

Testimony before the House Budget Committee  
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By Phil Gramm\*

\*Vice Chairman of UBS Investment Bank. The opinions expressed in this testimony are solely my own.

Mr. Chairman, I am honored to testify today before the House Budget Committee, a committee that I was privileged to serve on when I was in the House of Representatives. In Washington, D.C., where the buck is frequently passed and dodging is the norm, the House Budget Committee in this Congress has provided extraordinary leadership in addressing the Nation's fiscal crisis. In my adult life, of all the efforts undertaken to address government spending and debt, the budget you passed in 2011 is the most significant and the most courageous.

Any review of the Congressional budget process must begin with the recognition that the Congressional Budget and Impoundment Control Act of 1974 was never designed to control spending. Its primary objective was to stop the Presidential impoundment of spending, and shift the control of spending from the Executive branch to Congress. But even the most senior members of Congress were fearful of its potential power and worked to insure that both the Budget Act and the Budget Committee were weak.

As co-author of the Reagan Budget, which employed the first major use of the reconciliation process, and as the co-author of the Gramm-Rudman law, which set the first binding deficit reduction targets and enforced them by automatic spending cuts called sequesters, I can clearly and unequivocally say that there is no budget law that is a four-sided fort where we can pull up the drawbridge and go back to sleep. The best that any budget mechanism can provide is to help force action and tilt the process toward encouraging hard choices and compromise. At its best, the budget process can become a good stone wall to your back in a gunfight.

I believe the Budget Control Act recently enacted into law sets out a good process for handling the debt limit increase. It corrects many deficiencies in the Gramm-Rudman law and the Budget Enforcement Act. The principle that any increase in the debt ceiling should be fully offset by a permanent reduction in the deficit of an equal or greater amount is sound and should always be the guiding principle in the future.

If the question today is how we strengthen the congressional budget process, I want to recommend for your consideration a permanent reform structure for ALL government spending. One of the best ideas ever on the budget came from former President Jimmy Carter, and that was zero-based budgeting. His idea was simple and logical: all discretionary spending should be periodically re-authorized by Congress. I would recommend that beginning in January of 2013 we

require whoever is President to submit re-authorizations of all discretionary programs at the beginning of the second year of their Administration. This would mean that every program would be reviewed and reauthorized or it would sunset and not be eligible for funding. There should be no exceptions to this rule.

In addition, every 10 years I would sunset all entitlement programs which are unearned, i.e. not based at least in part on contributions made by the beneficiary, starting in 2014. For those entitlement programs which are based in part on beneficiary contributions, I would require a comprehensive review every 10 years with an expedited and privileged consideration of the reform process. Entitlement programs are now changed on a haphazard basis, with the Medicare law having undergone 13 major changes since its inception in 1965 -- that 's once every 3.5 years -- while Social Security has been subject to 17 major changes over 75 years, a rate of once every 4.4 years. By sun-setting unearned entitlements and by requiring a comprehensive review with expedited and privileged procedures for reforming earned entitlements, we could begin a systematic review and modernization based on demographics, the financial status of the government and the state of economic knowledge.

All federal entitlement programs should be maintained on the books using accrual accounts. We continue to talk of programs in terms of cash-basis "surpluses," which are in fact running massive deficits under accrual-accounting. The government demands accrual accounting in

the private sector to protect individuals but remarkably we do not apply the same laws to government itself. I believe Senator Lieberman introduced such a bill a few years ago, and it would be a good reform. Further, we should require States to use the same accounting methods for their pension programs and health care retirement benefits. Only then can we ensure transparency and accountability in the process.

While special interest groups will fear and oppose systematic review of all federal spending programs, it is clear that the nation and its people will benefit. America has no special dispensation that guarantees we will always be the greatest, richest, and freest people in the world. America can be as strong as we make it or as weak as we allow it to become. When Thomas Jefferson said that the price of liberty is eternal vigilance, he was not talking about Indians coming over the mountain or the British coming across the ocean. He was talking about vigilance against the encroachment of our freedoms by our own government. It is this committee that sets the limits on government and that duty makes the Budget Committee – and your actions – significant. Behind all the numbers and the budget scoring and projections, you are determining what kind of America we want to live in. Please choose wisely.