House Budget Committee Hearing
March 29, 2023
Fiscal State of the Nation
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Introduction:

Chairman Arrington, Ranking Member Boyle, and members of the House Budget Committee, thank you for the opportunity to testify today. You have my professional bio, but I would like to emphasize two points. I have had the privilege of testifying before the U.S. Congress over 300 times, a vast majority of which occurred during my tenure as Comptroller General of the United States and head of the U.S. Government Accountability Office (GAO). In addition,, I believe that I have performed more citizen education and engagement efforts regarding our federal fiscal challenges and potential solutions than any other American. In that regard, I have conducted in person activities in 47 states, DC, and two U.S. territories, including in 24 states and DC since the beginning of calendar 2022 alone. I have also conducted many online events.

I am a political independent who has been fighting for fiscal responsibility and sustainability for over 30-years. It all began when my fellow Social Security and Medicare Public Trustee, Stan Ross, and I created the first Public Trustees Summary Annual Report in the early 1990s. In that report, we noted that the 1983 Social Security reforms did not assure the long-range solvency and sustainability of Social Security since they did not adequately consider the effects of known demographic trends. We also noted that Medicare faced an even greater long-term solvency and sustainability challenge. In short, we noted that both Social Security and Medicare were unsustainable in their current form. Unfortunately, several Congresses and Presidents have not taken any meaningful steps to address these structural challenges and, as a result, the unfunded obligations have increased dramatically, and the related trust fund insolvency dates are on the horizon.

When I became Comptroller General of the United States and head of the GAO in the fall of 1998 the federal government was in surplus, and debt/GDP was about 60% and declining. When I left that office in the spring of 2008 the federal government was in a deficit position, and debt/GDP was a little over 60% but increasing. However, it was clear to me then that things were going to deteriorate dramatically in the future and significant reforms were needed to restore longer-term fiscal sanity and sustainability. As a result, I engaged in a range of non-traditional activities during and after my tenure as Comptroller General designed to increase public awareness of the need for reforms, including being featured in a 60 Minutes segment and in the award-winning documentary, I.O.U.S.A., and conducting many public education and engagement efforts as noted above.

Unfortunately, since I left GAO, the debt subject to the debt ceiling has tripled, debt/GDP has doubled, and both metrics are still increasing at a rapid rate. As the Office of Management and Budget (OMB), the Treasury Department, the Congressional Budget office (CBO), GAO, and the Federal Reserve (Fed) have stated publicly for years, the federal government is on an unsustainable fiscal path. In my view, it is irresponsible, unethical, and immoral to not address this large and growing imbalance. The real question is, when will something be done about it?

The latest CBO budget and fiscal report in February 2023 included the following direct quote - “The fiscal outlook is far worse than last year due to legislation, executive actions, and economic changes.” The latest consolidated and accrual-based federal financial statements and GAO audit report were also issued in February 2023. That annual report made it clear that Fiscal 2022 was a very bad year from a fiscal and financial perspective. For example, the consolidated net position for the federal government deteriorated by $4.1 trillion to a negative $34.1 trillion in that year alone. That amount excludes the $75.9 trillion in unfunded Social Security and Medicare obligations that increased by $4.9 trillion in Fiscal 2022. In addition, total debt, liabilities, unfunded promises and other commitments rose to $123.5 trillion from $114.8 trillion for an increase of $8.7 trillion in Fiscal 2022. Of these amounts, only federal Treasury securities are guaranteed by the 14th Amendment of the U.S. Constitution. To put things in perspective, $123.5 trillion is equal to $370,900 per person and $941,300 per household. Median annual household income in the U.S. is about $70,800!

During the past two years, the Congress has engaged in trillions of dollars in additional federal spending due, in part, to advocates of the flawed and failed Modern Monetary Theory (MMT). The Fed, intentionally or unintentionally, enabled such actions by keeping interest rates too low for too long, and by directly purchasing trillions of dollars in Treasury securities thereby increasing the money supply. This situation must not be repeated in the future since it, along with the dramatic change in federal energy policy, was a major contributor to excess inflation. The significant increase in interest rates resulting from the Fed's efforts to combat inflation during the past year also contributed to recent bank failures and the current uncertainty in our banking system.

Looking forward, the latest CBO long-range budget projection of February 2023 estimated that debt/GDP will climb to 193% by 2053. This is eight percent increase in the debt/GDP level from the prior year due to the results of Fiscal 2022, current excess inflation levels, and higher interest rates. In this regard, the fastest growing federal expense is interest for which we get nothing!

Strategic Framework:

There is a tendency to focus on numbers when discussing budget proposals, but it is important to remember a budget is not just about numbers, it is also a proposed policy path document. As discussed below, President's Biden's budget proposal is not fiscally responsible and does little to defuse the ticking debt bomb that threatens our collective future. This Committee has the responsibility to propose a more responsible policy path.

From a strategic perspective, the plain, simple, and hard truth is that the United States (U.S.) is declining as a great power, and China is rising. The facts are clear and compelling. It is true that the U.S. is the leading global Superpower today, but the real question is will it be so in the future? A few facts can help to put things in perspective.

The U.S. has the largest GDP in nominal dollars today, but China passed us several years ago in Purchasing Power Parity (PPP) GDP and the gap is growing. The U.S. represented over 50% of global nominal GDP after World War II and is now about 24% of global nominal GDP, or 16% of global (PPP) GDP, and declining over time.

China has more diplomatic missions than we do around the world. China has the second-best military capabilities in the world and is committed to passing the U.S. over time. China also has a number of global economic, cultural, and other initiatives, including the Belt and Road Initiative. They are also leading an alliance against U.S. interests with a range of other countries, including Russia, Iran, North Korea, etc.

One of the biggest differences between China and the U.S. is that China has a comprehensive, integrated, and outcome-based strategic plan to achieve its economic, diplomatic, military, and cultural objectives and the U.S. does not! The federal budget is a short-term policy proposal. It is not a long-term plan, and it is not outcome oriented. Today, America is flying blind, in mountains of debt, and without a navigation system. This is unacceptable and must change if we want our future to be better than our past.

President Biden's Fiscal 2024 Budget Proposal:

President Biden submitted his Fiscal 2024 budget proposal on March 9, 2023. While his budget proposal is voluminous, a few summary comments are appropriate. First, his $6.9 trillion budget proposal was submitted over four weeks after the statutory deadline. Second, it can be largely summarized as a "tax, spend, and borrow" budget although some of the spending is characterized as "investments." Specifically, it proposes a 57% spending increase from the pre-pandemic level in Fiscal 2019 and results in annual deficits in excess of 5% of GDP over the next 10-years despite over $3 trillion in tax increases over the same period. Third, it increases federal mandatory spending programs as a percentage of the budget to record levels and rising over time. Fourth, it is based on optimistic economic assumptions. Fifth, while its does propose some Medicare funding related reforms that will extend the solvency life of the Hospital Insurance (HI) Trust Fund, it does not include adequate reforms to ensure the long-term solvency and sustainability of the combined Medicare programs, nor does it propose any reforms for Social Security. Sixth, it does not include a mechanism to help restore long-term federal fiscal sanity and sustainability. Finally, it does not address the need for a fiscal responsibility Constitutional amendment. As a result, it continues to kick the can down the road on making the comprehensive tough choices needed to create a better future for America and Americans.

In fairness, while President Biden's Fiscal 2024 budget proposal does reduce projected base line it does so primarily through tax increases. While his proposed tax increases are targeted to corporations and higher income individuals, some portion of any higher corporate taxes are likely to be passed on in the form of higher prices to consumers. In addition, Americans have already experienced over 15% inflation since the beginning of the Biden Presidency. This is a matter of particular concern since inflation is essentially an indirect tax that has a particularly adverse impact on lower, middle, and fixed income individuals. In addition, inflation continues to exceed wage growth thus lowering Americans' standard of living.

Suggested Approach to Restoring Fiscal Sanity and Sustainability:

In mid-February I suggested a three-pronged approach to addressing our federal fiscal challenge in a Real Clear Politics opinion piece. The three steps are: Stop the Bleeding, Stabilize the Patient, and Cure the Disease. They are summarized below.

Stop the Bleeding:

The federal government has become addicted to spending, deficits, and debt. We need to stop the bleeding associated with excessive federal spending. The best way to start is to focus on the FY'2024 budget and appropriations processes.

Returning to regular order in connection with the budget and appropriations processes is essential. The FY'2023 bloated and earmark filled Omnibus approach should not be allowed to occur again. Congress also needs to reduce the baseline spending level for the FY'2024 budget as a first step to reduce projected spending.

There are several ways to reduce the base budget and projected deficits for FY'2024. First, end the COVID emergency! This means discontinuing all temporary spending (e.g., state grants), expansions/subsidies (e.g., Medicaid, SNAP), and suspensions (e.g., student loans) associated with COVID.

In addition to the above, Congress should eliminate all one-time spending items from the base (e.g., Ukraine, disasters), ban earmarks, recover unused COVID funds, and aggressively pursue the huge amounts of fraud associated with COVID spending programs both civilly and criminally.

Eliminating Ukraine and disaster funding from the base does not mean that we should not consider such funding in the future. However, it should be addressed separately, though regular order, and a supplemental appropriations bill. In addition, the U.S. should not continue to bear a disproportionate share of Ukraine burdens since it is much greater security issue for Europe. We should be matching contributions by others based on a stated contribution rate rather than continuing to provide huge unilateral funding to Ukraine.

Pursuing the above items will amount to at least a $200 billion reduction in the FY'2024 baseline and deficit. That is a good start but much more needs to be done to restore fiscal sanity and sustainability.

Stabilize the Patient:

We must take steps to reduce the growing gap between projected spending and revenue. Closing the gap will require reforming social insurance and other mandatory spending programs, reprioritizing and reducing projected discretionary spending, including defense, and engaging in comprehensive and pro-growth tax reform that will generate more revenues as a percentage of GDP. Achieving these reforms will require a major public education and engagement effort by credible and non-conflicted individuals to gain public support for needed reforms and pave the way for tough choices by elected officials. It will also require a special process that will set the table for the Congress to make those tough choices to stabilize future debt/GDP at reasonable and sustainable levels.

Needed reforms will not occur through the normal legislative process. The fiscal gap is too great, the issues to be addressed are too numerous and inter-related, and the needed choices are too difficult. In addition, there has been a lot of disinformation and misinformation regarding several major fiscal issues that need to be addressed with the American people. For example, despite assertions by some to the contrary, I am not aware of any member of Congress who has called for the elimination of Social Security or Medicare. The truth is, absent needed reforms and according to the 2022 Annual Trustees Report, Social Security benefits will be cut by 22-25% no later than 2035 once the related combined trust

funds are depleted. In addition, Medicare hospital payments will need to be cut by 10-15% starting no later than 2028 when the related trust fund is depleted. Therefore, while reasonable people can and will differ regarding the best way to assure the long-term solvency and sustainability of the Social Security and Medicare programs, those who oppose any reforms are, if effect, supporting significant cuts to payments under these programs. That is the way current law works. Furthermore, as a member of the Defense Business Board, I know that future Defense spending can be cut without compromising our national security, but Congress needs to help rather than hinder the needed restructuring efforts. Furthermore, many of the over $1.5 trillion
in annual tax preferences/expenditures (e.g., deductions, exemptions, exclusions, deferrals, and credits) need to be reconsidered, reduced, or eliminated.

Based on my 27-state national fiscal responsibility bus tour experience with Alice Rivlin and others in 2012, the American people are ahead of their elected officials in connection with needed reforms. During that tour we were able to gain 77%-97% agreement from representative groups of voters on specific packages of budget process, spending, tax, political, and other reforms that would stabilize debt/GDP at a reasonable and sustainable level by a specified year, including Social Security and Medicare reforms. The reform packages were consistent with six principles and values that brought people together rather than dividing them apart. Those principles and values achieved over 90% support and they were: pro-growth, socially equitable, culturally acceptable, mathematical integrity, politically feasible, and meaningful bipartisan support. I am happy to explain these in more detail should you so desire. This type of substantive and inter-active citizen engagement effort can lead to an enactment of a successful reform package in the Congress.

Given the above, Congress should establish a Fiscal Sustainability Commission that learns lessons from the past Simpson/Bowles Commission. Specifically, it needs to be a statutory commission to ensure that both the Congress and President buy-in to the process up front and provide adequate financing. It should be comprised of capable, credible, and non-conflicted individuals that span the political spectrum. It needs to actively engage the American people and key interest groups with the facts, the truth, and the tough choices we face, while soliciting their views on possible reforms. This should include in person events, online events, as well as social and tradition media activities. After the above citizen education, engagement and solicitation activities, the Commission should make a package of spending, tax and other recommendations that will stabilize debt/GDP at a stated level by a specified future date and will be guaranteed a vote in the Congress. The threshold for making recommendations should be 60%-66% of the Commission members versus the 75% threshold set for the Simpson-Bowles Commission. Importantly, creating such a statutory Fiscal Sustainability Commission would be an appropriate condition for any increase in the debt ceiling.

Cure the Disease:

The debt ceiling and other statutory spending controls (e.g., PAYGO, spending caps, rescissions) have failed. In my opinion, the only way to ensure sustainable success is to adopt a federal fiscal responsibility Constitutional amendment designed to constrain debt/GDP to a reasonable and sustainable level with limited exceptions. Other countries have successfully adopted this approach, including Switzerland (i.e., Swiss Debt Brake) which adopted a Constitutional amendment with the support of 85% of voters in 2001. Since 2001, Switzerland's base annual spending growth has declined significantly and today, Switzerland has the highest sovereign debt rating, the third highest GDP per capita in the world, and a much higher median household income than the U.S. The EURO zone countries have also focused on debt/GDP levels rather than annual deficits and aggregate debt levels. On the other hand, Greece, Italy, Portugal, and other countries allowed debt to spin out of control and had to be bailed out by stronger European countries (e.g., Germany). However, there is no one who can or will bail out the United States.

There are two ways to achieve a Constitutional amendment under Article V. Two-thirds of the House and Senate can pass a proposed amendment. Alternatively, if two-thirds of the states (i.e., 34 states) file applications for a Convention of States to propose Amendments, then the Congress shall call a Convention. Shockingly, recent research has discovered that thirty-nine states had filed such applications in 1979 and yet Congress failed to call the Convention for proposing Amendments. Since then, the debt has gone from $850 billion to over $31 trillion and the dollar has declined by over 75%. Under both approaches three-quarters of the states would have to ratify any proposed amendment. In this regard, there are two ways to ratify a proposed amendment. Specifically, Congress may propose ratification by three-quarters of state legislatures or by three-quarters of state conventions where the people vote for “Yes or No” pledged delegates. The second method is preferable and was used to achieve repeal of the 21st Amendment in 1933.

I commend Chairman Arrington for recently introducing HCR 24 in the House. It calls for a Convention of States to propose a fiscal responsibility amendment that would have to be ratified by at least 38 individual state conventions of pledged delegates for or against the proposed amendment. A related Senate Resolution will be introduced soon. These are intended to draw attention to this matter and hopefully will stimulate long overdue action by the Congress. There should be broad-based bi-partisan support for these resolutions since they are based on express and enumerated responsibilities of the Congress under Article V of the Constitution, and every member of the Congress took an oath to protect and defend the Constitution of the United States. If the Congress fails to act, it is only a matter of time before one or more states files a Mandamus case to compel action that would have to be decided by the Supreme Court.

Closing:

In closing, it is time to learn from history and others and take steps to create a better future. The Swiss debt brake experience noted above is a positive example. The decline and fall of the Roman Empire provides a negative one. Rome fell for several reasons, including fiscal irresponsibility, political incivility, moral decline, overextended military, and an inability to control its borders. Do these factors sound familiar?

History shows that the leading indicator regarding the rise and decline of a “superpower” is its economic strength. A country that cannot put its finances in order will not maintain its economic strength and superpower status over time. It will also threaten the dollar’s position as the world’s largest reserve currency. Stated differently, a country whose leaders cannot put their country’s finances in order is destined to decline.

The three-pronged approach outlined above is one way forward. Others can be considered as well but doing nothing should no longer be an option if we want our collective future to be better than our past. Failing to act and allowing our ticking debt bomb to explode would represent an act of unprecedented political malfeasance. We owe it to our nation's founders and future generations of Americans to act and discharge our stewardship responsibility. Otherwise, our future economic security, national security, international standing, and domestic tranquility will decline over time. In this regard, China will never invade the United States; however, they are watching and waiting for us to decline due to inaction on issues like this along with internal political and social conflicts.

In the final analysis there are three essential ingredients needed to achieve sustainable success in connection with major transformational change. They are: Truth, Leadership, and Solutions. We need more of all three from the political leaders of both parties in connection with fiscal sanity and sustainability. This is especially true for the President who is the only person who is truly elected by all the people and who has the "bully pulpit." Hopefully, we will get more soon since the power of compounding is working against us at the present time.

Thank you again for the opportunity to testify. I would be happy to answer any questions you may have.