

**Testimony for the
U.S. House of Representatives
Committee on the Budget
Paul Ryan, Wisconsin, Chairman**

on

“Lifting the Crushing Burden of Debt”

by

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Chairman Ryan, Ranking Member Van Hollen, and members of the committee, thank you for the opportunity to testify concerning America’s deficit and debt challenges.

The broad contours of our long-term deficit challenge are well-known. Over the next several years, the eye-catching deficits during the Great Recession will subside, but deficits will not disappear. Over time, if nothing is done, those deficits will widen, causing us to take on an unsustainable debt burden, and forcing us to put an ever-increasing share of our national income toward servicing that debt, rather than making important investments in our economy and our people. This is clearly a future we must avoid.

But our long-term deficit dilemma is not, as is so often claimed, purely a “spending problem.” There is no question that current projections of federal spending are alarming and clearly unsustainable. It is not the case, however, that all federal spending is contributing equally to that trajectory. In fact, most federal spending is actually expected to remain steady or even fall, as a share of the economy, over the next 10 years and beyond. The exception, however, is federal health spending, and to a much smaller degree, Social Security. This suggests that, far from being a “spending problem,” what the United States actually faces is an aging population, and a “rising cost of health care” problem.

That is why it is so important that Congress and the administration work diligently to implement the cost containment strategies and delivery reforms that were part of the Affordable Care Act. These reforms, along with the rest of the bill’s provisions, are projected to reduce the deficit by more than \$230 billion over the next 10 years and begin to restrain the growth in health care spending.

We also have a problem on the other side of the balance sheet. While rising health care costs and an aging population will combine to drive up government spending, at the same time a stubborn devotion to a tax code riddled with inefficiencies and loopholes will ensure that the country takes on ever more debt to pay for even the most basic of public services. Those who would limit federal revenue to the “historical average” of 18 percent of gross domestic product are ignoring an important, inescapable reality: The challenges we face today and will face in the future are different from those we faced 50 years ago.

They are also ignoring the simple fact that this historical average level of revenue has always been inadequate, even by historical standards. In 45 out of the past 50 years, the federal budget was in the red. I am proud to have served as chief of staff to President Bill Clinton, who oversaw three of those five elusive budget surpluses. The last time that 18 percent of GDP in revenue would have been sufficient to balance the budget was 1966. The budget and the country looked quite a bit different 45 years ago than they do today.

Forty-five years ago, Medicare and Medicaid had just passed and total federal health care spending was less than 0.3 percent of GDP. We spent about one-fourth as much on veterans' hospitals and medical care, in real dollars, as we do today. We spent about one-tenth as much on law enforcement. There was no school breakfast program, no Children's Health Insurance Program, no Transportation Safety Administration, to name a few. These programs and services arose to meet new needs, like the need for greater airport safety, or as ways to address enduring problems like childhood and elderly poverty.

The underlying demographics of the country have also shifted dramatically and will continue to do so. In 1966, just 9 percent of the population was over the age of 64. Today, 13 percent of the population is. By 2030, that proportion is expected to rise to almost 20 percent. How could we realistically expect to meet the needs of a population in which one out of every five people is a senior citizen using revenue levels from a time when less than 1 out of every 10 was? Remember, too, that programs like Social Security,

Medicare, and Medicaid have been remarkably successful. In 1966, nearly 30 percent of all senior citizens lived in poverty. Today less than 10 percent do. Unless we decide, as a society, that we no longer have a responsibility to ensure a secure retirement and adequate health care for all older Americans, that we would be willing to go back to the senior poverty levels of the early 1960s, then we will, necessarily, be required to spend more over the next several decades than we have over the past several.

Higher spending to meet new challenges is clearly nothing new. Neither is raising more revenue. Citing the postwar average of federal revenue makes it appear as if that level of revenue was constant during that period. It was not. In the 1950s, average annual federal revenue totaled 17.2 percent of GDP, but then increased in every subsequent decade of the 20th century. In fiscal year 2000, revenue peaked at 20.6 percent of GDP. Far from being constant or stable at 18 percent, there is a clear pattern of higher revenue in each new decade. The pattern held for five straight decades, and it was only broken by the massive tax cuts implemented by President George W. Bush.

Even slightly higher levels of revenue—the chairman, for example, has suggested 19 percent of GDP as a target—have been and would continue to be inadequate. Only five times in the past 40 years would 19 percent of GDP be sufficient to balance the budget. And that is before taking account of the major demographic and health care cost challenges we are now facing.

Unfortunately, there is no magic level of revenue or spending that will balance the budget now and forever. Fundamentally, we need to make budget decisions based on our current and future circumstances, not on our past ones. We must grapple with the real underlying causes, and offer real and specific solutions, to address our growing federal debt.

The Center for American Progress, since our founding eight years ago, has been consistent in calling for a national effort to address these long-term challenges. When we began, the fiscal discipline of the Clinton administration had been recently abandoned in favor of massive tax cuts skewed heavily toward the wealthy. These were enacted during a time of war with its attendant spending increases. Adding to the fiscal damage was a new domestic entitlement program, Medicare Part D, which was passed without adequate funding. The predictable result was a return to large deficits and an unprecedented run-up of debt. This was the fiscal situation before the onslaught of the Great Recession, which itself had a dramatic effect on the nation's bottom line. The combined effect of the recession and the poor fiscal stewardship prior to it was to pull our long-term deficit problems closer toward us and create an intermediate deficit problem to go along with the long-term one.

Over the past few years, the Center for American Progress has offered several specific plans for spending cuts and revenue increases that would put the country on a path back toward fiscal stability. We have also been glad to see others start producing similar plans that, importantly, have started to be as specific and detailed as ours. There appears to be a growing recognition of something that we have long believed: Once you get past political

rhetoric, solving the deficit problem is going to be extremely difficult. There are simply no easy answers or magic bullets. Solving this problem will require careful consideration of all the options, a fair weighing of the costs and benefits, and compromise.

There is one additional prerequisite to achieving our shared goal of a more sustainable federal budget: a strong and growing economy. We should not labor under the illusion that we can grow our way out of our budget woes. But neither should we ignore the fact that without a strong economy, solving our fiscal problem will go from being merely very difficult to being truly impossible. Given this reality, we strongly believe that every care must be taken in the near term not to disrupt the fragile recovery. While we strongly believe in getting the budget back to full balance eventually, our initial steps must be measured.

The shock of vastly constrained government spending, in the immediate, would have undeniably deleterious effects on the wider economy. Analysts from Goldman Sachs recently estimated that the cuts contained in H.R. 1 would slice 1.5 to 2 points from economic growth in the second and third quarters of this year. Moody's chief economist Mark Zandi estimated that the cuts in the House bill would lead to a loss of about 700,000 jobs. Federal Reserve Chairman Ben Bernanke agreed that H.R. 1 would result in a "couple of hundred thousand jobs" lost.

Though estimates clearly vary on the magnitude, there is wide consensus on the general impact. And given the crucial moment that we now find ourselves in—with private sector

job growth just beginning to expand—it would be counterproductive to deliberately undertake contractionary policies of this magnitude in the near term.

Instead, we should be focusing on putting in place policies that will bring the federal deficit down to sustainable levels in the medium term and full balance over the long term. During normal economic times, there is no good reason to take on debt to pay for the ordinary, day-to-day operations of the federal government. There is no need, however, to try to solve the entire budget deficit at one enormous stroke. Steady, clear, step-by-step progress toward the eventual goal is both more likely to ultimately produce success and has the great advantage of requiring less dramatic change in the intermediate period.

Eventually, balancing the budget is going to require some difficult spending cuts and tax increases that neither Republicans nor Democrats, nor the American public for that matter, seem ready to embrace. We commend the efforts of the bipartisan group of senators who are even now trying to develop a framework for solving our long-term budget problems. We are hopeful that their effort, building on the general framework of the Bowles-Simpson proposal, will yield results that will be acceptable to both parties and both chambers of Congress. But even if it proves impossible to achieve a consensus right now on all the elements of a long-term deficit budget plan, that does not absolve us of the responsibility to start down the path toward fiscal sustainability. That is why we should also agree to adopt an intermediate goal somewhere between here and full balance.

We suggest a path to put the federal budget into primary balance by 2015 as that intermediate goal. Primary balance is when total government revenues equal total government expenditures, with the exception of net interest payments on the debt. This equates to a deficit of about 3 percent of GDP. At that level of deficits, publicly held debt, as a share of GDP, ceases to rise. Getting to primary balance by 2015 will not be easy. With the deficit currently standing at just under 10 percent of GDP, reducing it all the way down to 3 percent will require not just a restored economy but some substantial policy changes.

Nevertheless, we can reach primary balance without the kind of dramatic, fundamental shifts in public services and the tax code that will likely be required to achieve full balance. And by doing so, we will stabilize the debt-to-GDP ratio, demonstrate our resolve, and buy ourselves some much-needed fiscal breathing room.

There are four basic steps that we must take over the next several years to reach that intermediate goal. First, Congress and the executive branch should focus intently on making government work more effectively, more productively, and more efficiently. Don't misunderstand. Eliminating so-called, "waste, fraud, and abuse," will not, by itself, solve our deficit problems. Not even close. Nor is it a simple matter to even determine what constitutes wasteful spending. Improving the productivity of the government, and identifying and rooting out inefficiency, will take a serious commitment and effort. The recent report from the General Accounting Office that identified dozens of areas of potential duplication in the federal government is a good starting point.

The real work of figuring out exactly which programs and services are successful and which are not begins now. At the Center for American Progress we have an entire project that we call Doing What Works, which is devoted this effort. Our premise is that the American people deserve a government in which every tax dollar is spent wisely, every program is held to clear standards, and everyone is accountable for achieving goals in an efficient manner. We believe that these efforts also have the potential to save billions, perhaps even hundreds of billions. We've already identified the potential for up to \$16 billion in annual savings from modernizing government informational technology systems and another \$40 billion from federal contracting and procurement reforms.

Though improving government efficiency and rooting out waste will save money, we cannot pretend that it will dramatically alter the trajectory of government spending. To do that, we need to take a hard look at all parts of the federal budget and not merely limit our attention to one small sliver. The recent focus on nonsecurity discretionary spending is badly misplaced. Nonsecurity discretionary spending makes up less than 15 percent of the entire budget, and it is actually projected to decline over time. These are not the programs and services that are driving up our long-term deficits.

On the contrary, this category is home to most of the vital investments that are the keys to our future economic growth: education, transportation and infrastructure, science and technology research, and services that foster competitiveness and innovation. H.R. 1 would cut all of these substantially including \$1 billion from Head Start, which would force

200,000 children out of the program; \$700 million from grants to local school districts; and \$500 million from teacher quality grants. It would slash \$6 billion from science and technology research including reductions to the National Science Foundation, the National Laboratories, and more than third from the National Institute of Standards and Technology. It would even cut the Small Business Administration and the International Trade Administration—offices that seek to bolster American businesses and American exports.

The misguided limitation of spending cuts to just this one category forces these kinds of cuts to investments that are fundamental to our future economic growth. Not only will these cuts cause job losses right away, but they will drag down our economy for years to come.

And despite the name of the category, we also end up cutting a variety of services designed to keep every American safe as they go about their daily lives. H.R. 1 would mean cuts to meat inspections, to the Centers for Disease Control and Prevention, to poison control centers, to law enforcement grants to cities and towns, to the Consumer Product Safety Commission, and to the Federal Aviation Administration. Meat inspections and poison control are not the reason we face a budget deficit. But they are fundamental services that the American people expect out of their government.

By concentrating only on this one category of spending, we ignore the potential for savings in all other parts of the budget. The Department of Defense, for example, is

certainly not immune from waste and excess. Over the past several years, the Center for American Progress has released several reports detailing specific savings that could be had from the Pentagon's budget without weakening our national defense.

There is also no reason to exempt mandatory programs from scrutiny. The Center for American Progress has identified several programs that could be streamlined or scaled back. For instance, in a time of exceedingly high commodity prices and high net farm income, should we continue paying high direct agriculture subsidies? The Government Accountability Office recently reported that billions of dollars are wasted in improper payments in Medicare. Restricting our attention to nonsecurity discretionary spending leaves these inefficiencies in place and leaves savings on the table.

Similarly, we should not ignore those spending programs that operate through the tax code. These tax expenditures are economically equivalent to their direct spending counterparts, but they are generally subject to less scrutiny and evaluation. Some of them are so specific and target such a tiny number of people or industries that they are best thought of as "tax earmarks." A balanced approach to cuts should include close examination of all spending programs, including tax expenditures, to make sure they are achieving their goals efficiently and effectively. The days of hiding special spending programs deep in the bowels of the tax code have to come to an end.

We also need to return to the successful budget processes of the 1990s, which will help ensure that any steps taken in the coming years to restrain the deficit are not undermined

by future Congresses. These processes include statutory PAY-GO, which the 111th Congress successfully reinstated, as well as meaningful caps on both defense and nondefense discretionary spending, enforced through sequestration. The lesson of the 1990s is that caps such as these can work, so long as they are not arbitrary or punitive. Successful budget enforcement processes should also include congressional rules that make it difficult to pass legislation that would increase the deficit. The Senate has such rules, and in the previous Congress, so too did the House. Unfortunately, the current House leadership has chosen to abandon those rules in favor of something they call “Cut-Go,” whereby spending increases must be offset by spending cuts, but tax cuts do not need to be offset at all. This is a recipe for fiscal disaster. Allowing tax cuts to not be paid for will inevitably result in massive deficits, as President Bush’s economic policies convincingly and repeatedly proved.

We must remember that the word “deficit” is not a synonym for “spending.” The deficit is actually a product of a mismatch between spending and revenue. While improving government efficiency and subjecting all parts of the federal budget to close scrutiny will help in addressing one half of the deficit equation, we simply cannot afford to ignore the other side of the balance sheet.

This year, for the third year in a row, federal revenues will be at their lowest level, as a share of GDP, in nearly 60 years. While the effects of the recession explain much of the dramatic drop in revenues, the other culprit is repeated tax cuts. Going forward, the obvious first step must be to jettison the bonus tax cuts for the wealthy put in place under

President Bush. During the last decade and before the Great Recession, average income for the richest 1 percent grew by more than 20 percent, while at the same time median household income actually fell. Those at the top also weathered the recent economic storm far better than the middle class, and they are recovering faster as well.

The enormous tax cuts bestowed on the very rich in 2001 and 2003 were a mistake then, as they were an important contributor to the unnecessary deficits of 2002 through 2007. Maintaining them is an \$800 billion mistake now.

In our plan for reaching primary balance, we also recommend implementing a millionaires' surtax. This would be 2 percent on adjusted gross income over \$1 million and an additional 3 percent on AGI over \$10 million. This surtax would raise about \$30 billion a year. Ideas like these should be part of the discussion, not least because a tax on millionaires is, as evidenced by a recent *Wall Street Journal* poll, the single most popular way to reduce the deficit.

Balancing the budget and reducing our debt burden is going to require making hard choices. But by approaching the issue in a balanced and measured way, it does not have to mean sacrificing our future economic prosperity or a robust safety net for the vulnerable. If we dedicate ourselves to scouring the government for efficiencies, to subjecting the entire federal budget to scrutiny, not just one sliver of it, and to raising the revenue that the 21st century requires of us, then we will be able to balance the budget and leave the next generation with a fiscal inheritance that we can be proud of.