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4 THE BROKEN BUDGET PROCESS:

5 PERSPECTIVES FROM BUDGET EXPERTS

6 WEDNESDAY, SEPTEMBER 22, 2011

7 House of Representatives

8 Committee on the Budget

9 Washington D.C.

10       The Committee met, pursuant to call, at 10:00 a.m., in  
11 Room 210, Cannon House Office Building, Hon. Paul Ryan,  
12 [Chairman of the Committee] presiding.

13       Present: Representatives Ryan, Garrett, Campbell, Price,  
14 Stutzman, Lankford, Black, Ribble, Flores, Mulvaney,  
15 Huelskamp, Young, Amash, Schwartz, Doggett, Pascrell.

16 Chairman Ryan. The hearing will come to order. Welcome  
17 all to this hearing. The purpose of this hearing is to  
18 continue the work we started yesterday, highlighting the need  
19 to repair our broken budget process, and we have a great  
20 panel of witnesses with us here today to give us their  
21 insights to help guide us in our working.

22 During his time in congress, Senator Phil Gramm was a  
23 tireless advocate for budget process reforms aimed at  
24 reigning in out of control spending. Senator Gramm co-  
25 authored the balance budget in the Emergency Deficit Control  
26 Act of 1985, otherwise known as Gramm-Rudman-Hollings.

27 This law established, under Gramm-Rudman-Hollings,  
28 deficit limits and a sequester as a means for enforcing them.  
29 Over the years, Congress has used the sequester with varying  
30 degrees of success, and it is currently playing a role in the  
31 work being done by the Joint Selection Committee on deficit  
32 reduction. I look forward to hearing from Senator Gramm on  
33 this topic and on many other areas in which he can share his  
34 deep well of wisdom.

35 We also have former Chairman Jim Nussle with us here  
36 today; Jim, really nice to have you back. I have never seen  
37 you on that side. I am not used to seeing you on that side  
38 of the microphone when you were the OMB director, and that is  
39 the next point that I wanted to make. Jim served three  
40 straight terms leading this very committee as the chairman

41 and then in President Bush's Cabinet as director of the  
42 Office of Management and Budget.

43 During his time in Congress, Chairman Nussle worked in a  
44 very bipartisan way to reform the budget process,  
45 particularly, The Nussle-Cardin Comprehensive Budget Process  
46 Reform Act of 1999, which many of us took part in. He can  
47 also share some valuable insights on many of the topics of  
48 interest to this committee.

49 Finally, we have Professor Philip Joyce of GW, author of  
50 the recent book, "The Congressional Budget Office: Honest  
51 Numbers, Power and Policymaking." Dr. Joyce will be able to  
52 offer a wide-ranging expertise on what works and what does  
53 not work in the current budget process, and I also look  
54 forward to his testimony as well.

55 With that, I would like to yield to the gentle lady from  
56 the Philadelphia area, Pennsylvania, Ms. Schwartz.

57 Ms. Schwartz. Good morning, it is good to see you  
58 senator, congressmen, good to see you. And Dr. Joyce, thank  
59 you very much for joining us. I do want to thank the  
60 Chairman for calling these hearings for raising ideas,  
61 thoughts on how we can improve the budget process; it is  
62 always useful.

63 I do want to say that ranking member, Chris van Hollen,  
64 is unable to be here. As you know there is something now  
65 which we refer to as a super committee. This is occupying

66 | some of his time and there is a hearing at exactly the same  
67 | time. So apologies from our ranking member that he could not  
68 | be with us this morning, so he has asked me sit in his stead,  
69 | which I am very pleased to do.

70 | I do appreciate the Chairman's focus on the budget  
71 | process as a way to move towards restoring fiscal balance in  
72 | our government. We all acknowledge that the budget process  
73 | is complex.

74 | Just two quick things that I going to mentioned before I  
75 | get started. When assuming the budget process many of us  
76 | acknowledge that it neglects to adequately review different  
77 | parts of the budget, particularly spending through our tax  
78 | code. There has been some discussion about that and the  
79 | current process does not account for some fundamental changes  
80 | that are outside the federal budget control at all, such as  
81 | in significant changes in demographics, the age of the  
82 | populations is one example, or increases in health care cost  
83 | due to technology and advances. And, of course, our new  
84 | federal responsibilities related to things such as homeland  
85 | security or the growing costs of new veterans. Almost two  
86 | million Americans have served overseas in Iraq and  
87 | Afghanistan and they are adding to the number of veterans  
88 | and, of course, the costs related to that.

89 | So, I look at these hearings as a valuable step forward  
90 | in better understanding the possible changes in the process.

91 Questions will likely arise, and what I would ask you to  
92 address is will any changes give you a better understanding  
93 of the budget and what we are doing to greater  
94 predictability, to greater accuracy, to improve transparency  
95 or simplification? Will it enable us to, on behalf of the  
96 American people, to make sure the budget does reflect our  
97 priorities and our policy goals?

98 We all acknowledge that the federal budget is on an  
99 unsustainable path under current policies where our deficit  
100 will continue to grow over the next decade and that the debt  
101 held by the public will rise as a percentage of the GDP. We  
102 are deeply concerned about these realities, and we agree that  
103 action needs be taken.

104 But the question I will have for you, too, is will the  
105 budget process truly improve this situation? Is it a  
106 question a budget process? Or, in fact, is the question more  
107 about substance and disagreement on how to actually meet  
108 these goals? And they are two very different train of  
109 thoughts.

110 And of course we are very concerned about job creation  
111 and economic growth. Do you both agree that a change in the  
112 budget process help us in any way to meet those goals? The  
113 economy is fragile and we want to be sure that what we do in  
114 the short term does not hurt our fragile economic recovery or  
115 our effort to grow jobs in the long haul.

116 I do want to acknowledge that we have made some changes  
117 in the budget process in the last couple of years. One is we  
118 enacted Statutory PayGo; Pay-As-You-Go, not a term that use  
119 much outside, but we want to be sure that any new spending or  
120 new revenue proposals were in fact, deficit neutral, and we  
121 did do that. We have used Statutory PayGo. Of course, the  
122 rules change in this session so that only spending has to be  
123 paid for, tax expenditures do not. So that is the gap in  
124 making sure we do not add to the deficit, as well. That is  
125 something that you may want to address. So, that is just one  
126 example that we have done.

127 So, let me close by saying the budget process, again, it  
128 is not, in my mind, an answer, to what is really a  
129 substantive debate that we have to have. The budget process  
130 is that; it is a process; it is a mechanism that we can use.  
131 It works when we have reached agreement that we know how to  
132 use it. It can be used, of course, to not help us either,  
133 but that is the process.

134 So, I just want to be clear that we all agree that we  
135 need to lean toward more focused government. It does require  
136 us to be pure of that efficiency in our government. I  
137 believe it is an important time in our nation's history, we  
138 have an opportunity to make sure that we actually handle the  
139 deficit, grow the economy, expand opportunity and security  
140 for all Americans.

141           The key to this, again, it is not that the budget  
142 process itself; it is compromise, it is fundamental fairness,  
143 it is a recognition that the most important and immediate  
144 action we take to address the deficit has to put Americans  
145 back to work and set the federal government on a path towards  
146 fiscal balance. Agreement on this really requires us to find  
147 a way forward, to find that common ground, and to meet our  
148 obligations to Americans, grow the economy and invest for the  
149 future. I look forward to your testimony. And I yield back.

150           [The prepared statement of Allyson Schwartz follows:]

151 \*\*\*\*\* COMMITTEE INSERT \*\*\*\*\*

152 Chairman Ryan. Thank you. Chairman Nussle, we will  
153 start with you because you have the honor of having led this  
154 committee, and then we will go to Senator Gramm and then Dr.  
155 Joyce.



156 STATEMENTS OF JIM NUSSLE, FORMER CHAIRMAN, HOUSE COMMITTEE ON  
157 THE BUDGET, PRESIDENT, COO GROWTH ENERGY; PHIL GRAMM, FORMER  
158 CHAIRMAN, U.S. SENATE COMMITTEE ON BANKING, HOUSING, AND  
159 URBAN AFFAIRS, VICE CHAIRMAN OF INVESTMENT BANK, UBS AG;  
160 PHILIP JOYCE, PH.D., PROFESSOR OF MANAGEMENT, FINANCE AND  
161 LEADERSHIP, SCHOOL OF PUBLIC POLICY, UNIVERSITY OF MARYLAND

162 STATEMENT OF JIM NUSSLE

163 Mr. Nussle. I have to admit Mr. Chairman that the  
164 vantage point here is much different than the one up there,  
165 so I think I like yours better but I am honored to be back  
166 and honored to be before you, not only as a friend, but as  
167 somebody that I encourage to join the budget committee, and  
168 it did not take much encouragement having started here as a  
169 staffer yourself. But I am honored to be before you and the  
170 rest of the members of the committee. I am sorry Chris is  
171 not here, but I know he has got big fish to fry. And I  
172 always thought this was a super committee by the way. I do  
173 not quite understand this whole new super committee stuff,  
174 but at any rate, this is a super committee as far as I am  
175 concerned. I am glad to be back here. I just want to  
176 acknowledge Tom Kahn and Austin Smythe and their terrific

177 staff. They do a great job on your behalf and on behalf of  
178 the country. They are patriots, they are experts. Many of  
179 them are good friends of mine and I just want to say  
180 congratulations on the work that you do.

181       The subject of today's hearing reminds me of something  
182 my dad always taught me. He has a sheet metal shop and he  
183 made cabinets out of sheet metal and everything from spot  
184 welding and rivets and everything else. He always used to  
185 give me grief whenever I complained about anything. He said,  
186 "You know, it is not the tools, it is the craftsman. It is  
187 not the tools you look at the tool box to make the  
188 difference; it is the person using them." My old uncle Felix  
189 who work at my dad's shop who could make anything out of a  
190 hammer and I am not sure if that is true of today's  
191 craftsmen. It is the craftsman that seems to be a difference  
192 in all of this.

193       I suppose the same could be said of the fiscal toolbox  
194 that you have. Over the last 20 years that I had the  
195 opportunity and the honor to write budgets at both ends of  
196 Pennsylvania Avenue. I have to say that the tools have not  
197 changed that much; they are pretty much the same. We may  
198 call them different things; they may come up in different  
199 contexts, but by and large they have not changed all that  
200 much. They are pretty much the same tools that we always  
201 use.

202           So as I look at that and I think about what could we do  
203 in today's context in order to change it? The first thing I  
204 would say is what is broken? The chairman mentioned that the  
205 budget process is broken. I would suggest to you,  
206 respectfully, that may not be the case. It may not be that  
207 the budget process is broken. It may not be, in other words,  
208 that tools are broken, but it may be the fact that the tools  
209 are not even being used. I was doing a quick scan of the  
210 roster of the budget committee members, and with all due  
211 respect, very few of you have seen the budget process even  
212 used, let alone work. The chairman has, certainly, and many  
213 of the more senior members, but for freshman in particular  
214 you have never seen budget. You have never seen modern  
215 budget process put into effect. You have passed one here.  
216 This committee passed one on the floor, but the entire budget  
217 process start to finish these days is rarely used.

218           And, I suppose you could say could we look for one or  
219 two things to improve that budget process and yes, I have  
220 been through that process as the chairmen mentioned together  
221 with then house member and member of this committee Ben  
222 Cardin. I, along with the sanction of our leadership, we  
223 tried to put together a reform to the budget process. We did  
224 so, by the way, in a context of a balanced budget. In fact,  
225 in 1999 when we were balanced and there was no urgency to  
226 change the process because it was broken as if we had to rush

227 in like a fire department and put it out. We did it in a  
228 time when it was calm and there was some stability, and so I  
229 would be concerned to suggest to you to be careful rushing in  
230 and assuming that one or two fixes to the budget process may  
231 make this any less difficult because, in fact, it may not be  
232 the budget process at all.

233 So, I tried to think of some things that might work as I  
234 looked at this. I thought, and the same would be true of a  
235 driver pulling up to an intersection with a stop sign,  
236 rolling through that stop sign. We now see stop signs with  
237 the red lights blinking around them as a way to try to get  
238 people to stop. If the driver's disrespect the stop sign and  
239 just keep rolling through and do not obey the rules of the  
240 road. I mean, what can you really do to stop somebody, or  
241 stop a driver from rolling through a stop sign? The same  
242 could be said of Congress; you set the rules, you set the  
243 processes. If you choose to roll through the stop sign, and  
244 if you choose to change it on a whim, and you choose not to  
245 follow it or to, I would say, in some instances, disrespect  
246 that process, there is nobody that can do anything about it;  
247 there is no budget prison. I always wanted to find a budget  
248 prison, you know, and send a few people to it. And I looked  
249 at the bottom of the capitol; there is no budget prison if  
250 you do not follow the rules. So I tried to think of some  
251 things that might work. So, I went back to what Ben and I

252 | came up with back in 1998 and 1999 and I looked at those, and  
253 | I thought of some other things; so I came up with five.

254 |         The first is leadership. The budget process shows, and  
255 | I believe it is less important in the political leadership  
256 | provided. It is that simple; you either provide it or you do  
257 | not. You either establish clear, fair and non-outcome  
258 | determined rules that you follow, and allow the Congress to  
259 | work its will, or you do not. Please remember what I mean  
260 | when I say "non-outcome determined." It is just like playing  
261 | football, or playing baseball, or whatever it is. The rules  
262 | are not there to determine the outcome of the game. The  
263 | rules are there to make sure that both sides, both teams, if  
264 | in fact you are on different teams, can play the game, make  
265 | the determination and get to an outcome. The process should  
266 | determine the substance; the substance should not determine  
267 | the process.

268 |         Second, before you fix the current process, try it.  
269 | Before you fix the current budget process really try it,  
270 | stick to it, make a commitment to follow the rules because  
271 | they are not all bad. Many of them are very good, and if  
272 | implemented, I think, many of them would work.

273 |         Third, I would suggest making the budget process real;  
274 | making it a law. And, in fact, you do not need a change, as  
275 | I understand it; I will defer to Paul Restuccia and the  
276 | consul's office, which we did at that time. My understanding

277 is you do not need to make any change at all to go from a  
278 concurrent resolution on the budget to a joint resolution on  
279 the budget. It is a matter of just finding it as a joint  
280 resolution and making it a law requiring the president to  
281 sign the law as opposed to passing it only between both  
282 [inaudible].

283         The reason why I think that is important is because so  
284 often nowadays the budget process breaks down, we think,  
285 toward the end of the year, toward the end of the fiscal  
286 year. When, in fact, if you really think of this as a  
287 blueprint, going back to the toolbox and making some analogy,  
288 if you do not have a design, if you do not have a blueprint  
289 upfront, you may not know until the end how broken it is.  
290 What I am suggesting by this is by making it a law, making  
291 sure that both the House and the Senate and the president  
292 have skin in the game, they have made an agreement up front.  
293 You have made a consideration as Allyson said, as  
294 Congresswoman Schwartz said, you decide what the compromises  
295 are, what the agreements and disagreements are up front, and  
296 you get it sealed into law. You establish the fences. You  
297 design the blueprint. Now, the plumbers and the carpenters  
298 and everybody can rush in and finish the work; but if you do  
299 not have that design up front, you may not know until the end  
300 that it is broken. And in fact, the 1974 Act was based on  
301 that very concept. There was a breakdown in the late 1960s,

302 well, actually before that, by the late 1960s, early 1970s,  
303 they decided we not only have a design up front, but we need  
304 reconciliation at the end to kind of make sure it all fits  
305 together and follows that design.

306         And so that gets me into my fourth point, and that is  
307 use reconciliation. I call it weeding the garden, and it is  
308 just like the garden out back that your wife might have. If  
309 you go out there every Saturday and pull the weeds that have  
310 popped up during that week, it is not too tough, and plants  
311 flourish and you get good tomatoes. But if you wait until  
312 the end of summer to weed the garden you might as well go in  
313 with a tiller and plow it under because you cannot possibly  
314 control it. Every time I try to create a budget we put  
315 reconciliation instructions into the document, not because we  
316 were trying to determine one thing or another, but because we  
317 thought it would be important for the committees of  
318 jurisdiction to actually go in and make reforms on a step-by-  
319 step basis, pulling those weeds out as we went, as opposed to  
320 where we are now, which is a super committee having to go in  
321 and try and put everything back together.

322         Last but not least, let me suggest a proposal that the  
323 Commission on Fiscal Responsibility that the Peter Peterson  
324 Foundation put together and the Committee for a Responsible  
325 Federal Budget. A bunch of us has-beens, budget directors  
326 and chairmen and ranking members and all of us has-been

327 budgeters got together bipartisan and argued through what  
328 could we do. The number one recommendation that we came up  
329 with that is missing in the budget process was a fiscal goal.  
330 What was horizon that you are trying to accomplish? Just  
331 going year by year, we all know in business, in family, and  
332 in our common sense, that you will not reach that final goal,  
333 A) if you do not have one, and B) if you cannot measure along  
334 the way to know if you are heading toward that fiscal goal.  
335 And we determined that a good fiscal goal would be setting a  
336 certain debt to GDP ratio; we picked 60 percent. Pick  
337 whatever number you want, but we also put in some triggers  
338 and some targets along the way so we knew if we were on  
339 target, and if we were not on target we had some automatic  
340 triggers that took effect that said, "Okay, Congress cannot  
341 get it done, this is what automatically happens." It is not  
342 that dissimilar to what you decided in the super committee  
343 process with sequestration. So, those are my five I put in  
344 the website, and some of the information to direct you to it,  
345 but, leadership is number one; try the current process is  
346 number two; number three, make it real; number four, use  
347 reconciliation to help weed the garden; and number five, set  
348 some good goals and targets as part of the process so you  
349 know that you are actually heading toward a goal as opposed  
350 to the year by year kind of waiting for the next election  
351 more than really waiting for the next fiscal year as part of



352 | this process.

353 |         So I commend that to you Mr. Chairman and friends and  
354 | members and I do it with sincerity that if somebody knows  
355 | that from a substantive standpoint how we got here; there is  
356 | a lot of blame to go around. Having sat on both that side as  
357 | a chairman and this side as an OMB director, I accept my  
358 | portion of that, and I think all of us accept the  
359 | responsibility including those beyond this committee who did  
360 | not, to do something about it. So I commend that to you in  
361 | that spirit, and I hope that you can use it to improve the  
362 | process the way that you see fit. Thank you.

363 |         [The prepared statement of Jim Nussle follows:]

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365

Chairman Ryan. Senator Gramm.

366 STATEMENT OF PHIL GRAMM

367 Mr. Gramm. Mr. Chairman, first of all it is a great  
368 privilege to be here. I had the opportunity for terms in the  
369 House to serve on this committee. I would like to begin by  
370 saying that I think the action of this committee and this  
371 Congress is the exemplar of what good government is about.  
372 In my adult life, nobody has done more to move us toward  
373 fiscal responsibility, and no one has acted more courageously  
374 than this committee under your leadership, Mr. Chairman. I  
375 think it is an indication of what can be done with dull tools  
376 with strong leadership. I think we are often mistaken when  
377 we design government to challenge strong leadership, and that  
378 is exactly what I would like to talk about.

379 First of all, if you are going to talk about the budget  
380 process, you need to understand that the Congressional Budget  
381 and Impoundment Control Act of 1974 was never written to  
382 control spending. It was written in order to stop Richard  
383 Nixon from compounded spending that had been adopted by  
384 Congress. It was written to shut the control of the budget  
385 from the executive branch to the legislative branch. And  
386 even though the objective of the budget was to increase  
387 spending, the senior members of Congress were very concerned  
388 about this: the creation of this committee, and as a result

389 they structured the committee in such a way as to make it  
390 weak. They made membership temporary, they wrote the bill in  
391 such a way as to limit the ability to use it effectively, and  
392 that is the budget process we started.

393 Now, over time, that budget process has been  
394 strengthened, and why does it matter? I mean, I could not  
395 disagree more with Jim about the tools issue. I find that  
396 working around my place I generally have the wrong tool. I  
397 find that I am a lot better craftsman when I have the write  
398 tool.

399 And let me try to set the budget process from that  
400 perspective; it is a process I think I know. I was the co-  
401 author of the Regan budget the House and that was the first  
402 time we used reconciliation in any significant extent. I was  
403 the co-author of Gramm-Rudman and that was the first time we  
404 ever set binding targets and enforced them automatic spending  
405 cuts, which we call sequesters.

406 But the budget process is never going to be a four-sided  
407 fort, where you can pull up the draw-bridge and go back to  
408 sleep. The budget process, at its best, is simply a stone  
409 wall. It is very relevant, however, because it changes the  
410 battle field. It changes the contour of the battlefield and  
411 it tilts it toward at its best. It tilts it toward  
412 responsibility and accountability.

413 Now there were two things that made me interested in the

414 budget. The first occurred when I had been here about a  
415 week, and I was sitting at my desk and I had my inbox, and it  
416 just kept getting higher and higher and higher and I kept  
417 saying to myself, "My God, did I give up a perfectly good  
418 life at a perfectly good job to suffer the tyranny of the  
419 inbox?" You have all experienced it. I hated days here when  
420 I was looking at that inbox.

421 So anyway, I got up and just wandered over to the floor  
422 of the House and by sheer happenstance Jim Wright was  
423 speaking in favor of raising the debt ceiling. And his basic  
424 pitch was your family has rung up these bills, and what  
425 gentleman is not going to pay his bills. So it suddenly  
426 struck me that that was true but that was just the beginning  
427 of the story. So, I held up my hand and got recognized and  
428 basically made a point that it is true; everything the  
429 majority leader said was true, but families do not just pay  
430 their bills. They then get out an envelope and pencil and  
431 sit down at the kitchen table. They figure out where they  
432 got off track, as the Congressman says. They get out your  
433 credit card and butcher knife and cut up the credit card.  
434 And I said I do not think we ought to raise the debt ceiling  
435 and not try to address the underlying problem. Well, I then  
436 wondered off. Well, the debt ceiling healed, which was  
437 remarkable in those days.

438 And so anyway, the debt ceiling came up again in two

439 weeks to offer an amendment to try to tie the debt-ceiling to  
440 the deficit. I think I got about 160 votes and it failed,  
441 but that was the beginning of my recognition of this problem.

442 The second was watching the appropriations process. I  
443 figured out that with amendments offered on the floor that  
444 the average amendment was costing somewhere between 50 and  
445 \$90 million. There were 100 million taxpayers so that each  
446 taxpayer was paying between .50 and .90 cents, which was not  
447 enough to fool with, certainly not enough to fund writing a  
448 letter to say, "Hey, it is my money."

449 But the beneficiaries were getting substantial amounts  
450 of money so that on every vote the beneficiaries were looking  
451 over their left shoulder holding members of Congress  
452 accountable. Nobody was looking over their right shoulder.  
453 And I found in watching the debate that it was not  
454 sufficient, nobody cared whether the amendment was worth what  
455 it cost. You could only defeat the spending amendment if you  
456 could make a very coherent and convincing argument that it  
457 was a bad thing. So we were consuming the taxpayer's money  
458 up to the point where its value was zero, often it was  
459 negative, but we could not make a strong enough order. Those  
460 two experiences convinced me that the process had to change  
461 and that led to what became the Reagan budget and the use of  
462 reconciliation and Gramm-Rudman.

463 Let me say I think your Budget Control Act was a

464 substantial improvement over Gramm-Rudman and I think the  
465 principle you sat down that if you are going to raise the  
466 debt-ceiling you ought to have reduce the deficit over a 10-  
467 year period by a comparable amount. It is a good principle  
468 and I think it should never be violated again.

469 Now, if today's question is "What can we do to make this  
470 process better?" I want to share with you a big idea. It is  
471 an old idea; it is not my idea, obviously. If it is a big  
472 idea, it clearly is not my idea, but interestingly enough it  
473 was Jimmy Carter's idea. I want to give you an updated  
474 version of it in terms of my thinking. The idea that Jimmy  
475 Carter brought to Washington was zero based budgeting. The  
476 idea was that every appropriated program should periodically  
477 be comprehensively reviewed and modernized and Congress  
478 should be required to reauthorize it or it would die.

479 Now, Carter came in 1997 and I did not come until 1999.  
480 So by the time I got here, poor Carter was so beaten down,  
481 and this idea was hated by Congress immediately, but I tried  
482 to get President Carter to come forward again with the idea  
483 but it never happened.

484 Here is what I want to propose: I want to propose that  
485 beginning with the election of the new president, could be  
486 the same person, but the beginning of the new presidency in  
487 2013, that the administration be required in its second year  
488 to evaluate and submit reauthorization legislation for every

489 discretionary program in the American government. Now they  
490 may decide not to resubmit certain programs. The authorizing  
491 committees could decide on dramatically changing programs.  
492 The authorizing committees will now have lead in their pencil  
493 and they would be in a position where each program has to be  
494 reauthorized or at the end of the year it cannot be  
495 appropriated. We have programs that serve no purpose, and in  
496 some cases have really outlived their beneficiaries but  
497 inertia just keeps them in place. This is a very powerful  
498 idea.

499 I would go further. I would also, once every 10 years,  
500 require the reauthorization of all unearned entitlements.  
501 These are entitlements where people get benefits that they  
502 have not, at least in part, paid for. And each decade they  
503 would work exactly the same way. AFDC, food stamps, many  
504 other programs would have to be resubmitted, they would have  
505 to be reauthorized, they would be comprehensively reviewed,  
506 they would be voted on by Congress that did not write the  
507 bill to begin with, looking at it from the perspective of the  
508 world they are living in and the constraints they face. And  
509 if they reauthorized it, if they changed it, it would be  
510 changed, if they did not reauthorize it would not be funded.

511 Now, I would go whole hog myself and that is I would  
512 require that earned entitlements, entitlements where you  
513 either provide service, or you pay at least in part for it,



514 that would be veterans' benefits, Social Security and  
515 Medicare, I would require that every 10 years you require the  
516 administration to have a comprehensive review and a propose  
517 the reauthorization program.

518 I would require that Congress comprehensively review the  
519 program. I would not sunset unearned entitlements but I  
520 would give the review process a privileged motion under  
521 expedited rules so that the reauthorization could not be  
522 filibustered, and where it would be subject to rules that  
523 would allow the process to work.

524 I would even go further. For every provision of the tax  
525 code that was not a rate I would sunset it every 10 years and  
526 require that it be reauthorized. If it did not reauthorize  
527 it would be one we authorized that would go away.

528 I think I would treat rates like earned entitlements. I  
529 would be a little bit afraid to require the reauthorization  
530 of tax rates because if you did not get the job done you  
531 would be out of business. Now, some people might view that  
532 as a good thing. When I was a young man I would have made  
533 the joke that it might be a good thing but now I am not as  
534 ignorant as I once was.

535 But in any case this is the kind of thing that we really  
536 need to do. Reagan used to talk about nothing is immortal on  
537 earth except the programs of the federal government. And as  
538 all of you know it is sinful looking at our tax code.

539           Finally, let me just say we are already changing  
540 entitlements, now somebody is going to get up and down and  
541 say "You mean every 10 years you are really going to have a  
542 process to look at Medicare and Social Security?" Well, look  
543 we have amended Medicare 13 times with major changes since  
544 1965, so every three and a half years we are rewriting  
545 Medicare. Why not do it in a systematic way where we can  
546 look at what has happened actuarially. What has happened in  
547 terms of our ability to pay for the program and the potential  
548 miracle that we might have learned something?

549           In terms of Social Security, it has been amended  
550 substantially 17 times. Every 4.4 years we have changed  
551 Social Security in some very meaningful way. Why not have an  
552 orderly process to look at it every decade? I have to  
553 believe that would be a good idea. I also believe that you  
554 need to convert to all of these programs to actuarial  
555 accounting. I mean we talk about programs that have a  
556 positive cash flow, that have huge accrual accounting  
557 deficits. We have a complete misconception that the public  
558 has about the ability of a trust fund to pay Social Security  
559 benefits when the trust fund is a bunch of IOUs in a mailing  
560 file in a cabinet in West Virginia where it is the debt of  
561 the government to itself.

562           And we require accrual accounting of every private  
563 business in America. Why do we do it? Because we are trying

564 to protect individuals by giving them information, but yet  
565 government does not apply accrual accounting to itself.  
566 Makes no sense.

567       Finally, let me say this special interest groups would  
568 hate these proposals that I have made. They would fear them  
569 because it means that you would really, honest-to-God, look  
570 at these programs to see if they are achieving what you want  
571 them to achieve. I would say that it is worth the effort to  
572 do it. I think it is important to remember that America does  
573 not have any special dispensation that guarantees that we are  
574 always going to be the greatest, freest and richest country  
575 in the world. We are going to be as great and as free as we  
576 make ourselves. And we are going to be as poor and un-free  
577 as we allow ourselves to become.

578       One of the reasons that this is an important committee  
579 is because this is the only committee of Congress where you  
580 really talk about the role of government. How big should the  
581 government be? How should it be funded? What do we expect  
582 our government to do? Those are critically important  
583 decisions because they really determine who we are. If you  
584 have France's government, your people are going to become  
585 Frenchmen. If you have America's traditional government,  
586 they are going to be Americans. So these are very important  
587 decisions and I commend them to you and I just urge you to  
588 choose wisely.

589 [The prepared statement of Phil Gramm:]

590 \*\*\*\*\* INSERT \*\*\*\*\*

591 Chairman Ryan. Dr. Joyce, I understand in my opening I  
592 said you are from George Washington University, however, my  
593 understanding is you recently left George Washington and you  
594 are now at the University of Maryland, correct?

595 Mr. Joyce. That is correct and my dean thanks you for  
596 reading my qualifications.

597 Chairman Ryan. Dr Joyce.

598 STATEMENT OF PHILIP JOYCE

599 Mr. Joyce. Thank you Chairman Ryan, Representative  
600 Schwartz, members of the Budget Committee. I am pleased to  
601 be here today to share my views on the federal budget  
602 process. I have a relatively long written statement which I  
603 would like put into the record and I am mindful of the fact  
604 that when you say an academic is going to offer wide-ranging  
605 views it may just be an invitation to be long-winded.

606 Chairman Ryan. Without objection it will be in the  
607 record, so you can summarize your comments.

608 Mr. Joyce. I will summarize. What I am going to tell  
609 you is based on my 20 years of participating in and studying  
610 the budget process. I think it is an understatement to say  
611 that the budget process does not appear to working very well.  
612 I will argue, however, that the main problem is not that the  
613 budget process itself is broken, and in fact I agree with Mr.  
614 Nussle that the main issue is that tools that are available  
615 have not been recently used to devise solutions to the fiscal  
616 mess we are in.

617 So my main message to you, and I will amplify on this  
618 but not too much, is that you should avoid the temptation of  
619 assuming that fiscal rules are going to solve our budgetary  
620 problems. The goal is to deal with the larger fiscal

621 imbalance that faces us. I think that the most important  
622 thing to do is to make effective use of the tools that you  
623 already have.

624 I think it is useful from my vantage point of somebody  
625 who studies the budget process and has participated in it to  
626 sort of review what our historical experience may offer in  
627 this regard, so I am going to try to call out some lessons  
628 from the last 25 years; it is really the last 25 years that  
629 we have attempted to use the budget crisis to try to get some  
630 control over the deficit.

631 In 1974, of course, we had the Congressional Budget and  
632 Impoundment Control Act. The fact that we have the Budget  
633 Committee and a budget resolution at all stems from a desire  
634 by the Congress to deal with the whole budget and to deal  
635 with the budget on a multi-year basis. Prior to that point,  
636 the budget was dealt with only on a piecemeal basis, the  
637 budget was really very much year at the time; so I think that  
638 was a giant step forward when it was used, and sometimes it  
639 used and sometimes it is not.

640 The main vehicle to do multi-year budgeting has  
641 historically been, as both the previous speakers said, the  
642 reconciliation process. In fact, the reconciliation process  
643 is the success story of the federal budget process.

644 But I agree with Senator Gramm that there was nothing  
645 about the original 1974 budget process that was really

646 designed to get control over spending or the deficit. And in  
647 fact in 1985, when the Gramm-Rudman-Hollings Law was passed,  
648 that represented the first real attempt to use the budget  
649 process to reduce the deficit. I think there is a credible  
650 argument that this law had some effect on spending and  
651 deficits; however, it did not come close to meeting its  
652 overall goals. In fact the fiscal year 1993 budget, which  
653 was one that was supposed to be balanced under Gramm-Rudman-  
654 Hollings had a deficit of \$255 billion. I only mention this  
655 to say that historically this is why after the late 1980s it  
656 sort of led us to a place where we looked for another  
657 approach to get a handle on the deficit. And that ultimately  
658 culminated in what was called the Budget Agreement of 1990;  
659 this is where the president and a few members of the  
660 president's staff and key members of Congress went to Andrews  
661 Air Force Base and they sort of hammered out an agreement to  
662 reduce the deficit. Part of that agreement did involve the  
663 budget process. There was a new procedure called the Budget  
664 Enforcement Act, and the Budget Enforcement Act is where we  
665 first saw discretionary spending caps similar to the ones  
666 that are now the Budget Control Act and the pay-as-you-go  
667 process which was for mandatory spending and revenues.

668 The BEA approach differed from Gramm-Rudman in two main  
669 respects: first, it focused on the policy actions first and  
670 then used the budget process to attempt to force compliance



671 with those actions. That is, to try to keep the Congress  
672 from undoing the decisions that had previously been made.

673 Second, it created separate enforcement regimes, as  
674 opposed to an overall sequestration covering discretionary  
675 spending on the one hand, and mandatory spending and taxes on  
676 the other hand. This BEA type process was repeated in 1993  
677 and 1997 with the passage of yet new reconciliation bills.  
678 The reconciliation process again was central to deficit  
679 reduction.

680 The BEA fell part in the early 2000s. What killed the  
681 BEA? Surpluses killed the BEA, because at the point which  
682 you had discretionary spending caps, you had a pay-as-you-go  
683 process, but you also had surpluses and it was sort of asking  
684 the political system to walk and chew gum at the same time.  
685 It was sort of hard to maintain that discipline.

686 The 1997 Act, in fact, represented the last time, prior  
687 to this year, that the congressional budget process was used  
688 to try to enact a multi-year deficit reduction deal.  
689 Reconciliation was used plenty of times in the 2000s, but  
690 when it was used in the 2000s it tended to be used to add to  
691 deficits rather than subtract from them. This year, though,  
692 there was a movement in the Budget Control Act toward  
693 multiyear deficit reduction because of discretionary spending  
694 caps; so all of that is history.

695 What does that history tell us about any lessons, about

696 | the relationship of the budget process to deficit reduction?

697 |       I would like to highlight four lessons. The first  
698 | lesson is setting targets without simultaneously reaching  
699 | consensus on policy actions to reach those targets is likely  
700 | to be an empty promise. The major failing of the Gramm-  
701 | Rudman law was that it did not really require anything of  
702 | people who voted for it, other than to promise to do  
703 | something in the future. When the future came, they did not  
704 | do it.

705 |       This is also a problem with constitutional amendments  
706 | requiring annual balanced budgets; they are not self-  
707 | enforcing; something needs to happen after them in order to  
708 | make them come true. If they are going to be targets then  
709 | they should be accompanied by at least a substantial down  
710 | payment on the policy actions that are necessary in order to  
711 | meet them if those targets are going to be credible.

712 |       Second, and related to this, the budget process is  
713 | better, I would say much better at enforcing compliance with  
714 | agreements that have already been made than making those  
715 | agreements happen. All of the successful efforts at deficit  
716 | reduction in the last quarter century had one basic thing in  
717 | common, the president and the Congress agreed on a future  
718 | path for the budget and a set of policy actions and then the  
719 | process was used to try to enforce compliance with those  
720 | actions. That is the BEA approach, I think it largely

721 worked, until the consensus around reducing the debt fell  
722 apart, which it did in the late 1990s, early 2000s.

723 Third lesson, any enforcement regime must be  
724 comprehensive and must encourage participants to make  
725 policies in order to avoid the consequences. Sequestration  
726 is something that should be designed so that it is not  
727 actually used. That is, it should encourage people to do  
728 things, what we will call the old-fashioned way, which is to  
729 actually increase revenues, cut spending in order to meet  
730 targets. The problem is that if many parts of the budget are  
731 excluded from enforcement, as was true with Gramm-Rudman-  
732 Hollings and as is true with the Budget Control Act, then the  
733 ability of the enforcement process to promote policy  
734 agreement is more limited. Put simply, people will calculate  
735 whether they think they are better off letting the automatic  
736 cuts take effect than they would be actually reaching policy  
737 agreement. I would therefore encourage that any enforcement  
738 regime not only include all spending, but also include  
739 automatic revenue increases, not because I think automatic  
740 revenue increases are a good idea, but because people might  
741 actually want to enact policy actions in order to avoid  
742 having them go into effect.

743 Fourth, the budget process should hold policy makers  
744 accountable for things they cannot control. I think this was  
745 one of the important characteristics of the BEA is that it

746 helped appropriators responsible for those actions that dealt  
747 with appropriated spending, that is appropriated spending  
748 exceeded the caps it was appropriated spending that got cut.  
749 If it was authorizing spending that was the problem, then the  
750 pay-as-you-go process would kick in to try to put a  
751 sequestration on mandatory spending.

752         So what do I think, in addition to enforcement, which I  
753 think is important, if you have any set of budget changes  
754 that are put into effect I think they need to be enforced,  
755 what are the most fruitful areas of potential reform? I  
756 would advise you, in addition to enforcement, to concentrate  
757 on those that give the Congress and the president appropriate  
758 information on the fiscal impact of the budget choices that  
759 you make. There are actually a few examples of this from the  
760 past, one of them is the 1990 Federal Credit Reform Act, if  
761 you want to talk about approvals, that was sort of the first  
762 movement to try to bring accrual concept into the budget for  
763 loan guarantees and direct loans. Prior to that point,  
764 direct loans were treated as if they were grants, loan  
765 guarantees were treated as if they were free.

766         The 1995 Unfunded Mandates Reform Act was an attempt to  
767 try to bring information into the process to try to keep  
768 things from happening that appeared to have no cost, when in  
769 fact they did have a cost, they just did not necessarily have  
770 a cost to the federal government.

771           The various score-keeping rules, which are arcane and  
772 will put you to sleep, but they were put together in 1990,  
773 codified in 1997, I think they reduced the overall level of  
774 what we call technically budget chicanery. They have  
775 encouraged recognition of cost at a point where I think they  
776 can be controlled. Issues like this which are not sexy and  
777 are really about budget concepts and budgetary accounting  
778 seem much more fruitful to focus on than larger fiscal rules  
779 or many institutional reforms and there are lots of other  
780 issues out there that could fit this category of providing  
781 additional information, such as for example the expansion of  
782 accrual concepts to other areas, deposit insurance, pension  
783 insurance, flood insurance, et cetera and also budgeting for  
784 disasters and emergencies, which is not just this year that  
785 this has been an issue, this has been an issue probably for  
786 the last 25 or 30 years, the fact that we systematically  
787 underfund in the regular process and then when there are  
788 emergencies we have to add money to the budget.

789           So in closing, the budget process can be good, in my  
790 view, at two things. The first is to force policy makers to  
791 confront the real cost of their actions and provide  
792 information that is necessary for them to make budget  
793 decisions. The second is to enforce compliance with budget  
794 decisions that have already been made. Unfortunately, it is  
795 not very good at forcing the political system to deal with

796 | fiscal problems if it does not have the political will to do  
797 | so. So again, much of the current budget process  
798 | infrastructure that is needed to deal with your current  
799 | budget problems exists today. I would join Mr. Nussle in  
800 | saying that I think the most important thing to do is to make  
801 | use of those processes and those rules that you already have.  
802 | I think that is going to have much better payoff than  
803 | establishing fiscal rules without establishing the policy  
804 | changes that are necessary to comply with those rules. So  
805 | thanks again.

806 |           [The prepared statement of Philip Joyce follows:]

807 | \*\*\*\*\* INSERT \*\*\*\*\*

808 Chairman Ryan. Thank you very much. This actually is a  
809 very sexy and exciting hearing.

810 There is lot to get into. The last reconciliation I was  
811 involved in as a staffer that was really being fought here  
812 was in 1997. That was a pretty big deal. Democrat  
813 president, Republican Congress, and then the gentleman to  
814 your right did DRA, which was real safe in the process. The  
815 process has broken down as reconciliation, particularly, has  
816 been used to do things other than what it was originally  
817 intended, expanding government programs, student loans and  
818 others. That was sort of a contortion of the process and I  
819 think that the tax side and I think that was your point  
820 there.

821 First the process is as good as the people who use it  
822 and whether we have courage in leadership and conviction to  
823 actually fix these problems is what matters more than  
824 anything. So the question that we ask ourselves is the  
825 process making it harder for us to show leadership and  
826 discipline, or easier? If men were angels, quoting James  
827 Madison, we would not need all of these controls. Well the  
828 problem is that we are not and so we need to find the right  
829 system to make it as easy as possible for discipline and  
830 leadership to flourish and continue so we can tackle these  
831 enormous challenges that are really threatening our system  
832 unlike any challenge we have had in the past.

833           So there are a lot of concepts that have grown over time  
834 and reached consensus and I do not know where everyone stands  
835 on these things, but I am pretty much sure I know where Jim  
836 stands on these things because he and I have had so many  
837 conversations. Emergencies, Jim Nussle, you created the idea  
838 of budgeting for emergencies when you had caps and  
839 discipline, it strikes me as a good way of having a pressure  
840 valve so that the enforcement system does not break down  
841 because you have already prefunded emergencies, and  
842 predefined emergencies to stop the gimmicks from getting out  
843 of control.

844           Senator Gramm and Dr. Joyce, do you would agree that a  
845 proper emergency spending regime and the definition of  
846 prefunding, rolling average or whatever, is very important to  
847 our preserving the integrity of the rest of the system.

848           Mr. Gramm. Well let me say on the emergency system I  
849 think setting aside money that has to be replenished by  
850 taking away from some other place is a good approach. When  
851 families have emergencies, it does not give them a license to  
852 simply go out and spend. They have to make hard choices,  
853 they have to decide that they are not going on vacation; they  
854 are not going to buy a new refrigerator. I do not understand  
855 this debate about the fact that we have had emergencies so we  
856 do not have to pay to deal with them. That is an alien  
857 concept.



858 I want to go back to your process about reform and  
859 leadership because this is an area where I have strong  
860 feelings. Leadership and courage things you cannot count on.  
861 Process really matters. The Constitution of the United  
862 States is process. Is there anybody here who thinks that it  
863 does not matter that we have the Constitution of the United  
864 States? So God grant that we should always have plenty of  
865 smart, courageous leaders, but I think process is very  
866 important and the outcome of so many debates depends on the  
867 process. So I would make it as strong as I could make it to  
868 make it possible for people to show leadership and exhibit  
869 courage but I would not underestimate the importance of  
870 process.

871 Chairman Ryan. Let me tack on two points for the rest  
872 of you: joint resolution and biennial. What are your  
873 thoughts on those in addition to the emergency?

874 Mr. Joyce. I will try to be brief on each one of those.  
875 On emergencies, I think that the issue is, as you know, that  
876 emergencies have been systematically underfunded in the  
877 regular appropriations process and there is no reason in my  
878 mind why you could not put something in place that you are  
879 going to fund disaster relief spending at sort of its average  
880 level over the last X number of years, because that way you  
881 would not have a sort of systematic bias towards having  
882 supplementals for emergencies almost every year. I think we

883 had at least one supplemental appropriation, not all for  
884 emergencies or disasters, but every year in at least the last  
885 30 years. Some of the those years would not have needed to  
886 have one if we had budgeted at a more reasonable level for  
887 disaster systems.

888         On the joint budget resolution, I am very sensitive to  
889 the argument that says it would be better if we could reach  
890 agreement early and so it would be better if the president  
891 was involved and we could reach agreement early. My  
892 hesitation about it is that if you do not reach agreement,  
893 and I think if you add the president into the mix, where you  
894 already have difficulty reaching agreement between the Senate  
895 and the House you may just increase the chances that you will  
896 not have a budget resolution at all. I think there is  
897 already enough impediments apparently to getting a budget  
898 resolution through since there has not been a budget  
899 resolution in six of the last 14 fiscal years. So my concern  
900 would be that you would frontload the conflict, in addition  
901 to frontloading the possible agreement.

902         On biennial budgeting, I I have a longer sort of  
903 discussion about biennial budgeting and joint budget  
904 resolution in my testimony. But on biennial budgeting, the  
905 two big payoffs that people argue for biennial budgeting, are  
906 first that you are going to spend less time on budgeting and  
907 second that you will be able spend more time on oversight. I

908 think both of those claims are overblown and the reason they  
909 are overblown is because what it implies is that in the non-  
910 budget year, you will just take a year off from budgeting. I  
911 think there are a lot of things working against the  
912 possibility of being able to take a year off, not the least  
913 of which is that there is just too much unpredictability out  
914 there. So what you are likely to have is a budget year and  
915 then a second year where you have something on the  
916 supplemental. That is what I think.

917 Mr. Nussle. I would agree. I would not want it to be a  
918 panacea, that somehow that would fix a one year broken  
919 process into a two year broken process; I meant they are  
920 basically the same thing. So it is a matter of expectation.

921 Can I just point out too, all of those recommendations  
922 that I made, and I tried to be careful about this, because I  
923 am the last one who tried and failed miserably in trying to  
924 pass budget process reform. All of the things that I  
925 suggested, Mr. Chairman, are things that you can do now by  
926 fiat. You could make it a joint resolution rather than a  
927 conferment, as I understand. You can use reconciliation now,  
928 as I understand it. You can put in fiscal goals right now  
929 and mark to those goals. You can also actually even make it  
930 a two year biennial budget process. I mean you do it now,  
931 arguably, you could say you just ignore the second year.  
932 Well you are ignoring it now. You could arguably do all of

933 | these things right now without any change to the 1974 Act as  
934 | I understand it.

935 |         So I guess part of what I am suggesting, and while I do  
936 | not disagree with the good Senator, but I think it is a  
937 | marriage of both process and leadership, I am not suggesting  
938 | the process does not matter, but all I would suggest to you  
939 | is the process without leadership is impossible and obviously  
940 | without a process any leader would have a difficult time  
941 | going through it.

942 |         Right now, the way I see it is we have a pretty good  
943 | process; it could be improved on the edges. I think right  
944 | now, as he said, this committee demonstrated that leadership  
945 | and has in the past, and has not in the past. I could not  
946 | get some things done that I wanted to get done. I think it  
947 | is bold and it is a marriage of that leadership and process.

948 |         Chairman Ryan. Ms. Schwartz.

949 |         Ms. Schwartz. Thank you Mr. Chairman and thank you for  
950 | your testimony. It seems to me that while there were some  
951 | different ideas that each of you shared, but there quite a  
952 | bit of bipartisan agreement here on the fact that our budget  
953 | process is not broken. As Mr. Nussle just said, as I think  
954 | Senator Gramm and Dr. Joyce said, process does not address  
955 | political will and I think that it was made clearer that  
956 | without real agreement between the president and Congress we  
957 | can choose to ignore our own decisions. So you need that

958 agreement on substantive issues on how we are going to tackle  
959 the deficit and that is really key to how we then use the  
960 process to implement those decisions. You are all nodding,  
961 so I think that was really quite stark and I just have to  
962 agree with you.

963         So, my questions for you are, some of the decisions and  
964 issues that you raised I think would be helpful for us to  
965 reach some agreement on and have to be in the discussions.  
966 We have seen bipartisan commissions, now one after the other.  
967 You each have been in some of these discussions if not on the  
968 commissions about what does have to be on the table so that  
969 we can reach agreement and that we are not then avoiding big  
970 pieces that we are pretending either for ourselves, or to the  
971 American people that they do not matter.

972         So here are my really straightforward questions.  
973 Senator Gramm you actually said everything has to be on the  
974 table. We have to look at every discretionary program that  
975 you have suggested as to what works and what does not and how  
976 can we improve them.

977         When you are talking about, and I think this is a yes or  
978 no answer, but when you are talking about discretionary  
979 programs that ought to be reviewed, or efficiency  
980 effectiveness, or changes it might need, we have only heard  
981 the other side of that: non-defense discretionary. Would you  
982 include defense in that?

983 Mr. Gramm. Sure I would.

984 Ms. Schwartz. That is what I was assuming you meant,  
985 because I assumed you would be more efficient and more  
986 effective and more accountable and more transparent as well.

987 Mr. Gramm. Listen, anybody who does not realize that we  
988 waste tremendous amounts of money in defense is unaware of  
989 what is happening in American government. I had the great  
990 privilege of serving on the Armed Services Committee in the  
991 Senate for six years. I was on Defense Appropriations for  
992 four years. And anytime a decision making unit is spending  
993 somebody else's money there is going to be tremendous waste.

994 Ms. Schwartz. We have work to do on that. Thank you.  
995 The other point that was also made was the issue of just  
996 spending, or are tax provisions also a cost to our budget. I  
997 will ask Mr. Nussle this question. I served on Ways and  
998 Means and I do believe that using the tax code to incentivize  
999 certain behaviors, early industries that need some help, R&D,  
1000 and saving for retirement, there are tax provisions I  
1001 actually think are important to principles that many of us do  
1002 believe in and will help incentivize certain behaviors and  
1003 performance. But there are some tax provisions for special  
1004 interests that I think many of us, in a bipartisan way, agree  
1005 that are no longer effective and are just a cost to  
1006 government. Would you say that they ought to be honest about  
1007 what our cost to our budget is and how we bring down the

1008 deficit? And should they not be on the table as well?

1009 Mr. Nussle. Everything should be on the table. The way  
1010 I look at it is trust the votes. Let me illustrate it with a  
1011 story. My very first day as chairman of this committee I  
1012 gave this rousing opening argument as my maiden speech. I  
1013 was pretty passionate about it. I do not know if you were  
1014 here Paul or not, but I was pretty passionate about it. I  
1015 got this note slipped to me; it was slid over from I think  
1016 three chairs down, from Jimmy McDermott who slipped this note  
1017 to me and I opened it and it said "Smile. You have got the  
1018 votes." What he was saying was that you are going to win;  
1019 you are the chairman. You are going to win. You have got  
1020 more people on your side than any other side; You are going  
1021 to win.

1022 Mr. Gramm. I do not think that is a guarantee.

1023 Mr. Nussle. It is not a guarantee, but here is the  
1024 guarantee: trust in our democracy, we trust the votes and you  
1025 have the votes, you ought to be able to make your case and  
1026 everything ought to be on the table and this committee should  
1027 not ignore taxes anymore than it should ignore Social  
1028 Security, which is unfortunately not on the table.

1029 Ms. Schwartz. Whether we do all of that in the next few  
1030 weeks or not is obviously a question, but we have work to do  
1031 to get there. I think Dr. Joyce you added good information  
1032 as well in how we might tackle this going forward. So thank

1033 | you so much for being so straightforward and being here about  
1034 | our need to look at everything, both on the spending and  
1035 | revenue side. Thank you.

1036 | Chairman Ryan. Thanks. Mr. Garrett.

1037 | Mr. Garrett. Thank you to the entire panel. Jim  
1038 | Nussle, when you talk about budget prison, what immediately  
1039 | came to my mind was the late night 1:00 a.m. markups in the  
1040 | committee. That felt like budget prison to me. Going to  
1041 | your comments, to your very first point, the budget process  
1042 | you chose is less important than the political leadership.  
1043 | Take that apart and I tend to agree with you, but what came  
1044 | to my mind as soon as you said that was the debate that was  
1045 | historically made between John Locke and I think it was  
1046 | William Penn where what John Locke said: "It is not the  
1047 | character of the man that is important but rather the laws  
1048 | that I have in order to get an efficient government" whereas  
1049 | William Penn said just the opposite: "Give me good character  
1050 | men, and I care not what type of laws I have, we will have a  
1051 | good government." I think that is the same here today,  
1052 | regardless of which party, as long you have the right  
1053 | leadership in place you are able to do what you need.

1054 | Mr. Gramm. Can I respond to that?

1055 | Mr. Garrett. Sure.

1056 | Mr. Gramm. Laws make, systems generate character.  
1057 | Americans are proud and independent because of our system.



1058 People in other countries are dependent because of their  
1059 system. I would never underestimate the power of government  
1060 and laws to affect the character of the people and I think  
1061 our country is living proof that it makes a difference. So  
1062 there are sort of two sides to the argument, obviously I am  
1063 hard over on the side that process and the rules and the rule  
1064 of law make a big difference and one of the reasons I do not  
1065 want socialism in America is I do not want the people that it  
1066 generates. The guy who runs a bulldozer on my ranch is the  
1067 equal of any man. He knows bulldozing better than I know  
1068 economics and he is proud and he is independent. He was a  
1069 Marine. He was produced by our system is the point that I am  
1070 making. He did not just appear. The system of  
1071 responsibility, of rule of law, accountability made him who  
1072 he is.

1073 Mr. Garrett. I would never want to disagree with you.  
1074 I think that also with what it Washington or Adams who said  
1075 that "This country was made for a moral and religious people  
1076 and it is totally inadequate for any other kind." So I think  
1077 that the underpinning of our founders understood that in  
1078 order to have the government that we want to have, whether by  
1079 the rule of law that it required a moral people, a moral and  
1080 religious people in order to sustain itself.

1081 On the issue of spending, then, Jefferson is quoted as  
1082 saying with regard to budget process reform that if he

1083 continued on in that respect, alluding to the fact that  
1084 morality is necessary for the people of the day to say that:  
1085 "There are those who wish spend more based on the funding of  
1086 our prosperity, but that is just name for stealing from our  
1087 futurity," meaning stealing from the future generations.  
1088 Perhaps we saw that in the vote last night, for those who  
1089 wish to steal from future generations by the spending that we  
1090 do today and actually we see that on many votes when we wish  
1091 to put the burden on future generations because we are not  
1092 willing to make the hard decisions, as Chairman Nussle did  
1093 when I was here, trying to say how do we basically live  
1094 within our means.

1095 Let me tack on to that the question of practical effect.  
1096 Within the budget process here there are a number of programs  
1097 here, some of which I deal a lot with: the GSEs, Fanny May,  
1098 Freddie Mac, the TARP program that we have spent money on,  
1099 the Federal Reserve as far as the remission of funds that  
1100 come back, as far as their interest payments back on to the  
1101 federal government. What else is there? The GIF, with  
1102 regard to the FDIC as well, all of which have some degree,  
1103 better or worse, with regard to transparency and  
1104 reflectiveness on the federal budget. Can any or all of you  
1105 comment with regard to the adequacy of the budget process as  
1106 far as the revenue aspect goes and also, maybe more  
1107 importantly, the liability portion that right now has not

1108 | adequately addressed through our budget process.

1109 |         Mr. Nussle. Dr. Phil made this comment, earlier. We  
1110 | agree because this is part of my budget reform as well, with  
1111 | Senator Carter and that is using approval accounting. So  
1112 | yes, aside from whether or not the program should have been  
1113 | authorized in the first place, but once it is, this goes to  
1114 | Congresswoman Schwartz's comment, everything should be on the  
1115 | table, nothing should be off the table, and it should be  
1116 | depicted honestly, transparently, and accurately when it is  
1117 | on the table. And giving the information, not only to you  
1118 | the representatives of the people, but also to the people  
1119 | themselves, which that transparency has to be able provide as  
1120 | well and is vitally important for you to not only to have a  
1121 | full picture of the decisions but then to put that into the  
1122 | final decision of a budget or a fiscal blueprint.

1123 |         Mr. Joyce. I would just add to that the most important  
1124 | thing to me is that when you make a decision that is going to  
1125 | cost lots of money in the future, that it does not appear as  
1126 | if it does not cost anything. I think that really is the  
1127 | lesson, if you want to look back at what happened prior to  
1128 | 1990 when Credit Reform was passed, and after 1990 I think  
1129 | there is a lesson there, which is that loan guarantees were  
1130 | treated as if they did not cost any money even though you  
1131 | might be making a decision now that would lead to lots of  
1132 | defaults down the road.

1133 Mr. Nussle. Can I just mention one other comment, and  
1134 again, this is not to be disagreeable, I think it is just a  
1135 matter of your perspective. I know where Phil Gramm stands  
1136 on these issues, having known him personally, professionally  
1137 and politically and I not only respect it but I tend to agree  
1138 with him on a lot of those issues, but I also know my good  
1139 friend Bill who also has a perspective and it is different  
1140 than mine. The difference, though is that I want the process  
1141 to respect both of our positions and allow the both to occur  
1142 and hopefully I am going to be able beat him and he hopes he  
1143 can beat me but regardless it is a process that allows that  
1144 decision to occur and the votes fall where they may and the  
1145 decision made on the future of our country. I do not think  
1146 that process should close him out or close me out or  
1147 predetermine the outcome of that decision and I would caution  
1148 against any rules that tilt the balance of the playing field.  
1149 As much as I would love for that balance to be tilted in my  
1150 direction and my philosophy, that is not how the rules and  
1151 the laws our founders were designed. It was designed in  
1152 fundamental fairness for the American people to make  
1153 decisions about their future.

1154 Mr. Gramm. Well now wait a minute. First of all, is  
1155 accrual account unfair? Does accrual accounting tilt the  
1156 playing field? Is the debate different if people know what  
1157 something really costs? You bet your life it is. Would

1158 Medicare have passed in its current form had people not  
1159 systematically underestimated the cost of it by almost a  
1160 factor of 100. Requiring accrual accounting has a profound  
1161 effect on a debate because it then requires you to debate  
1162 what something really costs. Now if requiring real costs  
1163 predetermines the outcome of the debate, then I just have a  
1164 different concept. My view is that you need a process where  
1165 people are choosing based on what things really cost and on  
1166 what their real effects are going to be. I think whether or  
1167 not you want budgets binded, is that a predetermining factor?  
1168 Again, I think there are some people who do not want budgets  
1169 binded; there are people who do. My view is if you are going  
1170 to have a budget it ought to be binding, if it is not going  
1171 to be then do not have it.

1172 Chairman Ryan. I do not know whether those are  
1173 necessarily mutually exclusive positions.

1174 Mr. Gramm. I know, I just simply was trying to be  
1175 emphatic.

1176 Chairman Ryan. Going from John Locke to William Penn to  
1177 Dr. Phil. Now we are going to go to Bill Pascrell.

1178 Mr. Pascrell. I would say, Mr. Chairman, I would  
1179 usually accept my recommendations, but I think that  
1180 yesterday's panel and today's panel, you deserve a lot of  
1181 credit because we probably should have had these two panels  
1182 six months ago, just a thought. Because I think it is pretty

1183 basic to have three distinguished gentlemen and I do not blow  
1184 smoke, as you know. I really mean it. But I have to take  
1185 exception, since you guys brought the subject up of  
1186 emergencies, you each had a different slice of it and then  
1187 the my brother from Sussex County talked about that we do not  
1188 want to pretend, we do not want to have all of these things  
1189 on the backs of future generations, but an emergency is an  
1190 emergency, the word is very definitive in any language that  
1191 you use. And if we are going to go back and say let's not  
1192 pretend what programs really cost, who the heck figured out  
1193 in 2001 and 2003, who really played out in center with all  
1194 due respect, what these programs would cost American  
1195 taxpayers, because it cost us like this, if you can picture  
1196 the graph, and then in 2019 and 2020, this is what it is  
1197 going to cost us because that is what you will have ballooned  
1198 to. So we can get so caught up in process and not look at  
1199 results and I think we all want to address that and I cannot  
1200 agree more with my good friend Mr. Nussle, we all should be  
1201 heard, we all should be listening.

1202 I listen very, very carefully to what Tea Party members  
1203 say and I may not agree with much of what they say but I do  
1204 agree with some things, believe it or not. Let's not predict  
1205 what we are going to think before people even open their  
1206 mouths. So we do not, my friend from Sussex County, steal  
1207 from future generations.

1208           Individuals and family-centered income are very  
1209 different than the government's. When you have a problem  
1210 within your family, and perhaps you did not budget for it,  
1211 you cannot predict that it is going to happen, but when a  
1212 flood happens or a tornado happens, you are talking about a  
1213 universal situation and you begin to peel away at the onion,  
1214 and you see what existed beforehand. You see people who had  
1215 something and you see people who had nothing. We were so  
1216 caught up in the Katrina thing, think of how do you budget  
1217 for Katrina ahead of time? But we as Americans did not worry  
1218 about whether it was a blue state or a green state or a brown  
1219 state; we responded in kind perhaps poorly at that time but  
1220 we did the best with the resources that we had.

1221           These families today are suffering; Irene and Lee came  
1222 bounding down the trail: 12 states, 52 congressional  
1223 districts, billions and billions of dollars. We do not even  
1224 know the cost of this because health problems and  
1225 environmental problems are going to grow in magnitude. I  
1226 think it is more important to respond to our citizens than it  
1227 is to worry about what it is going to cost down the road. I  
1228 believe in accountability. You must account for every dime  
1229 that we pay, certainly we did not do that in the wars. We  
1230 are just figuring out what the heck the thing cost, and will  
1231 cost. Talk about growing gaps, talking about figuring out  
1232 what a program's going to cost down the road, well it cost us

1233 | this now, and figuring out how it contributes to the deficit,  
1234 | which we are all responsible and guilty for, no party is  
1235 | privy to virtue on this issue. No party is privy to virtue.

1236 |         So to make a political point is to demean the very  
1237 | meaning of emergency spending. People are out of their  
1238 | homes. Thousands evacuated, in my district 5,000 people were  
1239 | evacuated out of their homes. Some of them are not going to  
1240 | be able to go back into their homes because they are not  
1241 | ready for them or they are gone. The environmental health  
1242 | problems are dramatic. Businesses: people have been shut  
1243 | down since this storm, and laid off. They are not able to do  
1244 | business. If I do not have an obligation or a  
1245 | responsibility, first as a human being, then as a member of  
1246 | Congress, we are all wet. So we can put up whatever  
1247 | processes we want. I do not think your perception of it  
1248 | though is very different from mine.

1249 |         Let's set aside the political differences and nuances.  
1250 | I think you want for America what I want for America, I  
1251 | really mean that, else I would not say it, as you know.  
1252 | These people are hurting. Accountability and contacted that  
1253 | these are emergencies, and Mr. Chairman, you want to talk  
1254 | about emergencies, we will set aside, it is certainly timely,  
1255 | is it not?

1256 |         Chairman Ryan. Thank you, Mr. Pascrell. Mr. Campbell.  
1257 |         Mr. Pascrell. You are quite welcome.



1258 Mr. Campbell. Thank you Mr. Chairman, I actually have a  
1259 question. I have tried to look at this and I may have this  
1260 wrong but I believe in the last 20 years that only once has a  
1261 concurrent resolution been passed by both Houses and all 12  
1262 appropriations bills passed in regular order prior to the  
1263 beginning of the fiscal year. I believe that has only  
1264 happened once. If that is the case, my question for you is,  
1265 if we talked a lot about the concurrent resolution part, but  
1266 then there is also supposed to be appropriations built within  
1267 that resolution, 12 of them, and all of those appropriations  
1268 are supposed to be authorized and I am not even going to get  
1269 into how many appropriations are not authorized because the  
1270 authorizing committee did not get to them.

1271 Can you give me your views on that and of the process?  
1272 If you only get it right once in 20 years does that mean that  
1273 needs to be changed too and that is a problem, or is it not a  
1274 problem that we do CRs and omnibuses as well as the  
1275 authorizations, what are your views on that because it looks  
1276 like we have a process that cannot ever actually be done and  
1277 when it is done it takes up months on the floor, et cetera,  
1278 which is why some people talk about my biennial budget. Dr.  
1279 Joyce, you seem ready to jump.

1280 Mr. Joyce. Well that is always true, I guess. I would  
1281 make one point. I would observe that the fiscal year used to  
1282 start with the federal government on July 1, and in the 1974

1283 Budget Act one of the things they did was move the fiscal  
1284 year start from July 1 to October 1. Why did they do that?  
1285 because the Congress could not get everything done by July 1.  
1286 So they added three months, and still we have the same  
1287 problem. So it may be once in the last 20 years, I think it  
1288 is four times in the last 34 years or something like that,  
1289 that all the appropriations bills have been passed and signed  
1290 into law.

1291 Mr. Campbell. And by the way that is in a lot of cases  
1292 where there was no divided governments.

1293 Mr. Joyce. Correct. So what this has led me to believe  
1294 is that the beginning of the fiscal year is not a real  
1295 deadline. What is a real deadline? A real deadline turns  
1296 out to be when the Congress does not want to be here anymore.  
1297 I mean there are those people that say that the real problem  
1298 was caused when air conditioning was invented. So the issue  
1299 is that you have to have something that is actually viewed as  
1300 a real consequence for failing to get this done and the  
1301 beginning of the fiscal year does not turn out to be that so  
1302 long as there are systematic continuing resolutions that pass  
1303 without consequence.

1304 Mr. Nussle. There is no surprise that the super  
1305 committee deadline coincide with Thanksgiving and Christmas.  
1306 So I think going to your point, that is exactly right: number  
1307 one. Number two, in a perfect world I would suggest, and it

1308 will not be a perfect world, but in a perfect world if you,  
1309 for instance, used a joint resolution, a joint resolution  
1310 would need to be created first, that would give the marching  
1311 orders to the authorizing committees and the appropriation  
1312 committees to do their work based on the fences created by  
1313 the budget resolution, that joint resolution, and that given  
1314 those instructions and given the finality of such a decision  
1315 enacted in law and made real where you know where the fences  
1316 are, at least in the 302A, even if the 302Bs get knocked  
1317 around here and there, at least if that 302A number, then the  
1318 committees know when they are inside the boundaries and  
1319 outside the boundaries and can act accordingly.

1320 Part of the challenge during those years, as you know,  
1321 is that the committees were never given final instructions.  
1322 I mean as much as we like to trash the Appropriations  
1323 Committee here at the Budget Committee from time to time, it  
1324 is pretty hard to do your work when you do not know what  
1325 number is. It is pretty hard to say to a member of that  
1326 committee, "No, you cannot have that amendment, because we  
1327 would be over our allocation", if in fact you do not know  
1328 what that number is, or if it is a moving target, from time  
1329 to time.

1330 So I think that is why I believe having that decision  
1331 forced up front to provide the fences for the rest of the  
1332 decision, going to Senator Gramm's point, having those rules

1333 and having those constructs for the rest of that process, I  
1334 think will make it easier for legislators, members to make  
1335 those decisions and get their work done on time.

1336 Mr. Gramm. Let me just say that I think the joint  
1337 resolution would be great if you could get it because then  
1338 the president's signed on to the process. The problem is  
1339 going to be very hard to get under many circumstances and  
1340 there is always the trade-off. It might very well be that  
1341 you want a process that allows you to do it either way, if  
1342 you cannot get the joint resolution then you have the  
1343 concurrent resolution. My guess is under current  
1344 circumstances there is no way you could get to one resolution  
1345 on the budget, and so, you are better off with a concurrent  
1346 resolution than you are with none.

1347 Mr. Nussle. And that is exactly how the provision that  
1348 I works.

1349 Chairman Ryan. Mr. Ribble.

1350 Mr. Ribble. Thank you, Mr. Chairman. This has been  
1351 informative for me. I have been here a whopping nine months  
1352 and I will tell you that I wish Mr. Nussle that you were  
1353 correct, that it is just a leadership problem. We have,  
1354 maybe not in the process so much of a problem, as we have  
1355 history of problems.

1356 Dr. Joyce, the last time this country actually paid off  
1357 its national debt was when Andrew Jackson was president. I

1358 am concerned about debt. If debt in this country looked like  
1359 it did from 1787 to 1946 it would not be that big of a  
1360 problem, but debt does not look like it did for the first 150  
1361 years or so. Right now our growth in debt is on a curve that  
1362 is nearly critical. And if we continue along these lines it  
1363 will, in fact, I beleive be catastrophic. We cannot  
1364 continue. Would you agree with that?

1365 Mr. Joyce. Yes.

1366 Mr. Ribble. At that the current rate of growth?

1367 Mr. Joyce. Yes.

1368 Mr. Ribble. What do you think is actually sustainable  
1369 for an economy our size?

1370 Mr. Joyce. Well, I actually agree. I think there is a  
1371 remarkable amount of concurrence between these different  
1372 groups like the one that Mr. Nussle talked about, these sort  
1373 of bipartisan groups or private groups that look at this  
1374 problem, and they all seem to be settled around this 60  
1375 percent of GDP number in terms of what is sustainable. As  
1376 you know, on the current oath we would get to 80, 90, 100  
1377 percent of GDP.

1378 Mr. Ribble. We are about there now, would you not say?

1379 Mr. Joyce. We are projected to get there if we follow  
1380 current policies.

1381 Mr. Ribble. What is GDP?

1382 Mr. Joyce. What is GDP? Well, GDP is about \$15

1383 trillion.

1384 Mr. Ribble. What is our national debt right now?

1385 Mr. Joyce. Well, it depends on whether you look at what  
1386 is called the gross debt.

1387 Mr. Ribble. I want to look at all debt. I do not want  
1388 to play the shell games. We are at \$14.7 trillion and 100  
1389 percent GDP

1390 Mr. Joyce. Well, you can pick whichever number you want  
1391 to look at. The point is that stabilizing that at a smaller  
1392 number and 60 percent seems to be what these various groups  
1393 are coalescing around.

1394 Mr. Ribble. About a year ago I would have agreed with  
1395 most of your testimony; today I disagree with some of it. I  
1396 want to talk a little bit about the balanced budget  
1397 amendment. You mentioned in your testimony if we could enact  
1398 those policy and budget enforcement changes we would not need  
1399 the amendment. I totally agree, but we cannot. It is  
1400 obvious we cannot.

1401 As I have watch this whole thing unfold this year, we  
1402 are still protecting trillions and trillions and trillions of  
1403 dollars of debt, with additional billions and billions of  
1404 dollars of interest payment. At some point there will have  
1405 to be a future tax on future generations. With all debt,  
1406 somebody is going to pay this bill.

1407 Then, you go on to say, secondly, it relies on erroneous

1408 ideas about debt in our society. To a certain degree I  
1409 agree, however, as a former business owner I [inaudible] when  
1410 my company drew debt, or when I did it on a personal level it  
1411 is always with the intention that at some point I am going to  
1412 have to pay it off, and in fact, the lender recognizes that  
1413 there is a trust, a credit agreement, a credo that we made  
1414 with each other to pay it off. Right now, the credo is we  
1415 will just pay the interests and continue to borrow, and there  
1416 is a significance difference between the two, do you not  
1417 agree?

1418 Mr. Joyce. What I would say is, that there is nothing  
1419 inherently wrong with debt. What the problem is that if you  
1420 have a debt that is too large, the debt load is too large,  
1421 and that is what we just talked about, the fact that we are  
1422 getting to a level of debt that is unsustainable, I think  
1423 that is the problem, and if your debt is not productive debt.  
1424 That is that you would say, I think, you would agree with me  
1425 that there is a difference between borrowing money for your  
1426 mortgage where at the end of the process you are going to  
1427 have a house and borrowing money to put it non your credit  
1428 card because you want to take a nice vacation. So, I think  
1429 we have to think in terms of there are different kinds of  
1430 debt, and my point here was that there is nothing inherently  
1431 wrong with debt, and in fact, if you say, for example, that  
1432 states balance their budgets, well the truth is the states

1433 balance their operating budgets; states have a lot of  
1434 capital. So the federal government's accounting is not the  
1435 same. But, that is separable from whether the debt is too  
1436 large or whether the debt is going to pay for things that may  
1437 not productive.

1438 Mr. Ribble. I would also extend to you the idea that  
1439 debt in business, debt in private sector is significantly  
1440 different because at the end of the day you are writing the  
1441 check with your own money, debt in government you are writing  
1442 a check with some else's money and it is much easier to do  
1443 that. You can pretend and hide behind the importance and  
1444 value of it at some point.

1445 You mentioned also that if used correctly it can be very  
1446 productive and result in immeasurable gains. Do you believe  
1447 the debt in this country is being used correctly right now?

1448 Mr. Joyce. I would say some is and some is not.

1449 Mr. Ribble. Therein, sir, I would contend you realized  
1450 the problem. Thank you again, all of you, for being here.  
1451 It has been very informative. Mr. Chairman, I yield back.

1452 Chairman Ryan. Thank you, Mr. Flores.

1453 Mr. Flores. I would like to thank the panel for joining  
1454 us today, it has been beneficial. I think both elements are  
1455 important: process and leadership. And I think the process  
1456 need to trump in case the leadership does not show up at the  
1457 table. And I have seen that happen in the history of this



1458 Congress.

1459 I would like to change the topic a little bit and talk  
1460 about truth and budgeting. Truth so we get to the right  
1461 results, and, I think Senator Gramm started down this pathway  
1462 when he started talking accrual accounting. I guess the way  
1463 I add it, the national debt, we have about \$15 trillion of  
1464 just direct debt; whether or not we count [inaudible] are  
1465 irrelevant to me. We have got about 10 to \$11 trillion of  
1466 unfunded liability, Social Security about 60 to 70 of  
1467 unfunded liabilities in Medicare, and another 10 or so of  
1468 Medicaid and everything else. So if you add it all up it is  
1469 100, which to me is six times GDP that is a problem for me.

1470 So, I believe whole heartedly we need to go with accrual  
1471 accounting. Well, let's say we are in the next building and  
1472 can see exactly what we are talking about, but more  
1473 importantly, the American people can see what is happening to  
1474 their children and their children's future.

1475 The second element about truth in budgeting or truth in  
1476 the financial playing field is the way we score. I think we,  
1477 as the Congress, provide influence into a process, like this  
1478 is what we want to do with a piece of legislation, but what  
1479 we get out of the scoring is bad information, and therefore  
1480 we make decisions that do not reflect realities. A couple of  
1481 examples: We assume that we can raise taxes to high levels  
1482 and still grow GDP at four percent real rates. That puppy

1483 | does not hunt in any world.

1484 |       The second one is that, CBO scored Medicare cuts for  
1485 | about third, and says we are still going to have the health  
1486 | care infrastructure providers that we are going to have and  
1487 | also that we are going to have high school seniors that still  
1488 | want to go into health care even though their pay is going to  
1489 | essentially set by the federal government. We all know in  
1490 | the real world that does not happen.

1491 |       So, my question is this: How do you get to a point  
1492 | where you can use real world scoring on these things, like on  
1493 | taxes and also on the expenditure side? You guys have a  
1494 | magic wand, how would you wave it so that they fix the  
1495 | scoring so that when we are trying to make a decision we make  
1496 | decisions with real information?

1497 |       Mr. Gramm. I think that it would be a good policy to  
1498 | establish a simple law that says that accounting standards  
1499 | that are applicable to the private sector should all apply  
1500 | equally to government. I think you would want to do that  
1501 | both in the federal government and in the state governments  
1502 | so that people in state governments, for example, would know  
1503 | what their pension liabilities are, what their health care  
1504 | liabilities are. The problem is the way we score things now.  
1505 | We have debates without having relevant information as to  
1506 | what we are talking about. Socrates said, "A man is only as  
1507 | good as his facts." And if you do not have the facts, you

1508 are not going to make good decisions no matter how brilliant  
1509 you are, no matter how much leadership you have, not matter  
1510 how good the process is, if you do not know what something  
1511 costs, it is hard to make a decision about how much you want  
1512 of it, because you are missing one of the key ingredients.

1513 Mr. Flores. Right. I am trying to dig in the weeds a  
1514 little bit more and say, "Okay we know we have today does not  
1515 work, can you blow up CBO and start over. Or do you go to  
1516 outside departments to get some corroborating evidence.

1517 What I am trying to get to is what is the way to get the  
1518 right answer so that when we are looking at the cost of  
1519 health care reform, we get the real cost instead of this  
1520 goofy stuff we get?

1521 Mr. Nussle. Senator Gramm just said when I was younger I  
1522 was ignorant. I do not remember how you said it. I,  
1523 ignorantly, said at one point in time in my career that CBO  
1524 sucks, and I have been apologizing for that for some time  
1525 because these are good people who do a good job and try their  
1526 hardest to get the numbers right. And they are constrained  
1527 by certain conventions, on one hand, and just human nature  
1528 and probability on the other.

1529 We have looked at the possibility of using more dynamic  
1530 scoring. The challenge with dynamic scoring is you are using  
1531 the same people, and you could go outside in the process, but  
1532 you are using people, using economic factors here and there,

1533 and trying to make it all add up and they do the best they  
1534 can. It is an inexact science predicting the weather next  
1535 month, and that is what you are doing. You know it is going  
1536 to be a little colder around here, you know, generally, what  
1537 the trends have been, but do you know exactly what that  
1538 number is going to do?

1539 Mr. Flores. We are not even in the same continent.

1540 Mr. Nussle. You actually are. You actually are. I  
1541 going to challenge you on that. They do a better job than  
1542 the guestimates, and they generally have done a better job  
1543 than some of the dynamic score-keeping. That has been part  
1544 of the challenge of moving to something called dynamic  
1545 scoring is that we have not found anything that was any more  
1546 accurate than the current way. That was the challenge.

1547 Mr. Flores. Let me give you exact example.

1548 Chairman Ryan. That is time. Sorry Bill, but people  
1549 have a schedule to keep and time to keep. And I always tell  
1550 people when we think about dynamic scoring we are talking  
1551 about tax policy; that is the Joint Committee on Taxation;  
1552 that is not CBO.

1553 Spending scoring is a little different and easier with  
1554 respect to reality bases scoring, probably not on actuarial  
1555 stuff on health care, but taxes is Joint Taxes. All CBO does  
1556 is take their data.

1557 With that, since we do have time limits here, I want to

1558 | thank the three of you for taking time out of your busy lives  
1559 | and busy days to join us. This has been very enlightening,  
1560 | very helpful and it will help us do a better job of trying to  
1561 | improve upon the process, so we can be better stewards.  
1562 | Thank you. And this hearing is adjourned.  
1563 | [Whereupon, at 11:43 a.m., the Committee was adjourned.]