, Switzerland, where health care spending reached 11.6 percent of its GDP. The median developed nation spent just 9 percent of its GDP on health care.

The high cost of health care must be viewed in the context of the systemic quality problems in our health care system. Research from the Institute of Medicine of the National Academy of Sciences has found that the United States has 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 health care studies group at Dartmouth Medical School, which have conducted careful research using the Medicare database, have also reached sobering conclusions about Medicare spending. The Dartmouth research finds that there are 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 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.

What accounts for the differences? A key factor, 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. 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. We can begin to address this problem more broadly in Medicare under the right conditions—and in particular, if payment incentives are better aligned.

Medicare and Medicaid are both participants and leaders in the health care system. As participants in the health care system, the programs are subject to the dynamics of the underlying health care system in which it purchases care. As leaders, the programs have a source of leverage for change in that system—for example, Medicare has a long history of leadership and innovation, especially in payment policy. It is critical to balance Medicare's participant and leadership roles in addressing the cost and quality issues in the overall health care system, and to re-establish the program's long-term solvency.

That calls for a clear policy framework to assure that short-term changes to Medicare are supportive of long-term goals. There are a number of key cost and quality policies to pursue, including:

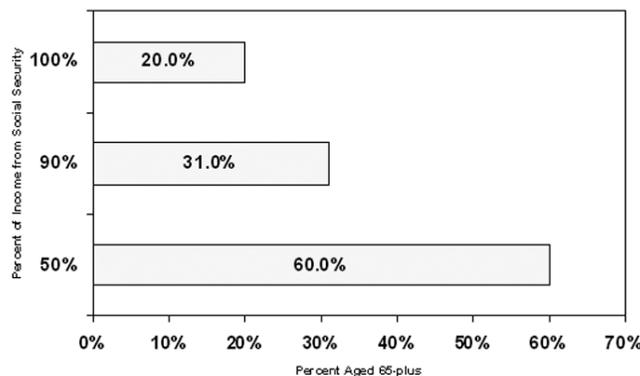
- A much stronger infrastructure of information technology to support the clinical and cost decisions made by health care providers and their patients.
- A much more robust national program of comparative effectiveness research.
- Improving the efficiency of health care delivery by encouraging coordination 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, since it will stimulate the improvement that both clinicians and patients' desire.
- 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 be an even more critical pillar of retirement income in the future. Today, 3 out of 5 retirees rely on Social Security for the majority of their income, and nearly 1 in 3 count on it for at least 90% 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 2: 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 over three quarters of promised benefits for decades thereafter.<sup>3</sup>

Of course, delay is not desirable. 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. This context is important given the shortcomings of our retirement savings system.

#### 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<sup>4</sup> 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 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. Tax entitlements entail significant amounts of foregone revenue and have a deficit impact similar to spending entitlement programs. The benefits of tax entitlements are generally skewed toward more affluent individuals. Unlike 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.

#### V. BUDGET COMMISSIONS

Over the years, the growing Federal deficit, the 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 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 commissions, such as the 1983 Greenspan commission on Social Security, have a specific charge, are composed of key decision-makers, 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 the SAFE commission. However, the base closing commission had a limited mission, and its recommendations had a high impact on limited geographic areas. The importance and scope of spending and revenue changes that would impact all Americans nationwide do not lend themselves to the procedures that were used for closing military bases or other more narrowly focused objectives.

Commissions are not a substitute for the willingness of our nation's leaders to come together and solve problems. Bipartisan membership—as the SAFE commission requires—is a solid first step, but not enough to guarantee success. Finding solutions will also require the engagement of the American people—raising their

<sup>3</sup> OASDI Board of Trustees, 2008.

<sup>4</sup> 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.

awareness, getting their input, and winning their support. We commend the legislation's requirement for public comment, but we caution that given that the issues at stake in this legislation go to the heart of the health and financial security of every American, greater opportunity for a full and open congressional debate is not only important, but necessary.

#### VI. BUDGET TRIGGERS

Some have advanced the concept of a budget "trigger" as a way of forcing action to deal with future budget deficits. H.R. 3654 includes a provision that would allow a super-minority of the SAFE commission to include an automatic stabilizer or trigger in the commission's legislative recommendations. Closer examination of past experience with triggers leads to the conclusion that this mechanism will not be an effective budget tool. Too often efforts to avoid the trigger divert attention from adopting more comprehensive solutions to the underlying problems.

Triggers are flawed for several reasons. First, budget triggers are generally premised on the notion of an arbitrary, across-the-board cut in spending—a premise that frequently ignores the role revenues should play in reaching deficit targets; Second, triggers rarely take into account the resulting adverse impact on those harmed by the arbitrary cuts. Third, triggers are based on a combination of uncertain economic projections and assumptions about the actions of future Presidents and Congresses. Fourth, triggers are intended to force action, not set policy, and therefore generally avoid policy choices. Finally, the operation of a trigger is assumed to be "automatic"; the President and/or Congress must act once the trigger is pulled.

##### A. BUDGET PROJECTIONS ARE UNCERTAIN

The inherent uncertainty of economic projections and models to project spending and revenues accurately is widely recognized. CBO routinely presents information on the range of uncertainty surrounding its five year budget projections. For example, CBO's current projection of the budget balance in 2013, five years in the future, shows a small surplus—\$70 billion. However, there is a 50 percent chance that the actual balance will range from a deficit of \$330 billion to a surplus of \$450 billion. Basing a "hard" trigger—one that requires automatic benefit cuts or tax increases on projections that are subject to such uncertainty would be unwise.

##### B. TRIGGERS CANNOT DEAL WITH THE CAUSE OF THE PROBLEM, ONLY THE SYMPTOMS

Simply establishing targets for mandatory spending and revenues will not reform the health care system or the tax code. Reducing system-wide health care costs is the problem that must be addressed to bring the budget on to a path that is sustainable for the long-term. In fact, triggers may make this difficult to make much needed investments—such as in Health IT and more evidence-based research—that will save money in the long-term.

##### C. AUTOMATIC MECHANISMS HAVE FAILED TO ACHIEVE THEIR GOALS IN THE PAST

The history of the Federal budget in recent decades is replete with examples of the failure of mechanisms that resembled triggers to force action. When such automatic cuts in popular programs are likely, Congress has usually shied away from allowing them to happen.

The Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings or GRH) established "fixed" deficit targets with the goal of balancing the budget. If projections showed that the targets would be breached, automatic cuts to mandatory programs were required by the law. It was generally acknowledged that these targets were too optimistic and that proved to be the case. Only once were the automatic cuts allowed to proceed, then the targets were "adjusted". This experiment with fixed targets was tossed aside a few years later.

This discussion confirms that an automatic trigger rarely, if ever, is an effective deficit-reduction tool, and often promotes budget gimmickry to forestall politically unpleasant events. In this regard, automatic triggers may actually be counter-productive to the goal of addressing our structural deficit, by delaying real reform. AARP strongly recommends that efforts to create a "trigger" in vital programs like Social Security, Medicare and Medicaid be rejected. Instead, we should focus on the necessary longer term solutions.

#### VII. CONCLUSION

The United States is reaching a tipping point with millions of Americans concerned about their health and long-term financial security. As policy makers seek

to deal with budgetary issues, they must do so in a way that addresses these issues of retirement and health security that most people worry about everyday .

The debate over government spending and revenues, and especially Medicare and Social Security, and their 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. Finally, the debate often isolates revenues from serious examination. The challenge is to improve the quality of people's lives while finding ways to keep retirement, 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. Working together, with the right focus and framework, we can ensure affordable quality health care and financial security for current and future generations.

[Statement of Mrs. Kennelly follows:]

PREPARED STATEMENT OF HON. BARBARA B. KENNELLY, PRESIDENT AND CEO,  
NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE

Mr. Chairman and Members of the Budget Committee, the National Committee to Preserve Social Security and Medicare is pleased to have the opportunity to submit testimony for your hearing on "The SAFE Commission Act (H.R. 3654) and the Long-Term Fiscal Challenge".

The National Committee is made up of millions of senior citizens around the country who are care deeply about Social Security and Medicare and want to see them preserved and strengthened for future generations. Unfortunately, much of the discussion in recent years has not focused on increasing Social Security solvency but rather on using Social Security's funding gap as a pretext for unraveling the program. Similarly, those who are philosophically opposed to Medicare have used rising health care costs in the general health care system to promote their proposals to privatize Medicare.

The National Committee is very concerned about the inflated fiscal rhetoric surrounding Social Security and Medicare. Often the future costs of these programs are inappropriately combined to generate an enormous multi-trillion dollar number to advance the notion that spending on entitlements is out of control. While Social Security and Medicare, in combination, are designed to provide older Americans with a sound foundation in their old age, they are in fact two very different programs.

Contrary to some accounts, Social Security is not facing bankruptcy but has a funding gap which is both modest and manageable. This gap is based primarily on demographics. Medicare, on the other hand, is a health care program. Most of its cost increases are being driven by the inflation in overall health care, not demographics. The reasons for these health care cost increases are many and complex and need to be addressed in a larger context. Cutting Medicare benefits without addressing this larger problem will only shift additional costs onto Medicare beneficiaries.

The younger generation has been led to believe that the demographics of the Baby Boomer generation will condemn them to a desolate future. Nothing could be further from the truth. Baby Boomers have been with us for a long time. The bulge produced by that generation has been working its way through society ever since the Baby Boomers were born. When they needed schools, this country built them. When they needed homes, this country helped finance them. While some would have us focus on the declining ratio of workers to retirees, the more correct measure is the ratio of workers to the total number dependents of all ages. That ratio remains the same as it was in the 1950s when the Baby Boomers were in school.

The millions of members and supporters of the National Committee remain very concerned that the overheated debate on entitlement reform will lead to privatization of Social Security. Thus, they are opposed to the establishment of a commission or task force on entitlements that offers a backdoor path to the enactment of private accounts.

Representatives Jim Cooper and Frank Wolf have introduced the SAFE Commission Act (H.R. 3654) which would create a bipartisan entitlement commission. The legislation would empower a small group of individuals to write legislation on Social Security, Medicare, Medicaid and taxes.

The National Committee has several concerns about this proposed process. The commission's legislation would be fast-tracked through the Congress. No amendments would be permitted with the exception of substitutes from specified officials. Moreover, committees of jurisdiction, including those Members of Congress who are

the most familiar with the workings of these programs, would be effectively left out of the process.

Most importantly, the National Committee strongly opposes any commission which is allowed to consider privatizing Social Security among its options. After a long national discussion when President Bush offered his privatization proposal in 2005, Social Security private accounts were soundly rejected by the American people. That is because privatization would dismantle our nation's most successful retirement security program and would do nothing to improve Social Security solvency. Private accounts have no place in any conversation intended to strengthen Social Security for future generations. Any commission that does not specifically preclude private accounts will certainly be interpreted by America's seniors as a surreptitious effort to resurrect this failed initiative.

We believe that a commission that focuses on Social Security and Medicare in the context of the federal budget, with little regard for the critical role these programs play in the income and health security of future retirees, would be inherently biased and would inevitably result in a reduction in the standard of living of older Americans.

In this debate, we sometimes lose track of the reasons Social Security was enacted in the first place. It is important to repeat a few things about Social Security and its beneficiaries. Social Security is the largest single source of income for older people. Among lower-income people, Social Security is almost 85 percent of their income. Social Security pays a monthly benefit that lasts as long as you live—which is particularly important for women who live longer and find their small assets dwindling. Social Security benefits are modest—the average Social Security retirement benefit is only about \$12,000 a year. Social Security provides disability benefits for those who lose wages due to a disabling condition, and it provides benefits to young spouses and children if a worker dies. Finally, without Social Security, over half of seniors would live in poverty.

Similarly, Medicare provides basic, affordable, universal health care to a population largely shunned by private health care plans. About 70 percent of Medicare beneficiaries have incomes under \$25,000 and 85 percent have incomes under \$40,000. Almost two out of three elderly households have incomes under \$20,000, and they are already spending 30-50 percent of their income on health care.

Arbitrarily cutting Medicare without getting at the root of the continuing upward trend of health care costs will have real impacts on real people—most of whom have nowhere else to go for coverage and limited options for increasing their resources.

The National Committee and its members and supporters care deeply about the future. We favor balanced and responsible action to address the funding gaps facing Social Security and Medicare. However, we are dismayed by the overblown rhetoric about entitlements because we believe that it stands in the way of real changes that would strengthen these essential programs. We look forward to working with the Congress to ensure the continuation of Social Security and Medicare for the benefit of both current and future generations.

Chairman SPRATT. In addition, Mr. Frank Wolf, Congressman Wolf is to participate today. He is a cosponsor of the bill before us, along with Mr. Cooper. I don't think Mr. Wolf is here, but I would like to ask unanimous consent at least to extend him the courtesy of sitting on the panel with us. He would, of course, come last in order for questions.

Is there objection?

Hearing none, so ordered.

On the subject of the hearing this morning, there is really little dispute our Nation faces grave fiscal problems in the foreseeable future; and the sooner we address them the better. Today's hearing centers on Cooper-Wolf, H.R. 3654, a bill calling for a commission along the lines of the Base Closing and Realignment Commission. Though I have concerns about this bill, I have great admiration for its sponsors, our Budget colleague Jim Cooper and veteran appropriator Frank Wolf. I believe their bill is a genuine effort to address a serious problem, and I salute them, but I am not sold on the vehicle they are offering.

I acknowledge the precedent for a commission. The Greenspan Commission in 1983 was a huge success, but its recommendations

did not bypass committees of long-standing jurisdiction, it did not come to the floor in an up-or-down, take-it-or-leave-it vote.

In the years afterwards, the initiatives to resolve the deficits of the Reagan-Bush years all took the form of select groups drawn from the leadership on both sides who hammered out agreements with the prevailing administration. That was true of Gramm-Rudman-Hollings in 1985, of the Bush Budget Summit in 1990, of the Clinton budget in 1993, and of the balanced budget agreement in 1997.

Members of Congress working with the executive branch produced these agreements. As a result, these core groups who have been involved in the production of the agreement acquired some equity in the outcome and became advocates for passage through committee and onto the floor.

I am not at all convinced that this commission of 18 members, only four of whom are Members of Congress, will have the traction needed to push unpopular reforms and entitlement cuts through Congress and some real reservation about fast-track procedures that bypass Ways and Means and Commerce and go straight to the floor, more or less unamendable, vote it up or down. I think a lot of members will look upon this as an overdelegation of authority.

The commitment and the consensus needed to tackle these problems starts with the President, with the leadership of the Congress, and there is no substitute for it. We saw that commitment in 1990, 1993, and 1997.

In 1997, for example, every time the four budget principals met, every time we met, President Clinton had his first team on the field. It could be one day Frank Raines, the next day Erskine Bowles, but somebody was in the room every time we met who had the President's proxy, and that commitment was not lost on anybody who was participating.

There has been no such commitment during the Bush years, certainly no effort to build or forge consensus. Unless there is commitment among all the stakeholders, the most likely outcome is that the commission's report will meet the same forgotten fate as countless other reports from other commissions.

The bill also has some oddities that we can cover with questions when the time comes. One is it provides for dynamic scorekeeping, which violates rule one of the Greenspan Commission. In that famous anecdote, Greenspan announced to his commissioners as they got started, everybody is entitled to his own opinion, nobody is entitled to more than one set of facts, and these are the facts.

I know that you will find it—be shocked, shocked to hear it, but projections, economic projections can be manipulated and dynamic scorekeeping is one way of skewing a forecast in your favor, which is one reason mainstream economists are wary of it.

Let me make a few other random observations and then turn to Mr. Ryan for his statement.

This bill singles out entitlements but seems silent on other cost drivers, as if entitlements were all of the problem. They are certainly a big part of the problem. There is one claim, for example, on the budget which is never called an entitlement, though it is obligatory, and that is net interest on the national debt. Interest is too large to be eradicated, but we still have to mitigate or rein

it in or else the efforts to reduce entitlement spending will be overcome by the swelling in another obligatory account, that for debt service. We will reduce Medicare, Medicaid, only to have the reduction displaced by the increasing costs of debt service if we do not first balance the budget.

My colleagues on the Democratic side are unlikely to put their middle-income constituents through the wringer with cuts in Medicare and Medicaid only to have debt service keep rising and eclipsing our other priorities.

One of the lessons learned in the 1990s is that the traffic will bear politically only so much. Social Security reform came in 1983, years before Medicare and Medicaid cuts of 1990, 1993 and 1997. It is hard for me to believe that Congress in one fell swoop can cut all of the entitlements down to an affordable size. It is also hard to believe that we can extend the 2001 and 2003 Bush tax cuts, repeal the estate tax, repeal the alternative minimum tax, then add a few more tax cuts to the mix while we keep on increasing defense and funding other deficits, infrastructure, innovation, education. It is hard to believe that we can do all of the above and still solve this equation.

One preferred way that I think we would all support if it were entirely viable, one preferred way to make our entitlements more affordable, is to make our people and our economy more productive. For that reason, I think that a budget reducing long-term liabilities should be discriminating when it comes to the support of education and job training and infrastructure and research and development and innovation, all of which can become long-term assets.

Medicare and Medicaid are typically singled out in this bill as the chief culprits, the fastest-rising accounts in the budget; and over the long run they are clearly the biggest part of the problem. But right now, the fastest-rising spike in the budget post the year 2000 is national security. Since 2000, national security has increased from 300 billion to between 6 and 700 billion this year. If we want to balance the budget, we have to curb or cut discretionary spending; and since defense constitutes well over half of discretionary spending, it, too, has to be subject to constraints. This is the elephant in the room which we seldom discuss, but it is still part of the problem.

To rid the budget of deficits in the '80s and '90s following the Reagan tax cuts and the defense build-up, it took almost 15 years and four deficit reduction plans.

The good news is that we perfected the process. We sorted out what would work: multi-year budgets, pay-as-you-go entitlements, discretionary spending caps, and across-the-board automatic cuts. The bad news is today the deficits are probably more intractable due to the retirement of the baby boomers, war in two theaters, increasing debt service, and may take even longer and several more iterations before we ever get rid of these deficits.

To resolve this problem is quite simple. Everybody needs to be at the table, and everything needs to be on the table, and all stakeholders for good-faith purposes should ante up, should have some skin in the game. That was true the last time we did such an agreement.

President Clinton led by offering \$110 billion in Medicare cost reductions. Scored later at \$90 billion, he raised it back to \$100 billion. That was his earnest money. That was his ante. That was the way we propelled and carried forward these negotiations. And that precedent I think is a worthy one as we consider how to do it again.

In the next few months, we will have a new President. Whether it is President Obama or President McCain, let's hope he will sit down with congressional leadership and decide how we can move back to the path of deficit reduction and toward the solvency of our major entitlements.

With a shared commitment—that is critical, shared commitment, we can't do it either party by itself—we can move the ball again, I believe, as we did in the 1990s. If the Congress and the President do not have that sense of shared commitment, that agreement to work together and consensus about what needs to be done, I doubt that a commission can supply it.

We have today a distinguished panel of witnesses: Pete Peterson and David Walker from the Peterson Foundation; Bob Greenstein from the Center on Budget and Policy Priorities; Henry Aaron from the Brookings Institution; and Alison Acosta Fraser from the Heritage Foundation. That pretty well covers the spectrum, and we look forward to a lively discussion.

Before turning to you, let's go to the ranking member, Mr. Ryan.

Mr. RYAN. Thank you, Chairman. I appreciate your indulgence, and I appreciate the fact that you are having this hearing today.

I also want to welcome all the esteemed witnesses we have today. Dave Walker, it is great to have you here again with us. You are a very familiar face here with us, and we are glad to see you here in your new capacity.

Just last week, Congressman Cooper and I had the opportunity to participate in a bipartisan event right here in this room, sponsored by the Brookings Institution, with the sole purpose of discussing the entitlement challenge. It was 11 a.m. on Wednesday. We didn't have any coffee. We didn't have any donuts. It was just Mr. Cooper and me doing our respective PowerPoints on entitlement reform. And, you know, we actually filled this hearing room; and I understand that Brookings even had to turn people away because we ran out of seats.

I have probably given that presentation 50 times in the past month or so, mostly back home in Wisconsin; and the people keep coming because Americans know that there is a problem. They are beginning to understand the magnitude of the problem, and I can tell you from my own experience they are ready to hear from their representatives about how we plan to solve the problem. Now we just need to get Washington up to speed with the rest of the country.

Now, Chairman Spratt, you are doing your part. He has called more than a dozen hearings dealing with the entitlement crisis and once again brings this issue before the committee. And my friend Congressman Cooper, who requested this hearing today, and who, along with Congressman Frank Wolf, who I think is going to join us later today, has proposed this bipartisan commission to look at

ways to address this challenge. All of these individuals ought to be commended for their efforts.

It should also be a major component of the campaign debates this year. Because if the candidates—and I am talking about every candidate running for Federal office—are going to talk about the issues of importance to the American people, entitlements had better be part of that discussion.

But I also believe it is time Congress gets onto the business of doing what our constituents actually sent us here to do, and that is to move beyond simply talking about the problem and actually finding solutions to those problems.

Because I believe that, I introduced my own proposal. It is called the Roadmap for America's Future. It addresses this challenge in a very comprehensive way and achieves the following three objectives: It fulfills the mission of health and retirement security for all Americans, it removes the massive debt burden for the next generation and ensures American jobs and competitiveness in this 21st century global economy.

I won't go through all the details. As you can see, it is a pretty thick bill. It is hundreds of pages long, with a 70-page report to go along with it. But, to be clear, it is a real plan with real proposals, real numbers to back them up and actually real legislation to implement it.

I don't expect everyone to agree with every aspect of it, but I would ask you to take a look and leave your comments and input. You can go to our Web site at [Americanroadmap.org](http://Americanroadmap.org), because we need all to be a part of this discussion.

Every expert Congress can find, from the GAO to CBO to the Fed to Heritage to Brookings, they have all come to the same conclusion. The entitlement crisis is real, it is serious, it is not going away, and it is getting dramatically worse with every year we fail to act.

Congress has already demonstrated what does not work. Ignoring it doesn't work. Playing the demagogue doesn't work. Pointing fingers at each other doesn't work. We have done all of these here in Congress, both political parties; and every time we find ourselves another year deeper in the hole.

Well, I have with me over here on my left shoulder my 6-year-old daughter, Liza. I bring each one of my three kids up here for a week with me during the summer break. By the time she is raising her kids and when she is my age, on the current trajectory the government will be twice the size that it is today, twice the tax take. The debt will be insurmountable, and we will for sure quantifiably be handing the next generation an inferior standard of living if we do nothing.

So I ask everybody, look your 6-year-old in the eyes, your daughter or your granddaughter, and ask yourselves here in Congress, is this what we should be doing or should we come together and fix this?

We have got to recognize that these problems aren't Democrat problems—Democratic problems, excuse me, they are not Republican problems, and neither are the solutions. We have got to build bipartisan support for action, and we have got to move beyond simply rehashing the problem to the politically difficult but critical

task of debating, implementing actual solutions for the American people.

Chairman, I thank you for having this hearing, and I look forward to our witnesses' testimony. Thank you.

Chairman SPRATT. Thank you, Mr. Ryan.

And before going to our witnesses, let me recognize Mr. Cooper, the co-author of this bill.

Mr. COOPER. Thank you, Chairman Spratt. I appreciate your holding this hearing.

It should be stated for the record that this hearing was an agreed compromise in return for Blue Dog votes for the budget. You were kind enough to allow us this hearing. Whether this bargain was worth it remains to be seen. I feel a little bit like that t-shirt we see sold on the street that says my parents got the vacation, all I got was this t-shirt.

Mr. Chairman, you correctly stated in your opening comments that we face grave fiscal problems; and yet the status quo lobby here in Washington is so awesomely powerful this Congress will do little or anything about those problems. This hearing is one of our few chances.

I wish it were a markup. A number of the comments that you have made, Mr. Chairman, and that we will hear in testimony do little more than create straw men and proceed to tear them down. Frank Wolf and I are very open on the membership of the commission. It can be anything you want. We are completely open on the issues before the commission. Taxes are on the table. And yet this bill has 40 or 50 Republican and Democratic co-sponsors. Tax expenditures are on the table, contrary to what you see in some of the testimony. Everything is on the table because we need to deal with these problems now.

Mr. Chairman, you know that the Presidential candidates are busy. They don't have time to focus on this. Members of Congress are not as busy, but we are still not focusing. I wish we could have a substantive hearing on Medicare reform, Medicaid reform, health care reform, Social Security reform. But where are those hearings? They are simply not happening.

I think the best way to put this is, Mr. Chairman, history is watching; and they are seeing this Congress do virtually nothing. And yet this could be the gravest issue of our time.

I asked a senior administration official—I won't embarrass him publicly. He acknowledged there were terrible long-term problems. And I said, well, sir, when does the long term begin? He said January 20th, 2009. Well, that is a completely irresponsible attitude. I hope that we don't go down in history as the ostrich Congress, having sunk our heads under the dirt when we knew danger was approaching.

I think the best way to show our love and commitment to our seniors, to all of our family members of whatever age, and to these vitally important American entitlement programs is to prepare to meet the need, not to duck. So, Mr. Chairman, that is what this hearing is really all about.

I want to commend Pete Peterson, David Walker, because they have shown leadership on this issue for a long time. Books like this, their continued efforts, I just hope that we can rise to the

challenge as the people's elected representatives to look beyond the horizon, to prepare for what will otherwise be a very tough, dismal future.

Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Cooper.

**STATEMENTS OF HON. PETER G. PETERSON, CHAIRMAN, THE PETER G. PETERSON FOUNDATION; HON. DAVID M. WALKER, PRESIDENT AND CEO, THE PETER G. PETERSON FOUNDATION; ROBERT GREENSTEIN, EXECUTIVE DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES; HENRY J. AARON, PH.D., BRUCE AND VIRGINIA MACLAURY SENIOR FELLOW, ECONOMIC STUDIES, THE BROOKINGS INSTITUTION; AND ALISON ACOSTA FRASER, DIRECTOR OF ECONOMIC POLICY STUDIES, HERITAGE FOUNDATION**

Chairman SPRATT. And now let's turn to our panel, beginning with the senior statesman on the panel, Mr. Peter Peterson.

Mr. Peterson, thank you for coming; and the floor is yours. We will make your statement part of the record so that you can summarize it as you see fit.

**STATEMENT OF HON. PETER G. PETERSON**

Mr. PETERSON. Thank you, Mr. Chairman and members of the committee. I am pleased to be here today to talk to those of you who have the opportunity to find sustainable, long-term solutions to the problems facing the American economy. As you alluded to with my senior statesmanship, I have been around a long time, and it has been a long time since I have seen this many problems of a long-term nature that I call undeniable, unsustainable, and yet politically untouchable.

Permit me to start with one number. \$53 trillion dollars in today's dollars is what the country owes, is projected between our future liabilities, our national debt, and our huge unfunded promises for programs like Social Security and Medicare. Social Security and Medicare are about 44 trillion of this. It is significant that Medicare is projected to be about 35 trillion and Social Security is something on the order of 7 trillion. So Medicare is by far the largest fiscal problem.

Every American with this kind of debt is now burdened, most of them unknowingly, with more than \$175,000 in Federal liabilities and unfunded government promises. Taxes would have to more than double to pay for them. Slipping this huge check of debts and taxes to our children should indeed be not only unthinkable but immoral. And our unprecedented current account deficits and levels of foreign debt, given our record low level of savings, is downright dangerous.

Given our abysmal national and personal savings rate, we no longer owe this debt to ourselves, we owe much of it to foreigners. We simply must increase national and personal savings. We are leaving this country vulnerable to economic and geopolitical risk that no great country should be taking. And ballooning health care costs, our number one fiscal problem by far, threaten the very competitiveness of our economy.

In our lifetime, as you know, 78 million boomers will retire, causing the cash deficits of Social Security and Medicare, the foundation of America's social safety net. These deficits happen long before the so-called and, in my view, fictional trust funds are solvent. These programs must be reformed to reflect the demographic realities, while also making them solvent, sustainable, secure, and more savings oriented.

The question, of course, is how to reform. Some would suggest that we simply raise taxes. Beyond the thought that it is unthinkable that we double taxes, I hear proposals that eliminating the Bush tax cuts that is going to fat cats like myself will go a long way to solve this problem.

Let's look at some melancholy realities. Let's suppose we got rid of all the Bush tax cuts, and I hear few proposing this. This would amount to something like 1 percent of the GDP. The projected increase in entitlement spending is 9 percent of the GDP.

On the other hand, particularly given the rapidly growing inequality of incomes, I consider it inevitable that, at the very least, taxes will be increased for the well off. The point is, will they be combined with fundamental reform of these programs?

Permit me to make one other rather obvious point. Spending these unthinkable amounts on mandatory entitlement programs means that other critical investments will be crowded out. I mean crucial investments in our children, their health and their education and research and development. Indeed, as I look at the history, that crowding-out process has already begun.

I am here because I am committed to meaningful results in my lifetime. As the Congressman indicated, this is an American issue; and I am devoting a great deal of not just my energy and my time but my financial resources to bring Americans together to find lasting, long-term solutions.

Sadly, we have gone from being an optimistic and hopeful society to one of great anxiety and increasing pessimism. For the first time in our history, a majority of Americans believe their children will not have a better standard of living than they do. That, my friends, is simply unacceptable. We owe it to the next generation to keep that dream alive and fully intact the way our parents did.

Engaging America's youth is critical to this process. They are the ones, after all, who will inherit this sobering future. They are truly our greatest asset, which is why they must be a fundamental part of any conversation about America's future and the path they will take to get there. Through the Peterson Foundation, we encourage Americans to make responsible choices today, while providing opportunity for tomorrow.

This lack of sustainability will eventually begin to cripple America and threaten the very foundation of not just our financial system but our country. The time for action is now. The greatest generation confronted challenges at least as daunting as this one's. They fought and paid for the costliest war in history in every sense of the word costly. Not only did they repay debts far higher than today's, but they bought into and paid for the GI bill, the Marshall Plan, and the huge infrastructure highway program.

We have done it before, and I can see no reason we cannot do it again. But the changes required must begin somewhere. I see no

better place than this room right now. So today it is our mutual turn to do something.

Thank you.

Chairman SPRATT. Thank you, Mr. Peterson.  
[The statement of Peter Peterson follows:]

PREPARED STATEMENT OF HON. PETER G. PETERSON, CHAIRMAN, PETER G. PETERSON  
FOUNDATION

Thank you, Mr. Chairman and members of the committee. I am pleased to be here today talking to those of you who have the opportunity to find sustainable, long-term solutions to the problems facing the American economy. I don't intend to talk only about facts and figures, though some will be necessary to paint an accurate picture of the daunting situation we're in right now.

To that end, I would ask that if you leave here remembering only one number, let it be this one: 53 Trillion.

Fifty-three trillion dollars in today's dollars is what this country owes between our national debt, future liabilities, and our huge unfunded promises for programs like Social Security and Medicare. It's an ugly number. It's unacceptable. And frankly, I believe it is Un-American.

Our nation is sinking deeper and deeper into debt and unsustainable promises while Americans are asking more and more from the government. This is a vicious cycle that MUST be broken, before it breaks us. That's exactly why it's time for all Americans to know what these critical issues are, why they are important, and what we can do together to fix them NOW—before it's too late.

These sustainability challenges are not new. They've been building under the surface of America's social and economic policies for years. More specifically, government obligations are reaching unthinkable, and worse, unmanageable levels. Every American—even the youngest among us—is now burdened, most of them unknowingly, with more than \$175,000 in federal liabilities and unfunded government promises. Taxes would have to more than double to pay for them. And that is unthinkable not only economically, but morally. Slipping this huge hidden check of debts and taxes to our children should, indeed, be declared immoral. And, our unprecedented current account deficits and levels of foreign debt, given our record low level of savings is downright dangerous. Given our abysmal national and personal savings rate, we no longer owe this debt to ourselves. We owe it to foreigners. We simply must increase national and personal savings. We are leaving ourselves vulnerable to economic and geopolitical risks that no great country should be taking. And ballooning health care costs threaten the very competitiveness of our economy.

In our lifetime, 78 million baby boomers will retire, causing huge cash deficits of Social Security and Medicare, the foundation of America's social safety net. These deficits happen long before the so-called and, in my view, fictional trust funds are solvent. These programs must be reformed to reflect the demographic realities and longer life spans while also making them solvent, sustainable, secure, and more savings-oriented.

With all of this in mind, I'm here today because I'm committed to ACTION, to seeing real, meaningful RESULTS in my lifetime. This isn't my personal issue; this isn't a Democrat or Republican issue; it's an American issue. That's why I am dedicating so much of my energy, my time, and my resources to bringing Americans together to bring about lasting, long-term solutions to the shared challenges facing our nation.

Sadly, we've gone from being an optimistic and hopeful society, to one of great anxiety and unity and increasing pessimism. In fact, for the first time in our nation's history, a majority of Americans believe their children will not have a better standard of living than they do. That, my friends, is simply unacceptable. It also means we're letting the promise of the American Dream slowly slip away. We owe it to the next generation to keep that dream alive and fully intact, the way our parents did for us.

Engaging America's youth is critical in this process. They are the ones, after all, who will inherit this sobering future. They are truly our greatest asset, which is why they must be a fundamental part of any conversation about America's future and the path we will take to get there.

Through the Peter G. Peterson Foundation, we encourage Americans to make the responsible choices necessary today, to ensure lasting opportunity for tomorrow. Our goals certainly aren't easy, but neither are the challenges before us. And these challenges, if ignored, will only get worse until we are faced with the possibility of a complete, system-wide failure. This lack of sustainability will eventually begin to

cripple America and threaten the very foundation of our financial system. The time for words has passed. The time for action is now.

While the Greatest Generation faced a threat from abroad, this generation faces a threat from within. I'm here before you today because I believe that, together, there truly are no challenges we cannot overcome as a nation. By creating the Peterson Foundation, I hope to motivate this generation of Americans to take action and create a movement.

I hope that you will join the Peter G. Peterson foundation in our mission, striving not only to reform America's out of control spending, but also to rebuild our nation and ourselves. I do believe that if we are willing to change, our best days are still to come. But, that change must begin somewhere. I see no better place than this room, right now.

Today, it's your turn.

Chairman SPRATT. And now we go to your colleague, the Honorable David Walker, formerly the head of the GAO, which is the last iteration we knew him, and now the President and CEO of the Peterson Foundation. Dave, welcome back.

#### **STATEMENT OF HON. DAVID M. WALKER**

Mr. WALKER. Thank you, Chairman Spratt, Ranking Member Ryan, members of the House Budget Committee. It is a pleasure to be back before you, this time as a private citizen, with my partner and boss, Pete Peterson.

Today, the Peterson Foundation is issuing a publication entitled *The State of the Union's Finances*. This citizen's guide provides a clear and compelling picture of the Nation's true financial condition and longer-term fiscal outlook. Every Member of Congress, every Senator, every Cabinet official, every Presidential candidate and, yes, the President and Vice President will receive a personal copy. It is also available on our Web site, which is [www.pgpf.org](http://www.pgpf.org).

While the graphics and tables in this book look nice visually, they present an ugly picture fiscally. As the cover demonstrates, based on historical tax levels and absent meaningful entitlement spending and tax reforms, the United States will face debt burdens in the future that would make the U.S. look like a third-world nation from a public finance perspective.

What do we need to do? First, as I have testified before, we need to provide more transparency in connection with our current accounting and budgeting processes. Increased transparency should involve some restructuring of the way the current budget is prepared and presented to the Congress and the President.

From a financial reporting perspective, among other things, the government needs to recognize that the bonds in the so-called trust funds should be deemed to be liabilities. You can't have your cake and eat it, too. Either they are a commitment of the United States or they are not. If they are, they are a liability. And it should place more emphasis on fiscal sustainability and inter-generational equity.

In addition, a summary annual report of the Nation's finances should be issued each year, and a longer-range fiscal sustainability report should be issued by our government every 4 years, as in the case of most industrialized nations who are focused on the future.

I have included in Exhibit 1 of my testimony a summary of the types of reforms that are needed.

In addition to the above steps, we need to reimpose tough statutory budget controls on both the spending and the tax side of the

ledger. After all, both sides of the books contribute to our Nation's bleeding bottom line.

In my view, the Congress also needs to consider adopting biennial budgeting and appropriations processes, and it needs to provide better recognition of the difference between capital expenditures and operating expenses, while providing appropriate safeguards to prevent mischaracterization.

Beyond the budget and appropriations processes, in my view the regular order for addressing complex and controversial reform legislation, especially entitlement reform legislation, but not solely that, is not adequate to deal with the number and magnitude of the reform efforts that we must address if we expect to return to a more prudent and sustainable path in a reasonably timely manner and before a real crisis hits. As a result, I support the need to establish a capable, credible, and bipartisan commission to address at least four issues: statutory budget controls, comprehensive Social Security reform, and round one of both comprehensive tax and health care reform. Everything must be on the table.

The Securing America's Future Economy Commission Act, or SAFE Commission Act, H.R. 3654, whose primary co-sponsors are Congressmen Cooper and Wolf, is intended to do just that. H.R. 3654 is not perfect, and there are areas that could be improved. But it now has over 90 co-sponsors on both sides of the aisle.

One might argue that those who do not sponsor or co-sponsor proposals for changing the status quo are tacitly sponsoring the do-nothing plan. And the do-nothing plan will bankrupt America, and it will not create a better future for our country.

In the final analysis, while reasonable people can and will differ, I believe that a commission will likely be necessary in order to achieve timely action in connection with several major reform efforts that lie ahead if we want to avoid a crisis. In my view, we need an action-forcing event. We must remember the Greenspan Commission was created at a time where the checks weren't going to go out on time within a matter of weeks. Believe me, that was an action-forcing event. We need another action-forcing event that is not a crisis.

Given the greater public awareness that is needed here and the need, frankly, for Congress to have some cover to make tough choices that people may not otherwise like, in addition to publishing *The State of the Union's Finances*, the Foundation has decided to purchase and support the distribution of a documentary entitled *I.O.U.S.A.* This film addresses four key deficits facing America: our budget, savings, balance of payments/trade, and leadership deficits. It will come out in theaters in selected cities in August, before the Presidential election. This will be one of many efforts that we will take in order to increase the visibility of this issue and hope that it will be a priority for the next President of the United States.

We also will have a private showing for Members of Congress on Wednesday, July 9th, in the evening, at the Library of Congress.

In closing, Mr. Chairman, thank you for the opportunity. I do have a two-minute trailer that I would be happy to show if you so desire and the members do of what the film is about. It is staunch-

ly fact-based, nonpartisan and nonideological, because that is the only way we are going to do anything in this foundation.

Chairman SPRATT. Two to three minutes?

Mr. WALKER. Two minutes. Two minutes and six seconds.

Chairman SPRATT. Let's roll it then.

Mr. WALKER. Thank you, sir. From the beginning.

Chairman SPRATT. You just lost about 80 percent of the audience.

[Tape played.]

Mr. WALKER. Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Walker.

[The statement of David M. Walker follows:]

PREPARED STATEMENT OF HON. DAVID M. WALKER, PRESIDENT AND CEO, PETER G. PETERSON FOUNDATION, FORMER U.S. COMPTROLLER GENERAL

Chairman Spratt, Ranking Member Ryan and Members of the House Budget Committee, I appreciate the opportunity to appear before you again—this time as a private citizen and with my partner and new boss, Pete Peterson. As you know, I've changed my position on the battlefield for America's future; however, I'm still very much concerned about our nation's fiscal future and the other serious sustainability challenges that we face in my new position as President and CEO of the newly established Peter G. Peterson Foundation.

Pete has already addressed his long-standing concerns regarding our nation's current fiscal path, along with his hopes and plans for the Foundation. I will address several specific issues that I believe will be of interest to members of this Committee. However, before I do, I would like to congratulate the Chairman and this Committee for gaining passage of a budget resolution this year.

Today, the Foundation is issuing a publication entitled "The State of The Union's Finances". This citizen's guide provides a clear and compelling picture of our nation's true financial condition and longer-range fiscal outlook. Every member of the Congress, the President, Vice President, all Cabinet members, each of the major Presidential candidates and selected other key officials is being provided with a printed version of this guide. It is also available online at [www.pgpf.org](http://www.pgpf.org).

While the graphics and tables in the guide look nice visually, they present an ugly picture fiscally. As the cover points out, based on historical tax levels and absent meaningful entitlement, spending and tax reforms, the United States will face debt burdens in the future that would make third-world nations look thrifty. And our related debt/GDP ratios escalate dramatically after the 2040 date because we will have passed a "tipping point" by then. Furthermore, as one table in the guide notes and as Pete has stated, we are currently in a \$53 trillion fiscal hole. This hole gets deeper by \$2-\$3 trillion a year on autopilot. We need to start figuring how we are going to start climbing out of that hole. The time is over for merely saying how one will pay for new spending increases or tax cuts. It is critical that we not continue to kick the can of tough choices down the road.

What do we need to do? First, as I have testified before, we need to provide more transparency in connection with our current accounting and budgeting systems. For example, steps need to be taken to provide a fuller and fairer disclosure of where we stand financially and where we are headed fiscally. The Congress needs to consider the affordability and sustainability of major entitlement, spending and tax proposals over the longer-term before they are passed into law. Congress must never allow what happened in connection with the Medicare prescription drug bill to happen again. That bill deepened our fiscal hole by over \$8 trillion, when Medicare was already underfunded by approximately \$20 trillion at the time.

Increased transparency should also involve some restructuring of the way the current budget is prepared and presented to the Congress and the President. The current budget baseline that attempts to approximate current law results in an incomplete and even misleading picture, especially in the way that it treats automatic growth in mandatory spending programs. For example, assume a 3-percent inflation level, 2 percent real economic growth, and an annual health-care cost growth rate at 7.6 percent. Under current budget rules, having education grow by 2 percent in nominal dollar terms is referred to as an "increase," whereas having mandatory health spending grow by 5 percent is called a "cut." This approach does not pass a straight-face test on Main Street and outside the Beltway. It also serves to provide an excuse for not revising mandatory spending programs that are clearly

unsustainable while not providing adequate funding for programs that represent an investment in our collective future well being.

Federal financial reporting should, among other things, recognize that the bonds in the so-called “trust funds” should be deemed liabilities, and it should place more emphasis on fiscal sustainability and inter-generational equity. In addition, a Summary Annual Report on the nation’s finances should be issued every year. A longer-range Fiscal Sustainability Report also should be issued by our government every four years, as is the case in several other industrialized nations. I have included as Exhibit I of my testimony a summary of the types of reforms that I advocated as Comptroller General. My views of these issues have not changed just because I’m in a new position. These reforms need to be aggressively pursued and acted on.

In addition to the above steps, we need to re-impose tough statutory budget controls on both the spending and tax side of the federal ledger. After all, both sides of the books contribute to our nation’s bleeding bottom line. Unfortunately, as we have seen in recent years, Washington still has not learned the first rule of holes—“When you’re in a hole, stop digging!” This must change, and the sooner the better.

In my view, the Congress also needs to consider adopting biennial budgeting and appropriations processes. And, it needs to provide better recognition of the difference between capital expenditures and operating expenses while providing safeguards to prevent mischaracterization of items. The sad but simple truth is that both the budget and appropriations processes have not functioned well in most years of our recent history. The Congress spends way too much time each year dealing with minor issues and not enough time dealing with major ones, frequently with very disappointing results. This is one of the reasons that the public’s view of the Congress as an institution is at or near historic lows. In fairness, the same can be said of the current President’s ratings.

As you know, the federal government has enacted at least one supplemental spending bill each year for a number of consecutive years. This process can be used to address bona-fide emergencies and contingencies in the future if the Congress moves to a biennial cycle. Furthermore, several states have already proven that biennial approaches can work.

Beyond the budget and appropriations processes, in my view, the regular order for addressing complex and controversial reform legislation, especially entitlement related legislation, is not adequate to deal with the number and magnitude of the reform efforts that we must address if we expect to return to a more prudent and sustainable fiscal path. As a result, I support the need to establish a capable, credible and bipartisan commission to address at least four issues—statutory budget controls, comprehensive Social Security reform, and round one of both comprehensive tax and health care reform. The Securing America’s Future Economy Commission Act (SAFE Commission Act), or H.R. 3654, whose primary co-sponsors are Congressmen Cooper and Wolf, is intended to do just that. How could anyone vote against a bill with a name like that if they have a chance to vote, and provided that its provisions are consistent with its name, which I believe they are?

In my view, if properly structured and staffed, such a commission could make at least a \$10-\$15 trillion down payment on our \$53 trillion federal fiscal imbalance. This would be a significant accomplishment in addressing our nation’s financial challenge as well as a positive step that would help improve both the confidence in, and the credibility of the Congress in the eyes of the American people. Why is Washington waiting to bring up this proposal for a vote?

Among various budget options that the Commission should consider is how best to address mandatory spending programs and existing tax preferences. I have previously stated that the Congress should consider establishing triggers that would force re-consideration and reforms of mandatory spending programs. A recent group of fiscal experts from a range of respected Washington think tanks, including the Foundation’s own Gene Steuerle, who was formerly with The Urban Institute, issued a comprehensive report that contained a similar recommendation. I also believe that the Congress must periodically review and reconsider all major tax preferences and possibly adopt automatic reconsideration and reform triggers for them as well. In my view, like spending programs, tax preferences are not all created equal. In addition, tax preferences represent “back-door” spending. The U.S. Government foregoes approximately \$1 trillion in revenue a year as a result of existing tax preferences. As a result, they must get on the radar screen and become part of our overall reform effort.

In the final analysis, I believe that a commission will likely be necessary in order to achieve timely action in connection with several of the major reform efforts that lie ahead. At the same time, I would like to compliment Representative Paul Ryan on his recent decision to put a comprehensive entitlement and tax reform proposal on the table. Irrespective of what I and others may think about the details of his

proposal, it took courage to make it, and we need more leaders who are willing to take such risks.

We must keep in mind that, while Washington is a “lag indicator,” political gridlock in Washington is not good when we face a range of serious sustainability challenges that grow with the passage of time. The truth is that there are a number of very disturbing parallels between the factors that contributed to our recent mortgage-related sub-prime crisis and our nation’s federal finances. These parallels have gone largely unnoticed; however, absent meaningful and timely action, the probability that we will experience a serious economic crisis continues to rise. Such a “super sub-prime” crisis would make the current mortgage-related sub-prime challenge look like a bump in the road.

The parallels between the mortgage related sub-prime crisis and our federal financial sub-prime challenge include: 1) a disconnect between the parties who benefit from current practices and those who bear the risk; 2) a lack of adequate transparency and understanding regarding the nature and magnitude of related risks; 3) a re-enforcement of the importance of maintaining lender confidence and adequate cash flow, as well as the limitations of credit ratings, and; 4) an illustration of what can happen when there is a lack of effective oversight and action to address large, known and increasing risks before a crisis occurs. These parallels are real. What is Washington waiting for?

Given the importance of our sustainability challenges, we at the Foundation believe that it is important to find new ways to communicate the various sustainability challenges that we face as a nation. We also believe that in this great nation, “We the People” are responsible for what does or does not happen in capitals around the country. At the same time, the people cannot be expected to act if they don’t have the facts, haven’t been told the truth, or don’t understand the consequences of failing to act. Addressing these key factors is what true leadership is all about.

This is a Presidential election year. Therefore, it’s important to state what we should expect the Presidential candidates to say regarding our large, known and growing fiscal and related sustainability challenges. In my view, a real leader would commit to at least five things. First, acknowledge our current problem and commit to making fiscal responsibility and inter-generational equity a priority if elected President. Second, refrain from taking major reform options off the table (e.g., the need for Social Security, Medicare, tax and health care reform). Third, use the “bully pulpit” to state the facts, speak the truth in order to help the American people understand the need for timely action and the consequences of failing to act. Fourth, commit to work on a bi-partisan basis to seek sensible and sustainable solutions to our fiscal and other key sustainability challenges. And finally, a real leader would support the need for a commission along the lines of the SAFE Commission to help increase the chances that we will take timely action in order to help ensure that our collective future is better than our past.

Given the need for greater public awareness and action, in addition to publishing the guide to “The State of the Union’s Finances,” the Foundation has decided to support the distribution of a documentary entitled I.O.U.S.A. This film addresses four key deficits facing America—our budget, savings, balance of payments/trade, and leadership deficits. It also highlights the efforts of the Fiscal Wake-up Tour that I and representatives of the Concord Coalition, the Brookings Institution and the Heritage Foundation have been, and continue to be a part of. This film will be released in August in selected cities around the country, including the Washington, D.C. area. However, we believe that the film’s message is so important that the Foundation has decided to fund a private showing of the film for members of Congress and other invitees the evening of Wednesday, July 9, at the Library of Congress.

In closing, we at the foundation are committed to doing everything we can to help promote responsibility and accountability today in order to help ensure that every American has more opportunity tomorrow. This was a longstanding tradition in this country until fairly recently. It’s time that we returned to this great tradition in order to keep America strong, to help make sure that our collective future is better than our past, and to be sure that the United States of America is the first republic to stand the test of time.

Mr. Chairman, I have a DVD that includes a two-minute theatrical trailer of the film and respectfully request that I be allowed to show it. In any event, thank you again for the opportunity to testify. I look forward to answering any questions that you or the other members of the Committee may have.

## EXHIBIT I: TRANSPARENCY IN ACCOUNTING AND BUDGETING

Exhibit I. GAO, Long-Term Fiscal Challenge: Additional Transparency and Controls are Needed (Appendix I), Statement of David M. Walker, Former Comptroller General of the United States, GAO-07-1144T (Washington, DC: July 25, 2007)

## APPENDIX I: TRANSPARENCY IN ACCOUNTING AND BUDGETING: LEGISLATIVE RECOMMENDATIONS OF THE COMPTROLLER GENERAL

*Supplemental Reporting in the President's Annual Budget Submission*

- Produce as supporting information to the budget an annual Statement of Fiscal Exposures, including:
  - a concise list, dollar estimates, and descriptions of exposures, including—
  - information from Consolidated Financial Statements of the U.S. Government on total liabilities, contingencies, commitments, and net present value of social insurance program payments, and
  - long-term cost (> 40 years) of major tax expenditures, presented together with related spending or credit programs in the same policy area, if appropriate
  - dollar estimate of the effect on these exposures of all major spending or tax proposals
  - an assessment of methodologies and data used to produce such cost estimates
  - a graphic presentation of the dollar amounts of exposures presented as percentage of GDP for each year covered
  - Budget horizon expanded to cover 10 fiscal years
  - President shall include in the budget a statement of the President's budgetary goals for a 10-year period in terms of surplus or deficit and in terms of surplus or deficit as a percentage of GDP

*Summary Financial Report for the General Public*

- Pursuant to OMB form and content guidance, Treasury shall annually publish a summary financial report on the U.S. Government derived from the information in the audited annual Consolidated Financial Statements of the U.S. Government.
- Report shall be in format and of length, content and sophistication for general American public
  - Report shall include condensed summary of CG's audit report on the CFS
  - First annual report due no later than January 30, 2008 [Note: This requires an amendment to GMRA (31 USC 331(e)(1)) to make audited CFS due by January 15 each year and an amendment to the Accountability for Tax Dollars Act (31 USC 3515(a)) to make agency financial statements due by November 30 each year.]

*Statement of Fiscal Sustainability*

- Pursuant to OMB form and content guidance, Treasury to prepare and make public every four years an assessment of the long-term sustainability of all major federal programs and activities. Statement of Fiscal Sustainability shall include:
  - PV of projected receipts and outlays of federal programs and activities for 75-year and infinite horizons, including separate reporting for social insurance programs
  - Statement of annual cash flows for programs and activities
  - Reconciliation of changes from prior period Statement
  - Presentation of information using different measures of sustainability and estimates of financial burden on different age cohorts and other demographics
  - Explanation of assumptions used and sensitivity analyses
  - First Statement of Fiscal Sustainability due no later than March 31, 2008
- Additional Cost Information on Legislative Proposals before Adoption
  - Before a Member of the House or Senate calls up for consideration on the floor of either House a bill or joint resolution or an amendment thereto that contains a proposal that would result in a significant increase or decrease in revenues or in mandatory spending, that Member shall obtain from CBO a statement of the long-term costs of such bill, joint resolution, or amendment.
    - CBO and Budget committees to jointly define "significant" for each Congress
    - "Long-term costs" are those financial costs over at least a 40-year period
  - The statement from CBO shall be provided to the Members of either House, as applicable, and shall be published in the Congressional Record
- GAO Report on the Financial Condition of the U.S. Government
  - The Comptroller General shall annually report to the Congress his assessment of the financial condition of the U.S. Government. Report shall include analyses of—
    - the Consolidated Financial Statement (CFS) and the Summary Financial Report
    - results of GAO's latest long-term fiscal simulations

- the President's Statement of Fiscal Exposures
- the adequacy of information regarding long-term cost implications of existing and proposed policies
- the Statement of Fiscal Sustainability
- statutorily-required CBO and JCT reports for the prior fiscal year
- First annual report due no later than January 31, 2009

[Internet address to "The State of the Union's Finances," submitted by Mr. Walker, follows:]

*<http://www.pgpf.org/resources/PGPFCitizensGuide.pdf>*

Chairman SPRATT. Let's go on with Bob Greenstein of the Center on Budget and Policy Priorities.

We have got, Bob, 9 minutes and 4 seconds to go vote to adjourn. But if you would take about 5 to 6 minutes to summarize, I think we have got enough time to spare then, and then we will leave quickly and come back. We have got two back-to-back votes.

Bob Greenstein, thank you for coming.

#### **STATEMENT OF ROBERT GREENSTEIN**

Mr. GREENSTEIN. Thank you. That trailer is a hard act to follow.

I certainly agree, Mr. Chairman, with you, Mr. Ryan, Mr. Cooper, Pete Peterson and Dave Walker that if current policies aren't changed, the projected mismatch between revenues and expenditures will grow over time and eventually lead to a debt explosion. We need to start taking action soon to address it, something our Center has been calling for for some time. As you know, we issued budget projections last year, 50-year projections that essentially tell the same story.

Having said that, I don't believe a law establishing a commission would be advisable. This is not a philosophical disagreement. It is a strategic judgment on how best to move forward based in significant part on my experience as a member of the last—as a commissioner on the last deficit reduction commission, the Kerrey-Danforth Commission in 1994.

Unless the next President and the bipartisan leadership of the House and Senate are committed to considering both program reductions and revenue increases and system-wide health care reform and working out compromises on these matters, I think any commission will fail. A commission will only work, as the Greenspan Commission did, when the President and congressional leaders decide to work out a bipartisan compromise and use the commission members as their negotiators. And if the President and the congressional leadership are willing to commit to negotiate a package, then they can go straight to the substantive negotiations themselves, as they did in 1990 and 1997, without convening a commission.

Now they may decide that a commission would provide the best forum for negotiating an agreement and educating the public, but that is a decision that can only be made if the President and the bipartisan congressional leadership have reached a consensus that serious negotiations are desirable. And if that is the case, a commission can be convened by executive order without legislative action, as was done with the Greenspan Commission.

My bottom line is that I believe a commission will not force a consensus or a willingness to negotiate a bipartisan agreement

where one is lacking on the part of the President and the congressional leaders. And that is why the 1994 Kerrey-Danforth Deficit Reduction Commission utterly failed. It couldn't even issue a majority report in favor of any specific policy proposals. That occurred because the President and the congressional leaders of both parties had no interest in having that commission come up with a bipartisan plan. The signal was clearly sent to the commissioners, and it all fell apart.

By contrast, the Greenspan Commission had a clear mission set by the President and the bipartisan congressional leadership to restore solvency to the Social Security Trust Funds. It was a success because President Reagan, Speaker O'Neill, and other congressional leaders of both parties used it as a forum to negotiate a deal through proxies.

The Greenspan Commission was basically a mechanism for President Reagan's top negotiator, Howard Baker, and the Democrats top negotiator, Bob Ball, to hammer out a compromise on behalf of their principals. It was understood in advance and agreed to in advance that it would include both increases in the payroll tax and reduction in Social Security retirement benefits, and in this sense it succeeded. History underscores, I think, the point that any successful major deficit reduction exercise starts with the President of either party and must involve the top leadership of Congress. And once the President, Speaker O'Neill, and other leaders agreed to move forward, the Greenspan Commission was established by executive order.

Given that the stars were moving into alignment, no time was lost having arguments in committees and House and Senate floors over how many commissioners, what would be the shape of the table. It was formed by executive order, and it moved.

I would also note that a BRAC-type procedure was not used. And a key provision of the 1983 Social Security Act, the one that raised the normal retirement age for Social Security benefits from 65 to 67, was not proposed by the Commission but rather was added on a bipartisan basis on the House floor in 1983.

So it seems to me the real key here is how do we persuade the next President, whether it be President McCain or President Obama, to move after the election to reach out to the leaders of both parties and to be willing to engage in serious negotiations? If that occurs and the planets are aligned, a commission shouldn't be necessary.

We had successful bipartisan deficit reduction negotiations without a commission in 1982, 1987, 1989, 1990, and 1997.

Chairman SPRATT. Mr. Greenstein, we are going to have to stop right there if we can. We will come right back as quickly as we can to pick up where we are leaving off. Thank you very much.

[Recess.]

Chairman SPRATT. Mr. Greenstein, you still have the floor. You are free to wrap up as you please.

Mr. GREENSTEIN. Well, let me, I just had a couple of more points I will complete quickly.

I was going to say that I very much agreed with the comment that David Walker made toward the end of his testimony, that the effort to deal with our long-term fiscal problem needs to be a com-

prehensive one. It will need to deal with Social Security and Medicare. It will need to deal with revenues. It will particularly need to deal, as I think he also mentioned, with the health care system. As I think Henry Aaron will talk about more in his testimony, the rate of beneficiary growth in Medicare and Medicaid for the last 30 years has largely tracked that of private sector health care. I don't think we can get there from here in terms of the long-term fiscal problems unless we can slow the rate of growth of health care systemwide.

Revenues also need to be on the table. Pete noted that the increase, say, 50 years from now or whatever in Social Security and Medicare and Medicaid is significantly larger than the cost of the tax cuts. This is true. It is also the case that, if you look at the fiscal gap for the next 50 years, we estimate it is about 3.2 percent of GDP, the cumulative gap over 50 years. And the tax cuts cost 1.5 to 2 percent of GDP, or about half of the gap.

The issue there is simply the following: The growing costs of Social Security and Medicare grow gradually over time and get bigger and bigger. The question of whether we pay for those tax cuts that we extend after 2010 is a fiscal impact that is felt fully and immediately starting in 2011, and therefore, what we do, for good or for ill, has big compound effects over time on interest payments on the debt. And as we all know, when you look at the long term figures and the explosion over time, what really triggers that explosion is when we get to the point that the interest payments on the debt start compounding and exploding, and we get a debt explosion; the interest payments soar, and that takes everything out of whack.

The last point I would like to make is simply a brief discussion of the base closing commission, which is sometimes mentioned as an example of what we need to do here. It seems to me, they are fundamentally different. In the case of BRAC, the President and the bipartisan congressional leadership agreed that the Nation had too many bases, and some needed to be closed. They needed a commission to implement that agreement in order to provide a way to surmount parochial, geographic concerns from both sides of the aisle that might otherwise prevent a bipartisan agreement among the President and the congressional leaders of both parties that, in the aftermath of the Cold War, there were more military bases than were needed for the Nation's defense.

The BRAC process enabled the commission of experts to help decide which and exactly how many bases to close. It was about preventing purely geographic interests of individual Members from undercutting a bipartisan leadership consensus over the need to reduce the number of military bases.

In major deficit reduction, we have to address fundamental questions about the trade-offs between taxes, defense, education, health care, systemwide health care reform, issues on the role of government and so forth. Decisions of, for example, whether it is worth raising taxes and, if so, which taxes. To provide for various levels of expenditure on health care or education are of a fundamentally different nature than which geographic bases to close.

So it takes me back to the point I mentioned before you broke for votes on the Hill. I don't think anything can substitute for starting with the next President exerting leadership, reaching out

to the bipartisan leadership of Congress, trying to get an agreement, to negotiate a bipartisan agreement that covers the big programs and taxes and systemwide health care reform. And if that can be done, I would let the President and the bipartisan leaders decide whether or not a commission is the best way to implement that agreement.

[The prepared statement of Robert Greenstein follows:]

PREPARED STATEMENT OF ROBERT GREENSTEIN, EXECUTIVE DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

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

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

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

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

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

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

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

PROJECTED DEBT EXPLOSION

Our projections of the long-term budget outlook show a “fiscal gap”—the difference over time between revenues and expenditures other than interest payments—equaling 3.2 percent of Gross Domestic Product from now through 2050.<sup>1</sup> This is too high—it would lead to a compounding explosion of debt. Specifically,

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

under our projections, the publicly held debt, which today stands at a relatively modest 37 percent of GDP, would grow to 42 percent of GDP by 2020, to 72 percent by 2030, to 134 percent by 2040, and to 231 percent by 2050. The Congressional Budget Office, in a recent letter to Mr. Ryan, estimates that in about 40 years, the per-person growth of the economy would halt and then begin to reverse. Such a situation would be untenable. This is why nearly all analysts call the long-term budgetary projections of existing tax and budget law “unsustainable.” (CBO also says that in the real world, financial instability and periodic market crises could occur before debt reaches such a level unless it becomes clear that the public, and therefore policymakers, are willing to raise revenues and/or reduce programs as necessary.)

#### EARLY ACTION IS DESIRABLE

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

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

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

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

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

At the same time, doing little and saddling future generations with mountains of debt should be unacceptable. An appropriate balance needs to be struck, and major

action to shrink projected deficits—and to start securing interest savings that will compound over time—should be taken soon.

#### BUDGET COMMISSIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

eration of its product could dissipate some of the goodwill that an initial high-level agreement to undertake serious negotiations would generate.

## APPENDIX

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

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

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

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

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

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

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

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

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

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

Chairman SPRATT. Thank you, Mr. Greenstein.

We now turn to Henry Aaron, an economist for Brookings Institution and a recognized expert in the area of these entitlement programs, Social Security and Medicare.

Mr. Aaron, thank you for coming. The floor is yours, and you can offer your statement to be included in the record and summarize it as you see fit.

**STATEMENT OF HENRY J. AARON, PH.D.**

Mr. AARON. Thank you very much, Mr. Chairman, Mr. Ryan, members of the committee. I do appreciate the offer to have my statement included.

With respect to the composition and functioning of the proposed commission, I agree with many of the comments that Mr. Greenstein just made. I am going to confine myself only to one comment in that area, and that is with respect to the comments that Representative Cooper made in his opening statement. I think that statement carried a correct and admirable inclusiveness in the range of issues that he called upon such a committee, or a commission to address. My testimony, however, was based on the draft bill, not on Mr. Cooper's introductory comments, and the draft bill is not similarly inclusive, but does focus only on some of the issues that he raised in his comments. I hope that later versions of this bill incorporate the range and comprehensiveness of the comments that he made initially.

I would like to focus my remarks, however, on some numbers. I think the beginning of dealing effectively with what every member of this panel agrees is a significant long-term fiscal problem is understanding the nature and source of that problem. I believe that it is incorrect to characterize it as emerging largely from entitlements for a number of reasons, and I have two slides that I would like to use in order to illustrate the point.

The first slide, which you now see up on the screen, is simply a graphical representation of what we economists call the primary budget deficit as projected by the Congressional Budget Office in its recently released long-term projections, where they actually released two projections, one based on what they called their adjusted baseline, and the second, based on an alternative scenario that I believe probably all of us on this panel would agree is a more realistic indication of the magnitude of the long-term budget challenges. The baseline includes a number of assumptions which the CBO is required to adhere to in its baseline because it is following statutory policy, even where the indications are very strong that statute will not be followed because of a track record of Congress in making adjustments.

What this chart shows is that over the period between now and 2050, very much as Mr. Peterson, Mr. Walker and Mr. Greenstein and I, and I am sure Ms. Fraser, would agree, the total of projected government spending grows considerably faster than the total of projected government revenues.

May I have the second chart. What I have done in this chart is subtract from projected total spending and projected total revenues, expenditures specifically on Medicare and Medicaid, as projected by the Congressional Budget Office, all earmarked revenues dedicated

to those programs and a share of the general revenues currently allocated to those programs measured as a share of GDP. The projection assumes that the same percentage would continue to be allocated to these programs. That is clearly not enough to cover the projected growth in spending. So, the black bars that you see show the projected deficit, according to Congressional Budget Office's long-term projections, essentially excluding the impact of Medicare and Medicaid.

The story that emerges from this chart, I think, is simple and straightforward. The budget, projected budget shortfalls, derive exclusively from projected increases in Medicare and Medicaid spending. Apart from the growth of those two programs, there is no projected long-term deficit. And I want to stress that those black bars include every penny of spending under Social Security called for under current law with no reductions at all. Or to put it more directly, if we were able to deal with the projected growth in health care spending, current total government revenues are sufficient to cover projected growth in all discretionary spending and all entitlement spending other than those they are spending on Medicare and Medicaid.

I draw three conclusions from these numbers: We do face projected long-term fiscal challenges. The source of those challenges is exclusively the projected growth of government health care spending. And third, I believe all health care experts agree that, as a practical matter, it is quite impossible to deal with just Medicare and Medicaid apart from general reform of health care financing. The bottom line, therefore, is that the Nation faces long-term health care financing problem. That constitutes the fiscal challenge or creates the fiscal challenge that we face as a Nation. And what it means, I think, is that if we wish to deal with the long-term fiscal challenge, the place to start is are reconstruction of our health care financing system.

I have said this on a number of occasions, and people have then responded, okay, well, how would you fix the system, the health care system? It is a fair question, but it is not one that I believe is central to this particular issue. And the reason it is not central is I believe strongly that there are liberal or conservative reforms of the overall U.S. health care system that are capable of bringing into balance the revenues that we dedicate to those programs and the amounts we spend on them. That is the crucial debate that needs to take place across the political spectrum on how we wish to reform health care spending. We should address that issue, and if we do so, the fiscal challenge that has been, I believe, not correctly characterized as an entitlement problem, which casts it as a public problem exclusively, the fiscal problem would be resolved.

[The prepared statement of Henry Aaron follows:]

PREPARED STATEMENT OF HENRY J. AARON, BRUCE AND VIRGINIA MACLAURY SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. Chairman, Mr. Ryan: Thank you for your invitation to testify today on H.R. 3654, which would establish a federal budget commission to 'reform tax policy and entitlement benefit programs and ensure a sound fiscal future.' My testimony will develop the following themes:

- The premise of the bill is correct in part; the United States faces daunting projected fiscal deficits. Early action to prevent them, while not urgent, is desirable.

- The bill mischaracterizes the source of these deficits. They derive entirely from projected increases in national health care spending, not from problems peculiar to government health care or entitlement spending.
- Materially slowing the growth of Medicare and Medicaid apart from general health system reform is impossible, unless the nation reneges on its commitment to assure the elderly, disabled, and poor health care roughly comparable to that available to the rest of the nation.
- The specification of ‘issues to address’ and ‘policy solutions’ in section 3 of H.R. 3654 is unbalanced. For example, the draft bill specifies as a ‘policy solution’ limits on entitlement spending, but does not mention as a ‘policy solution’ curbing in tax expenditures that putatively serve the same general objectives as direct spending, but benefit different groups.
- The draft bill virtually invites ‘game playing,’ as policymakers could avoid hard choices by manipulating long-term projections with artful assumptions, scoring methods, or other tactics for avoiding hard choices. Such practices were used extensively to subvert the Gramm-Rudman-Hollings targets in the 1980s. H.R. 3654 could actually obstruct desirable action to address projected long-term budget deficits.
- Commissions never solve complex problems unless members of Congress are prepared to address the underlying source of those problems.

## I

The Congressional Budget Office has issued projections of long-term spending and revenues twice in recent years, under the directorship of Douglas Holtz-Eakin, who was selected by a Republican Congress, and under the directorship of Peter Orszag, who was selected by a Democratic Congress.<sup>1</sup> Their projections differ in detail, but both foresee the emergence of excessive budget deficits in future decades.

All deficit projections depend on the difference between two projections of much larger estimates of spending and revenues, each subject to large errors. Seemingly small differences in projection methods, assumed growth rates, or baseline conditions have huge effects on whether and when deficits emerge and on how large they will be.

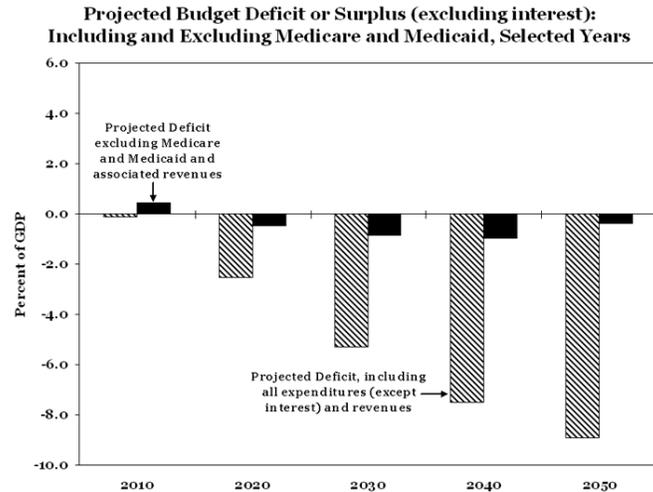
- Demographic projections one or two decades into the future contain much useful information because most who will be alive are already born, and because mortality rates evolve slowly.

- Longer-term demographic projections and economic projections of almost any duration are subject to large errors, because birth rates and economic growth are hard to forecast.

- Long-term projections of health care spending are little better than guesses because most of the projected increase in healthcare spending arises from future discoveries, which, by definition, we currently don’t know.

Past health care advances have boosted per person spending, and currently anticipated advances seem likely to do so as well. But many scientists expect medical advances eventually to reduce spending per person. Our ignorance of the directions of future health care discoveries means that projections of health care spending more than a very few decades into the future are virtually devoid of useful information. And, as I shall show, that uncertainty renders budget projections highly suspect.

Figure 1 (next page) indicates the projected size of so-called primary deficits—the gap between all government spending (other than interest on the debt) and revenues. It is based on recent CBO projections, using their ‘alternative scenario’ for revenues and expenditures.<sup>2</sup> Deficits, shown in zebra-striped bars, are projected to grow to unmanageable size.



This projection raises two practical questions. What causes those deficits? What can be done about them? Perhaps the shortest and most frequently heard answer to the first question is that the cause is: entitlements, which is shorthand for Social Security, Medicare, and Medicaid. This answer is misleading for three reasons.

- Entitlement (or mandatory) spending includes many programs other than the 'big three.' Collectively, the 'smaller' entitlements account for as much federal spending as Medicare and more than Medicaid.<sup>3</sup> As a group, entitlements other than 'the big three' will claim a declining share of gross domestic product. In fact, the share of GDP going for Social Security and the entitlements that CBO groups as 'Other Mandatory Spending' is projected to remain roughly constant over the next decade, even as the baby-boom generation is beginning to retire.

- Nearly all of the projected growth of federal budget deficits is traceable to added spending on Medicare and Medicaid in excess of earmarked revenues and general revenues as a share of GDP currently allocated to these programs. As shown by the black bars in figure 1, CBO's long-term projections indicate that apart from the fiscal impact of Medicare and Medicaid, the federal budget will remain in approximate balance through the year 2050—and that projection includes every penny of Social Security benefits promised under current law.<sup>4</sup>

- Finally spending on Medicare and Medicaid is driven mostly by forces that are outside these two programs.

- The most important of these forces is the projected growth of per person health care spending. Growth of Medicare spending per person has closely tracked growth of per person spending on health care in general. That parallelism simply reflects the central purpose of Medicare and Medicaid: to assure that the elderly, disabled, and poor receive care similar to that available to the general population. Increases in spending per person account for about three quarters of projected increases in Medicare and Medicaid outlays. Holding growth of per person spending on Medicare and Medicaid below that for the general population would imply the gradual abandonment of the national commitment to assure the elderly, disabled, and poor standard health care.

- Growth in the number of Medicare and Medicaid enrollees accounts for less than a third of projected spending increases. The only ways to offset this source of growth would be a) to increase the age of eligibility for Medicare or b) to tighten the already stringent income and asset tests for Medicaid eligibility. Increasing the age of eligibility for Medicare has a surprisingly small effect on outlays because the young elderly are relatively inexpensive. My estimate is that raising the age of Medicare eligibility from age 65 to 67 would reduce spending about 2 percent; raising it to age 70 would reduce spending about 9 percent. Furthermore, until and unless American workers can be encouraged to retire at later ages than they now do, raising the age of eligibility for Medicare would exacerbate an already serious problem—the gaps in insurance for those who lose employment-based coverage before they are old enough to qualify for Medicare.

The forgoing numbers carry three clear implications:

- America does not face an entitlement crisis; it faces a health care financing problem.
- The health care financing problem is a total system problem, affecting private as well as public spending, not a problem just of government programs.
- The solution to the fiscal challenge posed by increasing health care spending hinges ultimately on overall reform of health care financing.

## II

Even though projected budget shortfalls derive almost entirely from forces that equally affect private and public health care spending, general measures to slow the growth of budget outlays or increase government revenues can defer the onset of those deficits and reduce their size. To be regarded as fair, an examination of possible measures should include all government spending, not just entitlements. And on the sound, conservative principle that we should pay for what we buy, the search should include tax expenditures that erode the tax base and measures to boost tax rates. I invoke fairness because entitlement programs provide basic support for low- and moderate-income households, while tax expenditures disproportionately benefit those with comparatively high incomes.

Consider the two largest tax expenditures—the exclusion of employer-financed health insurance and the mortgage interest deduction. Both flow disproportionately to upper income tax filers for two reasons. First the value of an exclusion or deduction rises with one's marginal tax rate. Second, upper-income households typically carry larger mortgages than lower-income households do and are covered by more generous health plans. Thus, an effort to cut Social Security benefits on the ground that they are unsustainable while ignoring tax expenditures would represent an ideologically biased agenda that favored the well-to-do in the name of fiscal responsibility. Calling for cuts in Social Security in the name of fiscal balance while embracing extension of all of the 2001 and 2003 tax cuts is also unbalanced. The estimated seventy-five year cost of the 2001 and 2003 tax cuts just for the top 1 percent of filers with incomes of \$450,000 or more exceeds the entire projected Social Security shortfall over that period.

## III

The key to dealing with long term deficits is substantive agreement on legislative changes that either curb net spending or raise net revenues, or both. Actually cutting spending or raising taxes is hard work. Setting numerical goals and procedures is easy. Dealing with projected deficits by specifying procedures or numerical targets is a virtual invitation to avoid or delay the hard work and instead to fall back on easy gimmicks to comply with numerical targets.

Two elements of H.R. 3654 illustrate this problem. First, the draft bill would explicitly authorize three methods of estimating the cost of legislation: the methods used by the Congressional Budget Office and two others that could have the support of fewer than one-third of the membership of the proposed Commission. Rather than forcing the Commission to agree on how to price policy changes, this provision virtually guarantees that there will be three estimates of everything. It would, thereby, divert discussion and commission attention from discussion on real policy to bickering over estimation techniques. I interpret this provision as an attempt to appeal to those who persist in believing that so-called 'dynamic scoring' will transform revenue losing tax cuts into revenue gainers. The continued belief in the transformative power reflects a tenacious faith, but is contradicted by careful studies of dynamic scoring by the Congressional Budget Office under both Dan Crippen and Douglas Holtz-Eakin and by President Bush's Department of the Treasury. These studies have shown that dynamic scoring techniques variously cause tax cuts to appear less or more costly than conventional techniques do but never make much difference.

Second, the life of the Commission would end whenever Congress enacted legislation that the Comptroller General certified that legislation would reduce the fiscal gap by 1 percent of gross domestic product measured over twenty-years and 2 percent of gross domestic product measured over fifty years as estimated by the Comptroller General.

However, the draft bill leaves undefined what the term fiscal gap means or how it should be computed. Another point should be made here. Projections of what revenues and spending will be half a century hence are highly speculative; no one has a good idea of how complex measures undertaken today (such as national health care reform) might affect the economy, revenues, and spending fifty years hence. How, for example, would budget estimators in the Eisenhower Administration have estimated the impact on today's fiscal gap of the interstate highway system established during their term?<sup>5</sup>

Quite apart from the impossibility of intelligently estimating the impact on the fiscal gap so far in the future, this provision means that Congress could do absolutely nothing that materially affects either spending or revenues for many years yet comply technically with these targets. How? One way would be to shift spending responsibility to the states. A second would be to back-load tax increases or spending cuts that members would be confident that future Congresses would reverse.

Those who believe that the good consciences of elected officials would deter them from such phony fiscal probity need only look back at the truly comical avoidance mechanisms adopted to comply with Gramm-Rudman-Hollings requirements of the 1980s. Or they could look at the sunset provisions of the 2001 tax legislation, which the Administration advocated with straight faces, thereby low-balling estimates of long-term revenue loss and avoiding need for a super-majority for passage in the Senate under the Byrd rule. Or they could look at the 1997 Medicare legislation, which delayed insolvency in part A by the device, entirely bogus from the standpoint of budget balance, of shifting spending to part B. Furthermore, the triggers in H.R. 3654 introduce yet a fourth possible method of estimation, as the Comptroller General would not be duty bound to use the methods employed by the Congressional Budget Office or by either of the five-member Commission factions that could under this bill insist on estimation methods of its own.

## IV

Finally, the most fundamental point is that projected long-term budget deficits result from specific policies. Until such time as the Administration and Congress, with the backing of the American people, are prepared to modify the policies that generate those deficits, Commissions are an avoidance mechanism, not a solution. Some observers demur from this negative appraisal of commissions, pointing to the 1983 National Commission on Social Security Reform (known better as the 'Greenspan Commission'), which recommended a combination of tax and spending changes to prevent imminent insolvency and to restore close actuarial balance to Social Security.

In fact, the Greenspan Commission illustrates a quite different truth. Although President Reagan had inveighed against Social Security during his pre-presidential years, as president he recognized—as did Congressional leaders—that allowing exhaustion of the Social Security trust funds to force capricious benefit cuts was intolerable and that immediate action was necessary to forestall that event. All of the key leaders in Congress and in the administration, Republicans and Democrats, as well as key outside groups—including the elderly, insurance companies, organized labor, and large businesses—wanted to make sure that Social Security was sustained. The consensus was solid, and it was generally recognized that a deal would have to include both benefit cuts and tax increases. The Greenspan Commission served as political cover for action to avoid results that no one wanted but that would otherwise have occurred in a few months. No such budgetary cliff exists today. We are not in a situation comparable to that in 1982, when President Reagan and Congressional leaders of both parties agreed to try to work out a bipartisan compromise involving both Social Security benefits and Social Security taxes, and to use a commission as the mechanism through which the White House and Congressional leaders would negotiate the deal. In the current circumstances, a commission likely would only provide an appearance of doing something. And creating that appearance could reduce the likelihood that real action would be taken.

## ENDNOTES

<sup>1</sup> Congressional Budget Office, *The Long-Term Budget Outlook*, December 2005; Congressional Budget Office, *The Long-Term Budget Outlook*, December 2007.

<sup>2</sup> The alternative revenue scenario assumes that 2007 personal income tax law remains in effect and that the AMT is indexed for inflation, that estate and gift taxes are a constant share of GDP, and that corporation income taxes, payroll taxes, and other revenues follow current law except that other revenues remain a constant share of GDP after 2017. The alternative expenditure scenario is based on the assumption that Medicaid and Social Security follow current law, that Medicare spending follows current law except that physician payments grow with the Medicare economic index, and that other spending other than interest remains a constant share of GDP.

<sup>3</sup> The largest 'other mandatory spending' programs civilian and military retirement pay, the earned income tax credit, supplemental security income, unemployment insurance, and food stamps. All of these programs qualify as 'entitlements.'

<sup>4</sup> If one uses CBO's 'extended baseline' projections, subtracting the impact of Medicare and Medicaid leaves large and growing projected surpluses in the rest of the budget.

<sup>5</sup> The question is important for two reasons. First, advocates of increased spending or reduced taxes that might be classified as 'investments' or 'pro-growth' would doubtless argue that short term costs would lead to improved long-term outcomes. What looked to be deficit increasing over

a few years, it could be argued, would be deficit reducing in the long run. Second, actually doing the analysis to substantiate or refute such claims is impossible to do reliably. Critics of the interstate highway system would have pointed to the unfunded liabilities for highway maintenance that would boost future deficits of the states. The road-builders of the Eisenhower years could have claimed—with considerable legitimacy as events turned out—that those unfunded liabilities would pale beside the economic innovation and growth that would result from a revolution in the transportation of goods and the associated investments. Were an analogous undertaking to be enacted to day, should the Comptroller General under H.R. 3654 count it as raising or lowering future deficits?

Chairman SPRATT. Thank you, Mr. Aaron. I was thinking that you were going to go ahead to build the structure. I was waiting for the next shoe to drop.

Mr. AARON. Well, if you will hold a hearing on health care financing reform, I will be glad to testify, too.

Chairman SPRATT. Now, to be the clean-up hitter, Ms. Alison Acosta Fraser from the Heritage Foundation.

#### STATEMENT OF ALISON ACOSTA FRASER

Ms. FRASER. Thank you very much, Mr. Chairman, Mr. Ryan and members of the committee.

I appreciate being asked to speak to you today and to be your closer. The challenge always with being the closer on a large panel is coming up with something a little bit different to say, so I hope I have some new things to share with you that other panelists have not. By and large I agree with just about everything that was said earlier, with some few distinctions.

But let me circle back to the entitlement challenge that we face. I believe that entitlement spending is a threat to the Nation's growth. It is a threat to our prosperity and to our ability to perform in a global economy. This problem is not a partisan one. Indeed, it threatens priorities for the right and for the left as less and less room is left each year in the budget.

According to CBO, in a recent letter to Congressman Ryan, total Federal spending will grow from about 20 percent of GDP today to 42 percent by 2050. And this surge is driven by entitlement spending for Medicare, Medicaid and Social Security. So, to be specific, total entitlement spending will grow from 8.4 percent of GDP to 18.6 percent, more than doubling, by 2050. That is before my three teenagers will be ready to retire.

Entitlement spending alone will also exceed the historical level of taxation of about 18.3 of GDP. So clearly this spending is unsustainable. The thing that is also interesting and important to point out, that this same CBO letter explains and lays out the harsh economic consequences of not tackling the entitlement problem.

So why the SAFE Act, and why a commission? Solving entitlements, as you all know, is very difficult and there are many, many considerations. Tough choices will have to be made. And as you know, as well, the normal budget and legislative process for bills and proposals, means that any time a new one is dropped, every stakeholder, every special interest and their lobbyists walk the halls of Congress. They visit you with two things in mind, either being held harmless by any legislation or to seek out a gain from legislation. So we really need something that is going to change the dynamics in order to make the tough choices necessary to rein in entitlements, one that will examine the problem holistically, balancing the needs of younger generations and older generations.

So why is this really necessary?

Now, setting aside Mr. Ryan's sweeping reform proposals, all other current legislative steps to rein in entitlement spending this year are quite likely to be overridden. We have the doc fix, which would result in savings on payments to physicians. Whether you like it or not, it is something that is on the table. We have regulations tightening loopholes and abuses of the Medicaid Federal matching system for States. And there is a competitive bidding for durable medical equipment which would result in substantial savings to Medicare. All of those things are facing very tough votes indeed.

And I believe that SAFE Act would transcend these current legislative logjam dynamics in two key ways: by building public support for change and to forge bipartisan momentum action.

In the SAFE Act, I think there are two important elements of the defined mandate that will make this commission, or would make this commission, a success. That is: to consider and propose reforms to limit the growth of entitlements while strengthening the safety net to ensure that every American's basic needs, especially for health care, can continue to be met; and for tax reforms, to make the system more economically efficient and to improve economic growth.

So we heard a lot of talk earlier about everything needing to be on the table. I think this covers the gambit when it comes to entitlements. But I think there is one very, very important key feature of this commission proposal, and that is the feature of public engagement, so rather than sort of, you know, closed-door negotiations, and this important element would hear the concerns of ordinary Americans across the country about the entitlement situation and be able to consider the changes that Americans are actually willing to make themselves in their lives to leave things better off for next generations.

And to build on that, I would like to depart a little bit from what my preceding panel members have discussed, and talk about my experiences in speaking on entitlements as a member of the Fiscal Wake Up Tour. The Fiscal Wake Up Tour is sponsored, as you probably know, by the Concord Coalition, with participation from the Heritage Foundation and the Brookings Institution, and of course featuring my fellow panelist, former Comptroller General David Walker. We spent over 2 years traveling the Nation talking with ordinary Americans from all walks of life about entitlement and the problems that could arise from them if we don't tackle them. And we've been privileged to see some extraordinary lessons in how the Nation, how these everyday Americans outside Washington view the problem and what they are willing to do about it.

And the first thing that I really want to share with you is that each one of our audiences, no matter what city we go to, appreciates our respectful and frank bipartisan discussions that we hold with them. They appreciate different points of view and the steps that we have taken to work together towards a common goal. They are also stunned when they hear how high tax rates would have to be raised to pay for this spending. And they view this problem really more as a moral one, of leaving things better for the next generations like our young person back there in the back, and less

as an economic crisis. They do not feel that it is right. We heard Mr. Peterson talk about the \$175,000 burden. They don't think it is right to leave that to our children and our grandchildren, so that when they are presented with the facts and the options for reform, these Americans are open to actions and change that we would normally think of as being off limits.

So I think there is tremendous potential for change. Americans, in every experience that I have been on in the Fiscal Wake Up Tour and other experiences speaking on entitlements, Americans want Washington to fix this problem. So I believe SAFE Act would build and capitalize on these experiences.

The entitlement problem must be dealt with sooner rather than later. As David Walker says, and we have been on many, many speaking engagements together; we could give each other's speeches, so I am going to borrow a line from him, "every year we wait will cost trillions of dollars." And the younger generations have to pay those trillions of dollars.

So I believe that SAFE Act would change the legislative dynamics in a bipartisan way to create public support, which is essential for changes in entitlements, something, programs of this nature, and also create the legislative momentum necessary for action.

Thank you.

[The prepared statement of Alison Acosta Fraser follows:]

PREPARED STATEMENT OF ALISON ACOSTA FRASER, DIRECTOR, ROE INSTITUTE FOR ECONOMIC POLICY STUDIES, THE HERITAGE FOUNDATION

My name is Alison Acosta Fraser. I am Director of Economic Policy Studies at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

Thank you for the opportunity to speak to the committee on this most important issue.

#### ENTITLEMENT TSUNAMI CHALLENGE

- Entitlements will cause the budget (without interest) to soar from 18.8 percent of GDP today, to 35.3 percent by 2082.
- With interest included spending will soar from 20 percent of GDP to 75 percent by 2082 if current tax policies are kept in place.
- Maintaining current tax policy will result in revenues rising above the post World War II average of 18.3%.
- The gap between future benefits and funding committed for Medicare is \$36 trillion, Social Security nearly \$7 trillion more.
- When other liabilities like the national debt are added in this is the equivalent of a \$175,000 mortgage for every man, woman and child in American—only without the house to go with it.
- The SAFE Commission ACT is a bold way to build public support for change and forge bipartisan agreement for action.

Entitlement spending on Medicare, Medicaid, and Social Security is a tsunami heading toward our budgetary and economic shores. Experts across the ideological spectrum agree that entitlements threaten the nation's priorities.

Entitlements are not budgeted in the same manner as most other federal programs. Though there are strong reasons for this approach, this means that entitlement spending grows virtually unchecked from year to year. This approach to budgeting makes it exceedingly difficult to tackle entitlement spending, but it does not diminish the need to do so.

The Congressional Budget Office's latest analysis projects that spending on these three entitlements will cause the budget (without interest spending) to soar from 18.8 percent of gross domestic product to 24 percent by 2030, 28.3 percent by 2050, and 35.3 percent by 2082. Maintaining current tax policy<sup>1</sup> and with tax levels rising just above the historical average of 18.3 percent of GDP, total spending including interest skyrockets from 20 percent of GDP in 2007 to 75.4 percent in 2082.<sup>2</sup>

Clearly, this is an unsustainable budget path, and it is one that is driven by entitlement spending. Social Security and Medicare have promised \$42.9 trillion more in benefits to senior and disabled workers than the programs will be able to pay, according to a new report. Social Security's long-term unfunded obligations are \$6.6 trillion; Medicare's are \$36.3 trillion. When other liabilities and obligations are factored in, this is the equivalent of \$175,000 for every man, woman, and child in America—nearly the equivalent of a mortgage, but one without a home to go with it.

According to the CBO "Ryan letter," if entitlements are left unchecked, spending will cause huge deficits that will begin to extract a tremendous toll on the economy, causing GNP not only to stop growing, but also to contract. In out years, "project deficits would become so large and unsustainable" that CBO's models simply cannot calculate the impact on the economy. Moreover, the estimates "greatly understate the potential loss to economic growth."<sup>3</sup>

The spending problem is so massive that federal tax rates would have rise to stagnating—even confiscatory—levels to close the gap. CBO estimates that today's income tax rates would have to more than double:

[Percentage]

Today's Rates	Tax Rates Necessary to Pay for Entitlements
<b>Individual</b>	
10	25
25	63
35	88
<b>Corporate</b>	
35	88

This is calculated without any economic feedback. Such tax rates would come at a tremendous cost to the economy and create other problems as well. According to the CBO, revenues would likely fall materially short of their projections and thus are not feasible.<sup>4</sup> The U.S. Corporate tax rate is already one of the highest among the industrialized nations. In order to remain competitive in the global economy, our tax rates should be going down, not up.

#### WHY A COMMISSION

Representatives Jim Cooper (D-TN) and Frank Wolf's (R-VA) Safe Commission Act (H.R. 3654) would create a vehicle for action that could break the entitlement legislative logjam. This legislation would achieve both public acceptance for solutions to the entitlement tsunami and bipartisan action to put these solutions into law. Since many experts feel that entitlement spending is the greatest economic challenge facing the nation, the need to tackle it is vital.

Legislation moving through Congress frequently takes steps backward, not forward to rein in the soaring costs of entitlements. It is politically difficult for most Members to talk about meaningful reform. The legislative and budget processes only aggravate that dynamic.

The entitlement tsunami is driven by huge increases in future federal spending on retirement programs for middle-class retirees: Medicare, Medicaid, and Social Security. It is not driven by falling tax levels.

The reality of today's politically deadlocked environment means that many lawmakers may insist that revenues must be considered if reductions in popular entitlements are to occur. Conservatives resist the idea of raising taxes for several reasons: Taxes are not the problem, future spending growth is; and raising taxes would threaten the economy, compounding the harm from higher levels of government spending. Moreover, increasing taxes would likely reduce the pressure on Congress to curb spending, or could even increase spending in other areas.

The Cooper—Wolf bill provides a rational solution to this political quagmire. It creates a bipartisan commission with a mandate to address the "unsustainable imbalance" between federal commitments and revenues while increasing national savings and making the budget process give greater emphasis to long-term fiscal issues. While the commission could consider a range of approaches, the bill places emphasis on two:

- Reforms that would limit the growth of entitlements while strengthening the safety net, and
- Tax reforms that would make the tax system more economically efficient and improve economic growth.

Focusing on slowing the growth in entitlement spending, along with changes to strengthen assistance for the needy, the commission's proposal should appeal to those who worry that surging middle-class entitlement retiree spending will crowd out spending on other priorities. On the other hand, focusing on pro-growth tax reforms that improve economic growth (and also lead to an increase in revenues, just as the 2003 tax changes produced increases in revenues) is a critical issue for those who worry about escalating tax levels. Combining both of these areas of concern into a reform package is necessary in this polarized political environment to achieve changes that can be acceptable across the political and ideological spectrum.

Public engagement is another vital feature of this commission. This commission would not create a backroom deal and drop the results on the nation. Rather, it would hold public hearings to discuss the long-term entitlement challenge. This essential first step would consist of public "town hall"—style meetings across the nation to speak frankly about the long-term fiscal challenge and the tough options for fixing it.

Taking this first step would help to build public acceptance of the need to fix entitlements and support for ultimate plans to modernize the programs. These discussions would require balancing the worries of the young and the elderly. This upfront guidance and buy-in from Americans of all walks of life would help to guide the commission in creating detailed recommendations that would receive much broader support and understanding than proposals crafted solely inside the Beltway.

In today's political environment, it is extremely difficult and uncomfortable for many, if not most, Members of Congress to explicitly discuss the colossal fiscal challenge that entitlements present. The highly partisan environment often seeks to push discussions further and further from real action on these tough problems. The end result is that succeeding Congresses merely kick the can down the road. The Cooper—Wolf SAFE Act would change these underlying dynamics so that entitlements can be tackled and a huge economic disaster prevented.

#### FISCAL WAKE-UP TOUR

I have been a partner in the Fiscal Wake-Up Tour, sponsored by the Concord Coalition with The Heritage Foundation and the Brookings Institution and featuring former Comptroller General David Walker. The Fiscal Wake-Up Tour has traveled the nation for over two years, educating Americans on the problem and possible solutions.

Americans trust the data that are presented in the Fiscal Wake-Up Tour, and they are prepared to discuss, accept, and sometimes even demand solutions to entitlement spending that most politicians assume would be unacceptable to the public. Moreover, they view the budget crisis primarily as a moral issue, centered on the huge debt—that \$175,000—facing the younger generations, often their children and grandchildren, not as just an economic crisis.

Americans are ready to have this conversation and often wonder why there is not more being done in Washington to solve the problem.

#### LEGISLATIVE ACTION

The entitlement problem has been well known for years. Experts from the right and the left agree that entitlements are fiscally unsustainable and a threat to the economy, as indicated earlier. Many budget and fiscal policy experts have written extensively to warn of the entitlement problem.<sup>5</sup> Audiences appreciate the respectful and frank bipartisan nature of these conversations.

Representative Paul Ryan (R-WI) has proposed a bold legislative road map to rein in entitlements—and without raising taxes. This plan is a collection of bold, comprehensive, and sweeping reforms covering a broad spectrum of issues. He has laid out his vision for reforming entitlements and challenges others with different views to present them.<sup>6</sup>

Sadly, legislative action in Congress to achieve tough first steps toward solving this problem, Ryan's road map and the SAFE Commission Act notwithstanding, has not been forthcoming. Worse, efforts to rein in costs are frequently stymied even by those who view entitlements as a legitimate threat.

When tough legislation is proposed, every conceivable special-interest group—and their lobbyists—will work diligently to ensure that their particular interests are protected or receive even more favorable treatment. With programs like Medicare and Medicaid, there is an astonishing array of stakeholders: doctors, hospitals, drug companies, durable medical equipment providers, to name just a few who will want to be held harmless. The legislative result is predictable. Legislation to curb entitlements this year seems likely to meet a dismal fate.

- The Medicare trigger law in the Medicare Modernization Act of 2003 (MMA) requires the President to submit legislation to the Congress for consideration when Medicare's general revenue funding becomes excessive. That trigger was pulled this spring and is an important step for Congress in addressing Medicare's perilous spending.<sup>7</sup> The deadline for the House to act is June 30, yet no positive action to bring Medicare spending under the trigger level is being planned as of this writing.

- A moratorium to prohibit the Administration from increasing the integrity of Medicaid's federal matching rules is included in the current war supplemental funding legislation. The need to overhaul federal matching fund rules has been noted for decades, including a strong critique from the Government Accountability Office. These administrative changes would make it more difficult for states to use inappropriate or questionable techniques to maximize their federal matching rate, but this moratorium would eliminate a good first step toward reining in Medicaid's soaring costs.<sup>8</sup>

- The MMA also authorized Health and Human Services, which runs Medicare, to require direct competition for durable medical goods by the companies that provide them. If the program is allowed to grow, savings could be as high as \$1 billion a year. This would also directly translate to savings for Medicare retirees since they typically make a 20 percent co-payment on this equipment. But these steps sadly are being sidelined by legislation pending in Congress.<sup>9</sup>

Despite a series of warnings about the economic and intergenerational harm from the entitlement tsunami, action from Congress seems increasingly difficult and unlikely without bold changes in the legislative dynamics, as these three examples show. The SAFE Commission Act would transcend this type of legislative paralysis.

#### MEDICARE REFORMS VS. HEALTH CARE REFORMS

Part of Medicare's problems stem from the fact that medical spending has outpaced the economy for decades. This doesn't mean, however, that there are not real steps that should be taken to rein in Medicare costs. A major portion of Medicare's spiraling costs in the next two decades is a result of the number of beneficiaries nearly doubling. Growth in each retiree's health care costs is certainly a large part of Medicare's spending problem, even the largest, but the increasing number of retirees in the system sorely exacerbates the trajectory of spending increases, with serious economic consequences.

Since Medicare accounts for roughly 20 percent of the nation's health care bill and other federal programs account for an additional 13 percent, Congress can and should revisit Medicare's structure to determine a way to make the program more affordable for future generations while ensuring that the basic needs of older Americans continue to be met.

#### CONCLUSION

Americans understand the entitlement problem and the consequences of inaction. They are ready for a national debate and anxious for Washington to work together to find solutions. Representatives Cooper and Wolf recognize that the nation's budgeting system is ill equipped to tackle the entitlement problem and that the political environment will not lead to a sustainable, responsible long-term federal budget. This is a sound proposal that could fundamentally change those tensions to achieve action and lead to a better future for younger and older generations alike.

The Heritage Foundation is a public policy, research, and educational organization operating under Section 501(C)(3). It is privately supported, and receives no funds from any government at any level, nor does it perform any government or other contract work.

The Heritage Foundation is the most broadly supported think tank in the United States. During 2007, it had nearly 330,000 individual, foundation, and corporate supporters representing every state in the U.S. Its 2007 income came from the following sources:

- Individuals: 46%
- Foundations: 22%
- Corporations: 3%
- Investment Income: 28%
- Publication Sales and Other: 0%

The top five corporate givers provided The Heritage Foundation with 1.8% of its 2007 income. The Heritage Foundation's books are audited annually by the national accounting firm of McGladrey & Pullen. A list of major donors is available from The Heritage Foundation upon request.

Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own, and do not reflect an institutional position for The Heritage Foundation or its board of trustees.

## ENDNOTES

<sup>1</sup> Key features: maintaining the 2001 and 2003 tax cuts and indexing the alternative minimum tax (AMT).

<sup>2</sup> Peter R. Orszag, letter to Honorable Paul Ryan, Ranking Member, Committee on the Budget, U.S. House of Representatives, on "The Long-Term Economic Effects of Some Alternative Budget Policies," May 19, 2008, at <http://www.cbo.gov/doc.cfm?index=9216>.

<sup>3</sup> *Ibid.*, p. 4.

<sup>4</sup> *Ibid.*, pp. 8, 9.

<sup>5</sup> Stuart M. Butler Ph.D., Alison Acosta Fraser and others, "Taking Back our Fiscal Future" Heritage Foundation White Paper 9999, March 31, 2008, at <http://www.heritage.org/about/staff/alisonfraserpapers.cfm#2007Research>

<sup>6</sup> J.D. Foster, "Courageous Reforms in Ryan's Entitlements Road Map: Where Is the Democratic Response?" Heritage Foundation WebMemo No. 1958, June 19, 2008, at <http://www.heritage.org/Research/SocialSecurity/wm1958.cfm>.

<sup>7</sup> Robert E. Moffitt, Ph.D., and Alison Acosta Fraser, "Washington Must Pull the Trigger to Contain Medicare Spending" Heritage Foundation WebMemo No. 1796, February 4, 2008, at <http://www.heritage.org/Research/Budget/wm1796.cfm>.

<sup>8</sup> Nina Owcharenko, "The Medicaid Regulations: Stopping the Abuse of Taxpayers' Dollars," Heritage Foundation WebMemo No. 1911, May 2, 2008, at <http://www.heritage.org/Research/HealthCare/wm1911.cfm>.

<sup>9</sup> Robert E. Moffitt, Ph.D., "Medicare: Congress Is Poised to Block Savings for Taxpayers and Seniors Alike" Heritage Foundation WebMemo No. 1959, June 18, 2008, at <http://www.heritage.org/Research/HealthCare/wm1959.cfm>.

Chairman SPRATT. Thank you.

And I will yield to Mr. Cooper to begin the questions.

Mr. COOPER. Thank you, Mr. Chairman.

I appreciate the testimony of the witnesses. There are a lot of vitally important issues to cover, but let me begin with Dr. Aaron's suggestion that perhaps we have a hearing on comprehensive health care reform financing. I would welcome such a hearing. I hope that this Congress, in its waning days, could start that debate.

I personally am for the so-called Wyden-Bennett bill, a bill that has 14 Senate cosponsors, seven Democrats, seven Republicans. It has been scored by CBO. It actually pays for itself. Now, this is a controversial bill, but at least it is the start of a debate, and it is bipartisan, and it is paid for. That is a pretty good place to begin the debate. But wherever we begin the debate, let's have the debate.

The thing that has amazed Frank Wolf and me more about our bill than anything else is all we are asking to do is for a commission, which is essentially Congress to punt on this issue. And this Congress is so timid, we are afraid to punt. It is a remarkable thing because I think we have amazing think tank consensus. We have had the Fiscal Wake Up Tour. We have Brookings and Heritage in an unusual alliance.

And today before us, we have two of the few think tank people left in Washington who disagree with the commission approach or the need to deal with it urgently. Dr. Aaron says in his remarks that early action is not urgent but desirable.

Well, I would like to ask Dr. Aaron, what early action do you propose?

Mr. AARON. Let me begin by correcting a reference to Brookings and other organizations endorsing these positions. What has happened is that specific scholars at the Brookings Institution, by no means all, have participated in these events, but as an institution, Brookings has not endorsed the positions of the Fiscal Wake Up

Tour or any other specific provisions. Very respected and senior scholars have done so, but not everyone at the Brookings Institution necessarily agrees with that.

In fact, you will note at the bottom of my statement, as should occur at the bottom of every statement by anybody at Brookings, these views do not necessarily reflect those of the trustees, officers or other scholars at the Brookings Institution.

Now, with respect to specific actions, let me suggest one which comes from a calculation that was done through the Urban-Brookings Tax Policy model, and that is, if we did not extend the tax cuts for the top 1 percent of the income distribution, over the next 75 years, the revenue from that one tax change would exceed the entire projected long-term deficit in Social Security over the same period. That is a specific measure that would deal with one of the entitlement issues, often lumped together with health care, misleadingly, in my opinion, because Social Security, admittedly, does face a projected long-term deficit but one of relatively modest size and one that is easily closed. This is one particular way that we could, in a responsible, fiscally responsible way, deal with that particular problem.

The problems posed by Medicare, Medicaid and private health care spending are exceedingly difficult, vastly more complicated and have orders of magnitude larger financial stakes.

Mr. COOPER. Dr. Aaron, so your early action that you are recommending is that we go ahead in this Congress and repeal the Bush tax cuts?

Mr. AARON. I said the Bush tax cut, if you simply allow the Bush tax—no, actually what one would do is allow current law to remain in effect for the top 1 percent of the income distribution.

Mr. COOPER. But you referred to early action in your testimony.

Mr. AARON. Yes.

Mr. COOPER. We are not going to wait until 2010 to allow the tax cuts to expire. We should go ahead—

Mr. AARON. I would be content if it was done in 2010.

Mr. COOPER. But that doesn't sound like early action.

Mr. AARON. It does to me. Given the fact that there are current moves to repeal—to, pardon me, make permanent those tax cuts, I think a clear statement by Members of Congress that the tax changes for the top 1 percent of the population were going to be allowed to expire as called for under current law would be an important first step.

Mr. COOPER. It is my understanding that the opportunity cost of delay is several trillion dollars a year. Even USA Today had a headline a couple of weeks ago saying that a 1-year increase in the fiscal gap is \$2.5 trillion. The consequences of that are terrifying for our young people. So even a delay, if you are willing to accept 2010, I am not. This is 2008. Surely there is something we could do sooner.

Mr. AARON. If you think you can get a majority of both Houses of Congress to act on that currently, that would be an admirable first step.

Mr. COOPER. The trouble is no one is proposing anything, with the exception of our friend Mr. Ryan. You know, that is why we need a commission is to get folks, and whether it is all Members

or no Members or some Members, but to get people, on a bipartisan basis, thinking about these issues.

With all due respect to my friend Mr. Greenstein, you raise a number of small procedural points that are really not worthy of you or your outstanding organization. I have never heard such deference to the current President, especially from you, that we have to rely on the President to start the process. Well, when we have a bad President, that means that for 4 or 8 years, Congress can't act?

We are a coequal branch. We should come up with proposals and initiatives of our own. And yet I am not hearing that from your testimony. These are such urgent problems. We need to do something now.

Mr. GREENSTEIN. You know and I know, Mr. Cooper, that nothing is going to happen between now and November.

Mr. COOPER. How do we know that? If you were to get fully behind it, could something happen? There is enough time to vote.

Mr. GREENSTEIN. No. Nothing is going, in fact in the Senate at this point, you almost can't move anything on the Senate floor that doesn't have unanimous consent between now and the election.

Mr. Cooper, let me say, I am not at all disagreeing with the analysis that you have set forth of the problem or the need to get going. I think—I am hoping that you are not conflating my view that moving ahead now into a commission, in my view, strategically is not the best way to go. I am trying to be realistic. I don't think anything will happen between now and November. I think the first goal is to try to get, persuade the next President, whoever it may be, to make this a priority. I don't want to saddle that next President with a commission. I want to increase the chance that the next President will want to do something. If the President thinks a commission is the way to go, great. If the President wants to do something without a commission, great.

Mr. COOPER. We are an equal branch of government. You are ceding an incredible authority to the executive here.

Mr. GREENSTEIN. In the real world, every significant, every big deficit reduction package that we have had in recent decades, whether it be the 1983 Social Security package, the 1990 package, the 1993 package, everything started with the President.

Now, let me be clear. I have, and if you want to, I will go through them. I have a whole list of things I would do the sooner the better in Medicare, in health care, in taxes, in Social Security, in inflation indexing. But I am not sure any of them can pass up here if we don't have a larger process that includes the President. I am just trying to be realistic about how we get there from here.

Mr. COOPER. Mr. Greenstein, let's not give up in June. They sure can't pass if we don't try. We are sworn to uphold the Constitution and the laws of the land. The Constitution gives us equal priority with the President. Let's give it a shot. Let's let the Constitution work. Let's uphold our job description. Let's not give up in advance.

The candidates are busy. We can have hearings such as Dr. Aaron was suggesting on comprehensive health care reform. Where are those hearings? They are simply not happening.

Most Members of Congress really can't tell you the difference between Medicare and Medicaid when you get down to. That is like

many are confused about Sunni and Shia. We should do our homework. We should solve these problems. We should earn our pay, and that is simply not happening today. So at least a commission could happen. But you are even against a commission.

Mr. GREENSTEIN. I am all for more public hearings. I am interested in seeing the movie when it comes out. I am for things that increase the chance of action in the next Congress, but I am not persuaded that a commission is one of those things; that is all.

Mr. COOPER. So for you and Dr. Aaron, there is commission, no matter how drafted, that you think would be positive and we should pass this year?

Mr. GREENSTEIN. I would not pass a commission this year. I would wait until after the election, and I would look for what is the approach—it might be a commission; it might not be—what is the approach that gets us the key? The key is a commitment on the part of the President and the bipartisan leadership of both parties to put everything on the table and try and negotiate agreements.

Mr. COOPER. If a commission were formed, would you serve on such a commission?

Mr. GREENSTEIN. If I were asked to, certainly, as I did in 1994.

Mr. COOPER. Even though you are opposed to a commission, you would still serve on it?

Mr. GREENSTEIN. I think my record is pretty clear in rolling up my sleeves and trying to help and basically, normally, when we were talking about this during the break, my roll has sort of been, whenever an effort comes along, to try to help bring people who are more philosophically policymakers where I am to agree to changes that might need to be made in various programs in return for larger changes in other areas, revenues and so forth.

Mr. COOPER. So you will join in the debate, but you won't help start it.

Mr. GREENSTEIN. I like to think that what the Center on Budget and Policy Priorities has been doing for years and is doing now, including issuing reports warning about the dire long-term problem, is contributing to that debate.

Chairman SPRATT. Mr. Cooper, we have got to move on.

Mr. AARON. I just wanted to say, I think that what the position that I would support is precisely the one that you have articulated, that you and the President are coequal branches of government and that, for that reason, both need to act together for effective action.

Chairman SPRATT. Mr. Ryan.

Mr. RYAN. I thank the chairman.

First of all, thanks for doing this hearing.

And Mr. Cooper, I enjoyed your line of questioning.

When I took this seat back in the beginning of this session, I decided to work with this brilliant staff we have here to just try and come up with a plan to fix it. No one has really done that around here, and so I thought I would just take this sort of novel approach of getting into the weeds and getting into the numbers and meeting with the actuaries and the trustees and all the experts around town, listening to folks around the country, and actually trying to come up with an actual plan that scores out as fixing this problem.

Now, every time you do that, and this took us 14 months to write this, you have to make a lot of decisions, and they are not necessarily popular decisions. And my purpose in going through that exercise was to simply try and get people around here to do that. I am not going to sit here and pretend that I have got it all figured out and we have got the best ideas in our bill. I simply want to say that, let's come together and have everybody else bring their ideas so that we can get on to the business of actually fixing it.

I really want to commend Mr. Cooper and Mr. Wolf for attacking this problem and coming up with it. My own personal view is this is what we should do. This is what we are elected to do here in Congress, and this is why people send us here, to fix problems, to change laws. And so I just want to roll up my sleeves and go do it. I serve on the Ways and Means Committee, which has jurisdiction over most of these entitlement programs, and we serve here in the Budget Committee, which sets the architecture up. And so I for one would just like us to actually just do it.

So now we find ourselves with this political system we have today, this political gridlock, and like Winston Churchill said, democracy is the worst possible form of government, except for all other forms of government. So the question I guess we have is, how do we get ourselves off the dime, and how do we get moving on this stuff?

So that is the frustration. But I think by throwing plans out there, we can probably advance the ball. Welfare reform is one of those issues I look at, which back in the early 1990s was considered just undoable, impossible. In Wisconsin, we started it in 1992; it became a success story. In 1996, we got welfare reform. People may disagree with whether that was the right thing to do or not, but it was a huge change to entitlement law.

I liken the moment we are in today to maybe perhaps that moment we were there then, that if we begin to come up with ideas and work on these things, propose solutions, enough of us bringing our solutions to the table, and perhaps we will actually start solving problems.

So let me direct my questions to each person based on their testimony. And I will start with you, Mr. Peterson. You mentioned, obviously you have been writing about this challenge for at least two decades. And you are now dedicating most of your life and a lot of your resources to trying to educate the public to act, to get Congress to act on this. What is the plan? What is the secret? What is the idea? What is, in your opinion, with all of your experience, what do you think it is going to take to get us here in Congress to actually act and to work on this and get this done?

Mr. PETERSON. Well, I think, from actual experience, I know what it is not going to take.

I served with Bob Greenstein on the Kerrey-Danforth Commission. And I found it immensely sobering that, even though we had a bipartisan staff, 20 Members of the Congress and 11 of us in the private sector, and at the end of looking at the problem, without getting to reforms, there was, Bob, I believe, unanimity, quote-unquote that the entitlement programs were, A, unsustainable, and by the mid '20s, as I recall, would consume all or most of the budget, that and interest. You would have thought that having said it

was unsustainable, we could get some agreement on what to do about it. The two chairmen, you may recall, Bob, put off the reforms until after the election, rather than before. That is my recollection. We could not get agreement I don't think, except for Chairman Kerrey, for any specific proposals by the sitting Members of Congress.

Is that correct?

Mr. GREENSTEIN. Yes.

Mr. PETERSON. And all of the agreement was from people like himself and myself. That was a very sobering experience that I had there.

Now, we are starting out on a very daunting task. I was presumably educated at the University of Chicago, and we had a Nobel Prize winner named George Stiegler who once said, if you have no alternative, you have no problem.

Mr. RYAN. He did the seminal work on the barriers to entry, as I recall.

Mr. PETERSON. What?

Mr. RYAN. He did the seminal work on the barriers to entry.

Mr. PETERSON. He did.

I thought about having all this money and being deeply concerned about the future of this great country and doing nothing. So our first task, I think David would agree, is to do everything we can to educate the public because if the public, for example, really believes that the Social Security system, to take one example, is solvent for 40 or 50 years, we can't expect them to take this issue separately. And of course, Medicare is a much more urgent program.

So as with the film, as with major efforts among the young, we are going to try to figure out how to motivate these people, but first, they have to understand the problem. So we are going to spend a lot of time on educating.

Once they are educated, we hope we can figure out ways of getting these people to do something about it, to get organized because, I hope I am not being unpleasant to the Congress, but I had an experience way back on the Peter Grace Commission of looking at the indexing system that was used on, of all things, congressional and public retirement plans, which were far more generous than was true in the private sector. I went to visit a Congressman who was a leader in the Budget Committee at that point, and I laid out what the problem was and the proposal, and he says to me, calls his assistant in, and said, Shirley, why don't you bring in all the letters that we have gotten that propose leaving the current indexing system the way it is?

And this person said, you mean all of them?

He said, yeah, just bring in the most recent ones.

She comes in with an armful of letters.

And then he says, I wonder if you could bring in for Mr. Peterson letters supporting the proposal that we change the indexing system.

And the assistant said, we never get any letters like that.

So, in our naive view, you might say, until those of you in Congress are exposed to some public education and public support with a lot of letters and a lot of voting and a lot of lobbying or whatever

you call it, it is going to be very difficult to make any progress. So we are going to spend a great deal of money and time trying to educate and activate the public, putting major, major emphasis on young people because it is their future.

Mr. RYAN. I appreciate that. That is my view as well. Most Members of Congress, speaking just myself, a political observer, don't want to do something that risks losing their job, and so, therefore, they don't propose these kinds of changes. And until it becomes risky to lose your job by not reforming these things, then the reforms probably won't occur.

David, obviously, you have done the Fiscal Wake Up Tours. You are coming to Milwaukee next week. Give us the sense of the price of delay, the cost of delay. What happens if we just kick the can down the road 1, 2, 3, 5 years. Give us—why the sense of urgency and the price of delay?

Mr. WALKER. As a certified public accountant, among other things, I am reasonably proficient at math. And when you look at discounted present value dollar numbers, which is the way that a CPA would look at something, economists typically look at percentage of the economy. Actuaries might look at percentage of payroll. We are in a \$53 trillion hole as of last September 30th, 2007. And by the way, that is in the financial statements of the United States Government, and by the way, that is in here. That hole is primarily comprised of unfunded obligations for Medicare, \$34 trillion, and somewhat less than \$7 trillion for Social Security. That \$53 trillion grows by \$2 to \$3 trillion a year by doing nothing.

And in my opinion, the biggest deficit this country has today is a leadership deficit. And the simple fact of the matter is that Washington is dysfunctional. And based upon my experience going around country, more than half the States and 40 to 50 cities, the people are tired of the status quo. And the fact is, it is unacceptable. It is unsustainable. It is threatening the future of our country and our families. And the simple fact is, if you don't propose a plan, whether the plan is a plan like yours or the plan is a commission, which is more of a process—and I agree with Bob, by the way, that it would need to be implemented next year with the support of the President and bipartisan support of the Congress if we are going to have it for it to work. If you don't support something, you are tacitly supporting the do-nothing plan. And the do-nothing plan threatens the future of our country and our families. It is as simple as that.

Mr. RYAN. Bob, you have been here many times. Your group advocates certain kinds of spending, domestic spending. Wouldn't you agree that if we do not address this issue of the large entitlements, that it crowds out all the other kinds of spending programs that you so passionately advocate for here?

Mr. GREENSTEIN. Let me say several things.

First, I certainly agree, as I testified, that the sooner we get going, the better. I wanted to clarify one of number that is being used. This notion that there is a couple of trillion dollar cost for each year that we don't act, as David mentioned, that is a net present value, 75-year number. The net present value, 75-year size of the economy is \$500 trillion. In other words, we need to be careful not to compare the \$1 or \$2 trillion cost per year of not acting

to the current GDP of \$14 trillion. It has to be compared to the total net present value GDP over the next 75 years.

Mr. RYAN. Would you not agree that the proportion of the increase is on an accelerating slope?

Mr. GREENSTEIN. It is definitely on an accelerating slope. Basically, it is not that big a deal whether we act this year or next year or even a year after that. But if you start saying, what if we wait 10 or 15 or 20 years, that is a huge deal.

Mr. RYAN. Are you saying that because the Boomers haven't really begun to yet retire and we have this massive retirement generation? Or it just the accumulation of speed and health spending?

Mr. GREENSTEIN. No, it is because if you look at the projections that we have all talked about what happens by 2050, 2075, whatever, what happens is you get to a point somewhere in the 2020s where you start into the debt explosion and, so—but I think the point is not this \$1 or \$2 trillion. It is simply, the longer you wait, the larger the program changes or tax increases have to be to address it. And that may make it even harder to deal with politically.

But let me get to your main question.

Mr. RYAN. And just fairly briefly if you can, so I can get to everybody else.

Mr. GREENSTEIN. Yeah, let me be clear that, at the Center on Budget, we favor increased investment in some domestic areas. We favor significant savings in other spending areas. And the key, I think, is we are not going to make progress on this problem, Congressman, I think, until, as in every past successful major deficit reduction package, 1983, 1990, 1993, we have to have both the program side and the revenue side on the table. I am for adopting virtually all the MedPAC recommendations. Medicare Advantage and others. I think we ought to look seriously at proposals from your side of the aisle on raising premiums in Medicare for more affluent beneficiaries. I think we ought to look at the way we index both Social Security, other benefit programs, and the Tax Code. There are a variety on price supports. I am very much for looking at things on both sides.

Could I just say in that regard that I am actually concerned about whether the plan you put forward moves us forward or maybe moves us backward. What I mean by that is the following: As I understand your plan, it basically roughly doubles the size of the Bush tax cuts. The Tax Policy Center estimate indicates that, even under dynamic scoring, its cost is \$5 to \$6 trillion over 10 years, and that the average tax cut for the top one-tenth of 1 percent of the population is over half a million a year.

Now, when you do that, your hole gets bigger.

Mr. RYAN. Let me get you there.

First of all, that is an inaccurate analysis, I would say, number one. Number two, it presumes the baseline with the AMT going into it that would go into the 24 percent of GDP on revenues, and anything shy of that is a big, quote-unquote tax cut. It is a different type of logic stream that I just don't share.

Mr. GREENSTEIN. If you want to use the base line that assumes all the tax cuts are made permanent, it is still several trillion over that baseline, and the average tax cut of \$545,000, according to the Tax Policy Center, for the top one-tenth of 1 percent, the AMT has

almost nothing to do with it because people in the top-tenth of 1 percent don't pay the AMT.

My point though, I don't want to argue the specifics. Here is my larger point: Under your plan, because the tax cuts are bigger, the spending cuts have to be bigger. You have about a 70 percent reduction by the 75th year from baseline in Medicare and Medicaid, and most striking, for everything outside Social Security, Medicare and Medicaid—

Mr. RYAN. Okay, let me get you there—

Mr. GREENSTEIN. Here's my bottom line.

Mr. RYAN. Yeah, go ahead.

Mr. GREENSTEIN. We are going to make progress when people on your side of the aisle put out plans that include increases in revenues and people on this side of the aisle put out plans that make changes in Medicare and Social Security.

How would you feel if the other side of the aisle put out a plan that doubled Social Security benefits and then closed the entire gap through tax increases? So that is my concern. We have to move closer together and put everything, revenue, Social Security, Medicare and the health care system on the table.

Mr. RYAN. All right.

Since you kind of get after my plan, I am going to have to defend it for a minute because I want to get to these two, and we are taking up too much time as it is.

My goal, using Treasury's model, OTA, static analysis, not dynamic scoring, was to plug the loopholes in our Tax Code, which go to the top tax bracket payers themselves; broaden the tax base; and clean up the way we tax ourselves, so that we can win in this era of globalization, in this era of a global economy.

What I propose is to keep our tax burden on the American economy roughly what it has been over the last 40 years, 18.5 percent. You have a problem with that. I understand that. We have a disagreement on that. It is my belief that if we start exceeding up, going above 20 percent of GDP, that there is a wealth of empirical data that shows that economic growth dissipates; that standards of living begin to go down. You don't agree that. I understand that. But it is my intention to keep our revenues roughly where they are today.

And I am not talking about cutting taxes. I am talking about keeping them where they are as it relates to our economy's ability to pay it, but taxing ourselves more intelligently so that we can do well in the 21st century, so that we can get the next generation a higher standard of living and good positive economic growth. I would argue that the way we tax ourselves is very unintelligent. It is literally shifting jobs and capital overseas. We need to reverse that.

But yes, we do have to attack the spending side. It is the spending side of the ledger that is the biggest culprit here. You simply can't tax your way out of this. Don't ask me, ask the Congressional Budget Office, ask the GAO, ask any other nonpartisan, non-ideological institution, and they will tell you spending is the biggest culprit here. That is why I borrowed a lot of ideas from Democrats to put this bill together: means testing, social safety nets, high-risk

pools, all ideas not from my side of the aisle, from the other side of the aisle, in an attempt to try and bridge this gap.

So I think you might want to take another look at our plan.

But let me move on just very briefly.

If you could, Dr. Aaron, give us just one, you know, real fast, what would be a good way to tame the inflation in health care? What would be one of the things we could do to address the root cause of health inflation?

And then, Alison, I will just ask you one real quick, quick question, if you could. Budget process. You are an expert on budget process reforms. Give us just one or two very fast ideas on what we ought to do to the budget process here to bring more integrity to it and more discipline to it.

Thank you.

Mr. AARON. I would like to say just a very few words about the question that was on the table before. I think there are three things that are necessary for us to begin to make progress overall. The first is what Mr. Peterson stressed, education. That education does include measures to improve our understanding of what works and what doesn't in the health care area. Our ignorance is appalling. Our failure to invest a small percentage of what we spend on health care in discovering what works and what doesn't is a criminal dereliction of responsibility.

If you are looking for something to do right now, Mr. Cooper, that would be as important a step as one could take.

The second step that is necessary for progress is Presidential leadership. This is not an issue on which significant progress will be made with the best intentions in Congress without Presidential cooperation.

Mr. RYAN. Give us a best idea on attacking the root cause.

Mr. AARON. I will.

And I want to say there are two things that I think Members of Congress have to do to make things happen. The first would be, on the Republican side of the aisle, every Member should rescind the pledge not to vote for any tax increases. And on the Democratic side of the aisle, every Member should rescind what may be an implicit pledge not to cut spending on entitlements.

Mr. RYAN. I want to be deferential to my colleagues here, so if you could please answer the question very quickly, I would appreciate it.

Mr. AARON. The specific step, I already did. I believe the most important step to be taken right now is to invest 1 or 2 percent of health care spending in an aggressive effort to determine what works and what doesn't in the way of health care spending. Until that information is available, no organizer, private or public, is going to have the basis for saying we are doing too much of this to a physician who believes strongly in the desirability of those actions. We have historically set up difference agencies, told them to go out and do exactly what I've just said, and as soon as they have done it, various pressures have been brought to bear which have undermined the continued investment in those studies. We have to discover that it doesn't make sense to do commonly practiced forms of diagnosis or therapy in specific cases. If we have that knowledge, insurance companies, businesses and Medicare and Medicaid will

be in a position to say, this is too much; it is the wrong thing to spend money on.

Mr. RYAN. Alison.

Ms. FRASER. Thank you very much.

Just very quickly, I don't think that we can solve this problem in one fell swoop. I think it is going to require changes made over very many years, as you yourself know from tackling your plan, that there is a lot of complexity here.

So the biggest change that I would like to discuss for the budget process is actually to put entitlements on a long-term budget. I know that this is really almost a travesty to many people, but consider this: Budgets right now are in essence on auto pilot. And what I would propose to do, indeed, what many of my colleagues have proposed to do is to put them on a long-term budget that would set targets for entitlement spending and reexamine the spending trajectory, along with the dedicated revenue trajectory on a regular basis and make changes to keep these programs operating within levels of fiscal sustainability over those years and build in hard triggers, so that if action isn't taken, that there are automatic steps that will begin to take place that will rein in spending, if that is the issue and it likely is, to maintain or to achieve sustainability for the entitlement programs.

I have been working with about 12 other colleagues across the ideological aisle, and we have a paper that is published both by Brookings Institution and the Heritage Foundation called, "Taking Back Our Fiscal Future." We have three former CBO directors who are a part of that effort, and I very much appreciate the opportunity to discuss it.

Mr. RYAN. Thank you, Ms. Fraser.

I yield.

Chairman SPRATT. Mr. Doggett.

Mr. DOGGETT. Thank you very much.

Mr. Walker, is it your belief that the only effective solution to the economic and budgetary challenges that you have outlined will involve some reduction in either the amount of entitlements or the accessibility to entitlements?

Mr. WALKER. I believe it involves several elements: number one, tough budget controls; number two, restructuring entitlements, which will include reducing the current commitments in some way to make them affordable and sustainable over time; and also targeting taxpayer subsidies. We have middle- and upper-class welfare in Medicare. We have middle- and upper-class welfare in our tax system with regard to the exclusion of the value of employer paid health care from income and payroll taxes. I also believe it is going to take spending reprioritization and constraint outside of entitlements programs, and I also believe it is going to take comprehensive tax reform in ways that will generate more than 18.3 of GDP.

Mr. DOGGETT. Is a permanent extension of the Bush tax cuts a part of your plan to address these challenges?

Mr. WALKER. No. We haven't gotten to that level of detail.

Mr. DOGGETT. Would that be harmful and counterproductive to attempting to address the budgetary and economic challenges that you have outlined?

Mr. WALKER. Well, first, I don't know, I believe there is broad-based agreement to extend portions of the Bush tax cuts, but, frankly, we haven't gotten to the level of detail that—we are focusing on a more fundamental issue.

Mr. DOGGETT. I am just reflecting on the chart you brought from your prior job to this committee showing what the effect that those tax cuts have already had in adding to our national debt, and really extending all of them would be counterproductive to the objectives you have outlined, wouldn't it?

Mr. WALKER. It you look at the math, that is true. I think what we need to do, though, frankly, is to step back and re-look at our entire tax system. I prepare my tax return every year by hand, not because I am a masochist, but because I want to be able to tell every Member of Congress and challenge them to do the same thing. And I am a certified public accountant. It is an absolute outrage, our system. We need to broaden the base, keep rates as low as possible, maintain a progressive tax structure, and we have got to have a system, frankly, that not only is competitive, but it generates enough revenues to pay our current bills and deliver on the promises we intend to keep. We are short now. We are going to be a lot shorter later.

Mr. DOGGETT. And we can't do that, as you said in earlier response, if we set an arbitrary target of 18 or 19 percent of GDP for revenues.

Mr. WALKER. I believe it is going to take more than 18.3 or 19 percent of GDP. I do, however, believe that you cannot solve the problem through taxes alone. I don't think there is support for it. I think it would be a serious adverse effect our economy.

Mr. DOGGETT. Let me ask Mr. Greenstein a question.

If I understand, you are not opposed to the idea of some commission, you just don't believe that a commission can be effective unless it has the wholehearted support of a new President and a new Congress.

Mr. GREENSTEIN. That is correct. I think the key is not whether you do or do not have a commission. The key is whether there is a commitment on the part of the President and the leaders of Congress to reach bipartisan compromise. If there is, then if they think a commission is the best way to achieve it, I would use a commission. If they think the best way is, as in 1990, to go to the Andrews Air Force base or some other venue and negotiate directly without commissioners, I would do that.

Whatever works the best to effectuate a commitment and agreement on the part of the President and the congressional leadership to act.

Mr. DOGGETT. You touched a little bit with Mr. Ryan on his "Roadmap for America's Future." What would tax cuts look like under that plan? What would Medicare look like under that plan if it were adopted?

Mr. GREENSTEIN. Well, we seem to have a somewhat different analysis of Mr. Ryan's plan than Mr. Ryan does.

Mr. RYAN. I used the Treasury analysis.

Mr. GREENSTEIN. Ours is based on the Brookings-Urban Institute Tax Policy Center analysis of the tax provisions of the plan and the

information CBO has made available on the spending part of the plan.

Based on that, our understanding is the Tax Policy Center estimates that, over the next 10 years, the cost of the tax cuts would be \$6 trillion to \$7 trillion under regular analysis, \$5 trillion to \$6 trillion if you use certain dynamic scoring assumptions; with the average tax cut for the top one-tenth of 1 percent of the population, those with average incomes of \$4.2 million a year, would be \$545,000 in 2012; that Medicare and Medicaid would be reduced by the 75th year about 70 percent from baseline.

But the figure that strikes me the most is that the plan has an overall expenditure cap. And if you look at where it takes Social Security, Medicare and Medicaid, what it means is for everything else other than interest payments on the debt, everything else other than interest payments, is today 9.8 percent of GDP. Under Mr. Ryan's plan, in 2082 it would be reduced from 9.8 to 3.1 percent of GDP. Now, that is less than we spend just on defense today. He would have to fit within the 3.1 percent defense and everything in the entire Federal budget other than Social Security, Medicare and Medicaid. To me, this is an illustration that, as David Walker just said, you can't get there from here with revenue at 18.3 percent of GDP. I think his plan ultimately takes it lower.

I have one other quick point. Yes, 18.3, 18.4, 18.5, somewhere in there, is the average for the last 30 years or so. So if you go back over the last 30 years, and you say, in how many years was that average level sufficient to avoid a deficit, the answer is that in 29 of the last 30 years that level left you with a deficit. Well, if it left us with a deficit 29 of the past 30 years, imagine what it is going to leave us with in the decades to come.

I am not for doing the whole thing on the tax side. That is not my position at all. What I am saying is we are going to need ultimately not only major reform of the health-care system, put Social Security back in long-term balance, reforms in Medicare starting with the MedPAC recommendations, and ultimately significant increases in revenue. If you don't do all of those, I don't see how you get there from here.

Mr. DOGGETT. Thank you very much.

Chairman SPRATT. Mr. Campbell from California.

Mr. RYAN. Mr. Campbell, if you will just yield for 10 seconds?

I don't want to go do the tit-for-tat. But, Mr. Doggett, I just want to kind of give you an answer.

I could respond to all of those things, but we need to have this debate, we need to have this conversation. I am glad you are bringing these debates to the table. So I am glad of this.

One of the ideas I took was from this Heritage and Brookings paper to have budget discipline, caps on spending. I think you are going to have to do that, going forward. You are right, because expenditures have exceeded revenues, we have to have a better system here to prevent that from happening in the future. That is why I think you need to have some hard caps, hard decision-making being forced upon Congress as time goes on. And that is why the cornerstone of this plan are the budget reforms proposed by the left and the right, that coalition that Brookings and Heritage put together.

Thank you, Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Ryan. And I share that viewpoint.

And, Mr. Walker, there is one other certified public accountant—that would be me—in the room, so I share your view of these things in terms of number-crunching.

But let me say this. If this is a football game, and if we define a touchdown as we have solved the problem, right now we are losing ground. We are running plays, and we are losing two or three or four yards a play. And it is not just because we are not doing anything; we are actually, in fact, moving away from the problem.

One of the things that isn't being talked about very much right now is that it looks like our deficit for this fiscal year in which we are currently engaged is going to be perilously close, if not over, half a trillion dollars—half a trillion dollars.

The Appropriations Committee last week released 12 appropriations bills that increased spending by 7.7 percent. If you then take the entitlement growth, projected at 5.2 percent, and the fact that revenue right now is flat because of economic doldrums, we could be looking at a \$700 billion deficit next year—not 20 years from now, not 30 years from now, next year.

So with all of the entitlement things looming, right now what we are doing in this Congress and what we are doing around here is actually making the thing even worse day by day. We would almost be better to do nothing than what we are doing, because we are continuing to make things worse and worse.

And one thing, Mr. Greenstein and Mr. Aaron, when you talk about Presidential leadership, as big a problem as this is right now, both the deficit—add the looming entitlement crisis to the deficit, are the Presidential candidates talking about this? I don't see a lot of, from either of the Presidential candidates, forget the current occupant of the office. But we are all talking about like things are going to change in 2009. Well, I don't see either one of them out there doing it.

Now, I support Mr. Ryan's American Roadmap. And, Mr. Greenstein, you may have problems with it, but I tell you what: Right now, if we want to stop going backwards, the first thing we have to do is legitimize, in this Congress and in this political system, legitimize proposals to deal with this, comprehensive proposals. They are all going to include some things that a lot of people don't like. But we have to first engage, I think, and make it okay to have the debate. I would love to be sitting here debating these things with the other side, at least with an agreement that we have to do something about it and that we have to move the thing forward.

So I guess—and most of this has been a lecture from me I guess, but I would like to hear from Mr. Peterson and Mr. Walker just about, I guess, more—you have talked about getting the public to move. But, I mean, I really think we are in a hole here right now, and we almost have to get out of the hole first. We have to legitimize the debate.

Mr. PETERSON. Well, it may be presumptuous to make this suggestion to you people who have had much more experience than I, but I find something very ironic.

We passed the Sarbanes-Oxley bill that required corporations to have full disclosure of their liabilities on their balance sheet and to charge off in a given year whatever the earnings implication would be. I find it very ironic that nowhere in the current budget do we see any reference to what it would cost to fund these programs. So I have kind of wondered, if it is okay to require public corporations to fund their pensions over, I believe, a maximum of 30 years, is it, under ERISA, why wouldn't the same thing apply to the people that instituted that legislation?

And if you were to do that, I think you add about \$1.5 trillion or more to the annual budget deficit. And were you to do that, it would help achieve the education that I am talking about. Because, at the present time, the public doesn't understand the implications of these long-term unfunded promises.

Mr. CAMPBELL. And, sir, I couldn't agree with you more.

And one other thing to mention is this problem is not limited to the Federal Government. In my home State of California, we have a number of local agencies, school districts, water districts, cities that are actuarially bankrupt if you were to use what is required of private companies in accounting to account for their unfunded and unrecorded pension and health-care liabilities.

Mr. Walker?

Mr. WALKER. A couple things.

Mr. CAMPBELL. And then my time is up.

Mr. WALKER. First, the deficit is actually worse than you said, because if it is over \$500 billion, that is just the unified deficit. Add another \$185 billion for the Social Security surplus that is gone, is spent, and has been for years. And this is before boomers retire.

Last thing: In addition to trying to educate the public, we have a number of specific efforts targeted toward the Presidential candidates. And we have been in touch with the Presidential candidates' economic advisers. We intend to do a number of things that are designed to raise visibility and enhance accountability on a nonpartisan basis to both of the major Presidential candidates on these issues.

Mr. CAMPBELL. Thank you.

Thank you. My time is up.

Chairman SPRATT. We are just debating here what to do, because we have two votes on the floor right now, one with 4 minutes and 19 seconds.

Could I ask our panel if you could stay with us? If anyone needs to leave—I hate to impose upon you our crazy schedule, but it is the nature of this operation. If anyone needs to leave, please, thank you for coming, we very much appreciate your participation.

Otherwise, Xavier, will you come back?

Mr. BECERRA. I won't be able to.

Chairman SPRATT. Okay.

Dennis?

Mr. MOORE OF KANSAS. I will come back.

Chairman SPRATT. You will come back.

Mr. Hensarling, did you want to ask questions?

Mr. HENSARLING. I will be back.

Chairman SPRATT. Is that agreeable with the panel?

Thank you very much for your forbearance.

[Recess.]

Chairman SPRATT. Thank you for your patience and forbearance. And we will wrap up as quickly as possible, going first to Mr. Moore of Kansas.

Mr. MOORE OF KANSAS. Thank you, Mr. Chairman.

And I thank the panelists for being here today.

And I want to address a question to Mr. Walker, but any of the other panelists are certainly welcome to comment if you have any ideas that either agree or disagree with what Mr. Walker answers.

Mr. Walker—and I apologize if this question has already been asked and/or answered, but I was at Financial Services and some other stuff this morning, so I didn't hear everything—do you have any specific recommendations for reducing entitlements? You talked about that being needed.

And I just said to Mr. Hensarling, you know, this can't be about, should not be about Democrats and Republicans. We are all in this together. We have to look at both sides of the equation, not just reducing entitlements but also whether there is going to be any tax increases as well.

But do you have specific recommendations for reductions in Social Security, Medicare or Medicaid? And if you have answered that, again, I apologize. And do you have any specific recommendations for where maybe the best place to increase revenues would be?

Mr. WALKER. Well, first, as part of the Fiscal Wake-Up Tour, the primary purpose has been to help people understand we have a problem, we need to make changes. But we now have started to get into some potential options. And, in fact, the foundation is going to fund phase two of the Fiscal Wake-Up Tour, which is going to be solutions-focused.

Let me address one of the things that you mentioned as an example. I have road-tested a framework for comprehensive Social Security reform that gets broad-based support out in the real world. And that involves the following: For people that are currently retired or close to retirement, you make little to no changes with regard to their promised benefits because they don't have time to make any adjustments. One possible exception to that would be possibly a modest modification of the cost-of-living adjustment so, that way, everybody would give something, all right, but they wouldn't give much. All right.

Secondly, to gradually increase the normal retirement age and, I would argue, the early retirement age, as well, at a faster rate than the current schedule is, and to index it to life expectancy.

Thirdly, to reduce the replacement rate—there are lots of ways that you can do it—for middle- and upper-income workers so they get somewhat less than otherwise they would under the COLA system, but to strengthen the benefit for people that are near the poverty level, so you actually make it, you know, more progressive.

In addition to that, to consider an increase in the taxable wage base cap, not to eliminate the taxable wage base cap, but to consider an increase in the taxable wage base cap in order to moderate the impact on benefit reductions and in order to try to get a political agreement, if you will.

And then last, but certainly not least, to have an add-on supplemental automatic savings element payroll deduction that goes into a real trust fund with real investments with real fiduciary responsibilities and liabilities that would be a supplement to the defined benefits. So it would give a preretirement death benefit, a supplemental retirement income benefit, and something to pass onto your heirs.

There is broad-based support for some type of a framework like that, including among a lot of key stakeholder groups as well.

And the only reason I would say—I would agree with Dr. Aaron that the problem is much greater for health care—Medicare, as well as health care overall. But Social Security is a lay-up. Health care is a five-point play from under the opposite basket. You know, it would be nice if we could end up doing a lay-up and then start taking steps towards dealing with, I agree, the much greater problem, but the much more difficult, complex, emotional problem of health care.

Mr. MOORE OF KANSAS. Do any other panelists have any comments?

Mr. GREENSTEIN. Sure. In the area of health care, I think the starting point is what Henry Aaron mentioned, an institute that really gets us solid information on comparative effectiveness, with the idea of moving over time, in both the public and private sectors, to limiting payment for less effective but costly procedures.

In the area of Medicare, you have the Medicare Payment Advisory Commission which has a lot of proposals, particularly overpayments in Medicare Advantage, but they have proposals relating to other providers as well.

I think there is some room to do some increases in Medicare premiums for affluent beneficiaries. I wouldn't do it exactly the way the President proposed it.

In the area of Social Security, there are two books that set forth plans. An earlier one was by Henry Aaron and Bob Reischauer. It has kind of a menu of options, not so much a specific plan. The best balanced, specific plan I have seen is a book that came out maybe 4 or 5 years ago from CBO Director Peter Orszag before he was at CBO and MIT economist Peter Diamond called "Saving Social Security," a balanced package of revenue and benefit and eligibility changes that would produce long-term balance in Social Security.

I would look at a report the Joint Committee on Taxation issued in 2004 or 2005 that outlines an array of ineffective or unproductive or, in some cases, unintended tax expenditures and other problems in the tax code.

I think you have to deal with the 2001 and 2003 tax cuts, which are not affordable unless paid for. And, in particular, you will need to move, I think by 2009, to resolve the estate tax issue. I would ideally make the current parameters permanent, but I would go no farther. I wouldn't spend more money to making the 2009 parameters permanent, under which 997 of every 1,000 people who die would owe zero on the estate tax.

I would look at the way we index both benefit programs and the tax code. We use the regular CPI. There is an alternative CPI that the Bureau of Labor Statistics publishes that most analysts across the political spectrum believe is a more accurate measure of infla-

tion. It rises a little more slowly over time. That saves a lot of money. I would look at reforms in farm price supports.

But ultimately, as Henry Aaron and others here on the panel have indicated, the bottom line over everything else is health-care costs. And we are going to have to make a judgment on what health care is affordable and what we want to provide for people. We are going to have a trade-off between health care that improves breakthroughs in the future, that improve health and lengthen life but cost a lot of money.

And to the degree that we want that health care, we will have to pay for it. I think ultimately, not in the next 2 years, but ultimately we may have to consider some additional revenue, perhaps a modest value-added tax or something like that to pay for the rising cost of health care that results from increases in technology that really improve health care but that cost money.

And we will have to make a society-wide decision on what to do. But whatever we want, we have to pay for it.

Mr. PETERSON. If I may, on one specific thought on health-care reform, to refer to something that Dr. Aaron said, there are some practices in Medicare that cost us an enormous amount of money that wouldn't be tolerated for a moment in the private sector.

We have something in corporations—and I used to run one—you call best practices. And you look at costs and you look at benefits, and you decide, "This is appropriate." And then you apply it throughout the entire corporation.

We have this anomalous system where there are variations not only in cost but in treatments that are utterly inexplicable. I was talking with Henry a little earlier. You know, there are certain counties and States in which there are six times the back operations that there are in others and six times the prostate removals. Now, I know we have red States and blue States, but I rather doubt that we have bad back and bad prostate States. But we have a perverse incentive system, where the bigger the cost, the bigger the plus.

And I think there are going to be enormous savings if we could install some kind of notion of best practices. And I assume, Henry, that was what you were leading to, trying to come up with such a system.

Mr. AARON. Yes, it was.

I do want to emphasize, however, that the problems to which Mr. Peterson has just referred, which were first documented in the United States about 30 years ago by a Dartmouth medical professor, John Wenberg, and have been amplified and shown over and over again throughout the United States, those problems are about as serious today as they were 30 years ago, and they are about as serious in the private sector as they are in the public sector.

The variations, for which it is very difficult to conceive of any medical justification, that have just been mentioned, those variations are remarkably stubborn, and there are in the current health-care financing system remarkably few levers for dealing with them.

And even if there were levers, as both Bob and I have emphasized, we don't have solid research knowledge that good adminis-

trators could use to level down the excesses and bring up the areas of insufficient provision. The start is knowledge, but applying that knowledge is eventually going to require a root-and-branch change in the way in which we pay for health care. Without that—I mean, if one wanted to design a health-care system immune to effective cost control, you really couldn't do better than what we have done in the United States.

Mr. COOPER. Would the gentleman yield for a moment?

Mr. MOORE OF KANSAS. Absolutely.

Mr. COOPER. This discussion of the Dartmouth data is so important, but there are things that we can act on immediately, because, as they point out, the same doctor doing the same procedure in Minnesota is paid one-third of what he or she is paid in Miami. There is no justification for that. So you can have some variation, but not a historical 30- or 40-year variation. And yet we, as a Congress, are doing nothing about that.

So you don't have to get into treatment modalities. Same procedure, same work, different pay just due to geographic variation. Congress has never touched that.

Chairman SPRATT. I don't think that is quite accurate, is it?

Mr. COOPER. I believe it is.

Chairman SPRATT. If you have never dealt with that, there have been formulas proposed and I think adopted trying to even out the regional disparities.

Mr. AARON. I think the bulk of the regional disparities arise in total spending. And the variations in total spending across counties are close to three to one. They are really very large. I think the maximum county per capita spending for Medicare is in the \$11,000 to \$12,000 range, and the minimum is in the \$5,000 range or \$4,000 range.

But the bulk of those variations are due to use of procedures, I think, more than to variations in price. There are price variations, but they interact in addition with variations in use. There are very high use areas down in Florida, for example.

Mr. COOPER. But this is exactly the sort of discussion Congress should be having to be up to speed on the data. Shannon Brownlee has a new book called "Overtreated," which relies heavily on the Dartmouth data, illustrates problem after problem. And most Congressmen are simply unfamiliar with this, these two- and three-to-one variations for the same work.

And see, Medicare has the best data, because Medicare has been a single payer for many years, so the data are much more accessible. And Medicare also has a leadership role in the payment system, being one of the largest payers, if not the largest payer.

So I relish an opportunity for Government to lead the way, instead of following. Medicare and Medicaid could be the pacesetters, as the VA system has been, which provides, according to many experts, the top quality care in America, even according to the Mayo Clinic and folks like that, at, by the way, the lowest cost, at half the price of Medicare. So if we could just encourage more people to use the VA system, we would be getting more value for our dollars.

But while the VA has been leading, the rest of health care has been lagging, including our friends at Medicare and Medicaid. So

all I am wanting is to restore that role. And when we wait for over-all health-care reform, we are letting the best be the enemy of the good.

But I know I have already trampled the gentleman's time too much.

Mr. MOORE OF KANSAS. I thank the panelists.

And I yield back, Mr. Chairman. Thank you, sir.

Chairman SPRATT. Mr. Hensarling?

Mr. HENSARLING. Thank you, Mr. Chairman.

The first thing I want to do is acknowledge the reason that we are here and salute the gentleman from Tennessee. Sometimes we disagree on policy, but we do not disagree on principle. And this is a serious piece of legislative work. He has been an outstanding leader in our Congress on the issue of dealing with entitlement spending. And I have observed, in my career here, a man who takes a number of courageous votes. So I appreciate the work of Mr. Cooper and that of my colleague, Mr. Wolf of Virginia, in helping bring us here today.

In the latest round of questioning dealing with the Dartmouth study, if I recall—and I think perhaps I was first introduced to the study by our CBO director, Dr. Orszag—if I recall right, his takeaway was that the study evidences, at least puts forward the proposition that you could actually keep the quality of your current health care and, with the right policy changes, save as much as 30 percent.

Is my memory serving me correct? And I see the gentleman from Tennessee saying so.

So I assume from what I have also heard from the panel, in various policies that are being discussed, the very simple proposition that it is possible, it is possible to get superior health care, superior retirement security at a lower cost than currently projected.

Is that a safe takeaway, Mr. Walker?

Mr. WALKER. One, over time, not magically wishing that it would be the case. Secondly, quality is not acceptable. So I think we need to do better than current quality. And thirdly, for Medicare alone we are in a \$34 trillion hole.

So, you know, yes, I mean, yeah, we can do a lot better than we are doing, and we ought to take steps to try to do that. But let's don't wish away our problem. We are going to have to make some more fundamental reforms than just try to look at best practices.

Mr. GREENSTEIN. Could I just say, my understanding is Dr. Orszag has said, in theory, we can get this 30 percent savings, but today I think he would say we don't have the knowledge today to know how to do them. I know he has particularly talked to Members about the importance of this comparative-effectiveness research. The goal should be to get those savings you mentioned. But we need a lot of research and we need a lot of things in order to be able to get them.

One other quick point is, one does want to distinguish here between Medicare and the private system and Medicaid. Medicaid pays providers way below both Medicare and the private system. And it would be a mistake to think that there are comparable levels of savings in Medicaid.

Mr. HENSARLING. Mr. Walker, not unlike Mr. Moore, I missed much of the testimony due to a markup in another committee, so you may have covered this in your testimony. But I am curious about how you judge the success of your Fiscal Wake-Up Tour.

I am somewhat under the impression that probably over half of America have heard of the “Bridge to Nowhere” and they greatly disapprove of it. But my sense is not one in 10, perhaps one in 100, understand the entitlement spending crisis.

So I am curious about, how did you judge the success of your tour? And when people learned about the entitlement crisis, what were their reactions?

Mr. WALKER. Well, first, our experience has been that the American people are a lot smarter than people give them credit for. That when you state the facts and speak the truth to them, they get it. That they are willing to make trade-offs; they are willing to accept some shared sacrifice. But they don’t have a whole lot of confidence that whatever sacrifice they might give would be honored.

And, therefore, one of the things we believe we need to do is to go to a broader audience and to use the Internet, use documentaries, use other types of means and mechanisms to get this message out to many, many more millions of people than otherwise you can do through the Fiscal Wake-Up Tour. And that is what we intend to do.

What is important is the Fiscal Wake-Up Tour resulted in, among other things, a “60 Minutes” broadcast, which has now resulted in a commercial documentary, which has now resulted in a number of other networks being interested in doing things. And so, over time, believe me, it will make a difference.

Mr. HENSARLING. Ms. Fraser?

Ms. FRASER. If I can elaborate on that, I am one of the partners in the Fiscal Wake-Up Tour. I haven’t been to as many as Dave; nobody has. But I have done it for nearly 3 years now. And I can say that, in the beginning, our experience was that Americans didn’t know about this problem. And we started this tour on the heels of the Social Security debate, and people knew about Social Security but they didn’t know about the broader problem. So, at first, they were stunned. They didn’t know why they didn’t know about it. They didn’t know why Congress wouldn’t tell them about it.

But over the ensuing year and a half or so, I think we have made significant progress as a Nation and that there is a much broader understanding of this entitlement problem, sort of writ large, holistically speaking. People know about it; they are concerned about it. And they do really want Washington to take action. They don’t know why Washington is waiting.

So we have really had some, in my mind, some very invaluable experiences on the road. And our successes are that Americans are engaged. They want to talk about solutions. They don’t want to blame.

And, you know, I have had a number of people—I didn’t get to offer up some of the things that I would do to solve this problem, but one of them is to target benefits more to those who need them the most. And I have had a number of people come up to me in these different forums and say, “You know, this is really a big

problem, and I would be willing to give up some of my benefits. I don't need all of the Social Security benefits I get. I don't need all of the Medicare benefits I get. But I want to make sure that they do go to the younger generation so they are better off than they would be otherwise."

Mr. AARON. I hope you told them that they are able to do so even now, by voluntarily returning them to the Government, for which they would receive a charitable-contributions deduction.

Ms. FRASER. But I don't know if they have the confidence it would go to where they want it to.

Mr. HENSARLING. Mr. Peterson, you spoke earlier about—I suppose what you were stating is that Congress ought to practice what it preaches. And you alluded to Sarbanes-Oxley and the type of disclosure, transparency in accounting that is now the new level which is required upon corporate America.

If corporate America practiced baseline budgeting and did not account for its long-term obligations, what would happen to those who did that? And what can we learn from that on the Federal level?

Mr. PETERSON. Well, the failure to disclose, of course, that is the problem metastasized, because people aren't aware of it. And then you end up with the worst-case kind of situation of pension plans that are so underfunded that the companies get into bankruptcy or near-bankruptcy.

Now, I don't know that that analogy is perfect, but I don't think there is any question that full disclosure of the amount of funding that it would require to take care of these problems would be a critical part of educating the public as to how big they are.

Mr. HENSARLING. Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Cooper, you want one final shot across the bow? We have tried the patience of our witnesses for over 3½ hours now.

Mr. COOPER. Very quickly. At this point, we don't even, today, acknowledge on the Federal balance sheet the health-care and retirement liabilities of our own employees. That would be a criminal offense in the private sector. You know, it is outrageous.

Mr. WALKER. Actually, Mr. Cooper, we do. We do have unfunded obligations for pensions and retiree health care for civilian and military. What we don't acknowledge, which I think you may have been referring, these bonds that are in the so-called trust funds that are backed by the full faith and credit of the United States Government, they are guaranteed as to principal and interest, and I believe they will be honored, they are part of the total debt—subject to the debt ceiling limit, they are not deemed to be liabilities of the United States. The Government is trying to have its cake and eat it too, and that is wrong.

Chairman SPRATT. Thank you very much for your testimony, all of you. You have helped our understanding of this issue. And we very much appreciate your coming. And I appreciate your patience and forbearance today.

As a matter of housekeeping, I would ask unanimous consent that members who didn't have the opportunity to ask questions be given 7 days to submit questions for the record.

In addition to that, any member who so wishes, by unanimous consent, may add a statement for the record at this point in the record.

Thank you once again for coming. Thank you for your contribution.

[Whereupon, at 1:09 p.m., the committee was adjourned.]

