

HOUSE BUDGET COMMITTEE HEARING  
BUDGET REFORMS AND MANDATORY SPENDING

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Chairman Price, Ranking Member Van Hollen, and members of the House Budget Committee, it is an honor and a pleasure to once again appear before you. Thank you for inviting me to testify on this important topic. As you know, I have led several federal government agencies, private sector practices, and non-profit entities, including serving as Comptroller General of the United States and head of the U.S. Government Accountability Office (GAO) for almost 10-years. I also currently serve on several non-profit boards and advisory committees. Importantly, my testimony today is based on all of my accumulated experience and represents my personal views.

Let me note at the outset, that while annual deficits have declined significant since their peak at about \$1.4 trillion in fiscal 2009, the key drivers of our structural deficit challenge have yet to be addressed. Failure to address these drivers will result in ever increasing public debt/GDP ratios in future years. These debt burdens and the related interest costs represent clear threats to our future economic prosperity, national security and domestic tranquility. While we do not face an immediate crisis, one will eventually present itself absent action. As I said on 60 Minutes in 2007, the greatest threat that we face is our own fiscal irresponsibility.

Many people believe that the federal government has grown too big, promised too much, subsidized too many, and that the 10<sup>th</sup> Amendment has largely been ignored. These are matters of opinion. One thing is, however, clear - Congress has lost control of the budget! For example, total federal direct spending is over 10-times bigger today as a percentage of the economy than in 1912. And that figure does not include the over \$1.2 trillion in annual tax expenditures nor the significant annual cost associated with federal regulations. In 1912, the Congress controlled 97% of annual federal direct spending. That number declined to 32% in 2015 and it is expected to decline further in the future due to known demographic trends and rising health care and interest costs.

The federal government has assumed more and more responsibility over time and yet the federal government is the furthest removed from the people. For example, the federal government is over 10 times bigger as a percentage of GDP today than 100 years ago and it is set to grow even bigger in the future. In addition, the federal government's role has grown far beyond what was envisioned by our nation's Founders as evidenced by the language in the Preamble to the U.S. Constitution.

In recent decades, our country has strayed from many of the principles and values under which the United States was founded and that helped to make America great. These include limited but effective government, individual liberty and opportunity, personal responsibility and accountability, rule of law and equal justice under the law, fiscal responsibility and intergenerational equity, stewardship, and states' rights. From a fiscal perspective, we have gone from trying to trying to achieve balanced budgets at least

over a business cycle to trying to keep peacetime deficits no larger than the rate of growth in the economy. As a result, while public debt/GDP did not exceed 40% of GDP until World War II, it is now about 75% of GDP and rising. In fact, the current 75% figure is up from about 35% in 2000 and it does not include about 30% in debt/GDP associated with debt held in the Social Security, Medicare and other “trust funds” that are included in the debt ceiling limit.

According to both the CBO and the GAO, total public debt/GDP could rise to 140% or more by 2040 absent meaningful fiscal reforms. Most economists believe that it is desirable to avoid public debt/GDP levels higher than 60%. Higher debt levels serve to increase interest rate risk, can create a drag on economic growth, and can result in a loss of confidence in the dollar and a loss of global currency market share. The uncertainty over how the future fiscal gap will be addressed results in fewer investments, less economic growth and fewer employment opportunities. The related uncertainty also undercuts the ability of states, municipalities, companies, non-profits, individuals to plan for the future.

The Federal Reserve’s efforts to hold interest rates down in recent years have served to provide a false sense of security regarding the danger of rising debt levels. They have also served to enable irresponsible fiscal policies. For example, the December 2015 budget and appropriations agreement represented a flashback to past practices. Republicans got to extend tax preferences (indirect spending) and Democrats got additional direct spending and most of the related actions were not “paid for”. This served to further

mortgage the future of our children, grandchildren and future generations of Americans.

It is clear that our federal fiscal challenge is so great that, unlike after World War II, we will not be able to “grow our way out of the problem.” Our global economic market share, demographic patterns and government commitments are very different today than at the end of World War II. We clearly need to take steps to enhance economic growth, increase individual opportunity and improve our competitive posture. However, the math does not come close to working by relying on growth alone. It is also clear that we will not be able to reduce our federal public debt/GDP to a reasonable and sustainable level without addressing “mandatory” spending programs and engaging in comprehensive tax reform. In that regard, I would respectfully suggest that we need to address both direct and indirect mandatory spending, including tax preferences.

It has also become abundantly clear that the current federal budget and appropriations processes are broken. Believe it or not, the Congress has passed timely budget and appropriations bills only 4 times in my 64 year lifetime! All too frequently the Congress has had to rely on continuing resolutions to fund all or part of the federal government. It is also clear that the debt ceiling limit has proven to be totally ineffective in helping to ensure fiscal responsibility and sustainability. The current budget and appropriations process has also served to increase pressure to constrain investments in critical infrastructure, research and development, and other pro-growth and competitiveness related items. At the same time, it has failed to cause a serious

reexamination of the size and role of the federal government and a considered focus on mandatory direct and indirect spending.

In my view, our fiscal challenge is so serious and the political situation in Washington, DC has become so dysfunctional that we need to pursue a range of budget process and statutory reforms as well as a fiscal responsibility Constitutional amendment in order to restore fiscal sanity and discharge our fiduciary and stewardship responsibilities to future generations of Americans. The following are some of the types of reforms that I believe need to be considered starting with the most serious and difficult one:

#### Constitutional Amendment:

o. Enact a Constitutional amendment that would impose a limit on public debt/GDP (e.g., 60%) effective a specific and prospective date (e.g., end of Fiscal 2035) which limit could only be violated by a formal declaration of war or a super-majority vote by both houses of Congress based on specific criteria and on a yearly basis (e.g., recession, national emergency, international use of force). Such an amendment would serve to encourage growth, and force all direct and indirect spending as well as comprehensive tax reform onto the table. It would also serve to encourage a much needed and long overdue review of which programs and tax policies are working and which ones aren't. As you may know, 28 of the required 34 states have called for using Article V of the Constitution to create a state-led convention for the purpose of enacting a federal fiscal responsibility amendment. The Balanced Budget Amendment Task Force (BBATF) and the Committee For a Fiscal Responsibility Amendment (CFFRA) are

leading this effort. The Congress should use its authority to do so through the process that has been used for the first 27 amendments.

#### Statutory Controls:

- o. Repeal the current debt ceiling limit and impose annual statutory public debt/GDP targets, triggers and automatic enforcement mechanisms designed to achieve the previously stated Constitutional debt/GDP target. The automatic enforcement mechanisms would be imposed if the stated levels are not met or otherwise overridden by a super-majority vote of both houses of the Congress for specified reasons and on an annual basis. Examples of automatic enforcement mechanisms could include suspension of tax bracket and cost of living indexing, temporary spending reductions and temporary surtaxes. This approach will help ensure that steps are taken sooner versus later to achieve the targeted public debt/GDP levels. It could also be used to provide for temporary tax rebates if the specified debt/GDP targets are met at earlier dates.
- o. Provide for automatic continuing resolutions that excludes non-recurring spending when the Congress fails to enact funding bills in a timely manner.
- o. Use the current budget reconciliation process for mandatory spending and tax changes that are required to meet the specific debt/GDP targets, as necessary. In this regard, the budget resolution should be required to include reconciliation instructions to implement any mandatory spending or revenue changes assumed in the budget.

- o. Strictly enforce PAYGO rules that apply to mandatory spending programs and tax preferences. These items collectively amount to three times the size of “discretionary spending” and we can’t afford for them to be on autopilot.
- o. Require the consideration of interest in meeting any PAYGO rules. We must not forget the time value of money. Spending money upfront and offsetting the costs over time without considering interest is inappropriate. After all, interest expense represents spending and interest rates are expected to increase over time. As a result, CBO projects that interest is likely to be our fastest growing expense in the next 10-years.
- o. Expand the PAYGO rules to require that all applicable legislation not result in an increase in projected public debt/GDP levels beyond the current 10-year horizon. Our fiscal future is not flat and our challenges increase beyond the current 10-year horizon.
- o. Do not include unauthorized programs in the annual budget and appropriations process effective as of a stated and prospective date (e.g., Fiscal 2019 budget process). This provides a hard date and specific consequence for the Congress failing to act.
- o. Move to biennial budgeting since the annual process is broken, has not proven to be effective, and in order to free up time for other important Congressional activities (e.g., authorization/reauthorization, oversight).
- o. Link the budgeting and appropriations processes to the performance reporting process over time and once OMB completes a government-wide strategic/performance/accountability plan for the President.
- o. Impose a cap on annual federal health care spending (e.g., GDP plus one percent) as of a stated and prospective date (e.g., Fiscal

2019). No other major country writes a “blank check” for health care and we shouldn’t either.

o. Provide specific criteria to define “emergency spending” and require a super-majority vote of both Houses of the Congress to invoke any avoidance of budget controls due to emergencies.

o. Enact a strong No Budget: No Pay bill whereby the members of Congress would not be paid if both bodies did not pass all required appropriations bills by the beginning of the fiscal year and pay would only be restored on a prospective basis once all applicable bills had been passed. The budget and appropriations process are arguably the most important and recurring role for the Congress. There needs to be consequences for failing to perform these important duties in a timely manner.

Other:

o. Adopt separate operating and capital budgets like most states do. The current approach results in too much consumption spending and not enough investment (e.g., critical infrastructure, basic research). Safeguards need to be included to ensure that capital budgets are not used to evade budget discipline. Adopting a public debt/GDP control mechanism will help ensure that discipline is maintained in fact versus projection.

o. Increase the transparency of tax expenditures as part of the annual budget process. The total of these expenditures equal about 1/3<sup>rd</sup> of direct federal spending and should not be off the radar screen.



o. Expressly authorize CBO to perform both static and dynamic scoring of both tax and spending (e.g., infrastructure investment) legislative proposals with full disclosure of key assumptions.

Achieving the changes necessary to achieve reasonable and sustainable fiscal targets will be challenging, especially in connection with reforming mandatory spending programs and achieving comprehensive tax reform. We must not kid ourselves, process changes are not a substitute for the required political will to make tough choices before a crisis is at our doorstep.

Importantly, in order to achieve such reforms, a different type process will need to be used. One that involves extensive public engagement around the country and private consultation and negotiation on a bipartisan basis in Washington, DC. The good news is, when I headed the Comeback America Initiative (CAI), we led a process in 2012 that proved that achieving sustainable success in this area is possible.

CAI conducted a national \$10 Million a Minute Bus Tour that spanned 27 states and covered 10,000 miles. That Tour included two very special over half-day citizen engagement efforts with representative groups of voters in the Presidential “swing states” of Ohio and Virginia. During this two forums, voters were presented with the facts, the truth and the tough choices needed to restore fiscal sanity and sustainability. Over 90% of voters in both forums agreed on the need to make this topic a top priority, a public debt/GDP goal of 60% by the end of Fiscal 2030, a target of at least 3:1 reductions in projected future spending (including interest) to revenue increases, and six key principles for reform that were designed to bring people together rather than divide them apart.

The six key principles related to economic growth, social equity, cultural acceptability, mathematical integrity, political feasibility and meaningful bipartisan support. Both representative groups of voters then agreed to a package of illustrative reforms covering eight key areas. These were: budget process and controls, Social Security, Medicare/Medicaid, health care and the ACA, taxes, defense, government organization and operations, and political reforms. The illustrative packages of reforms were intended to be consistent with the agreed upon six principles and were designed to meet the agreed upon fiscal goal. The result was 77-90% agreement with the illustrative reform packages.

While I believe that the type of budget and other fiscal reforms noted above will help us to put our country on a more prudent and fiscally responsible path, the next President needs to make this a top priority if we expect to be successful. I also know that many states and localities face their own fiscal challenges. Their challenges are driven largely by huge underfunded pension and unfunded retiree health care plans. Their respective CEO's need to lead efforts to put their finances in order before they feel the inevitable draft of the federal reforms that need to be achieved.

In conclusion, we live in a great country but our current long-term fiscal path is irresponsible, unethical, and even immoral. It's time that we recognized that our current processes, statutory provisions, and Constitutional protections have proven to be ineffective. We need to take steps to restore fiscal responsibility and sustainability in a manner that will enhance growth, increase opportunity, ensure our security, and improve our

competitiveness, in a culturally acceptable and socially equitable manner. We need to recognize reality and enact reforms that will help to create a better future for all of us. This will take Presidential leadership and bipartisan solutions that can gain bipartisan support. The time to start is now!