

Majority Leader Steny Hoyer
Fiscal Responsibility
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Never in my decades in Congress have I seen a public so outraged by deficits and debt. But this moment of historic awareness is also a moment of historic opportunity. We can waste it in opportunism, in slogans and symbolic solutions—or we can rededicate ourselves to the painful, unglamorous, and indispensable work of fiscal discipline. We can choose to hang together, in the words of Ben Franklin—or we will hang separately.

I believe that we will choose to hang together. The consequences of failure are dramatic enough to concentrate the mind of even the most dedicated cynic. It is enough to see that by the time my grandchildren and great-granddaughter are in college, our debt will exceed our GDP: we will owe more money than the value of our entire economy. It is enough to realize that, by then, our government will exist to do only two things: pay for entitlements, and pay interest on our debts—with essentially nothing left over for our nation's defense, for our children's education, for innovative scientific research, or for any of the other critical investments that keep America a home for freedom and opportunity. It is enough to look across the Atlantic at Greece's extreme economic crisis and understand: it can happen here. If we don't change course, it *will* happen here.

In their look at eight centuries of financial crises, economists Carmen Reinhart of the University of Maryland and Kenneth Rogoff of Harvard remind us that America is no exception to the laws of debt. They point out that economic contractions are often followed by budget crises that dampen prosperity and stall recovery. "If there is one common theme to the vast range of crises," they write, "it is that excessive debt accumulation...often poses greater systemic risks than it seems during a boom....Government debt is...the unifying problem," the common symptom of decline. Reinhart and Rogoff add that public debt exceeding 90% of GDP is often a tipping point into these crises—a point we are on pace to reach very soon.

"This is how empires decline," writes Harvard financial historian Niall Ferguson. "It begins with a debt explosion."

This, then, is our turning point and our choice: the point at which we join the debt-ridden powers who saw the story of their greatness end in fiscal ruin, or the point at which we as a nation refuse that ending and write a new chapter.

It is a waste of time to hand out blame. There's only one constructive reason to look back at what got us here: to identify the kind of thinking we must avoid. That's why there is such deep harm in the mindset that holds that our budget deficit snapped into existence at noon on January 20, 2009: because it draws exactly the wrong lessons and would doom us to repeat the same mistakes.

As the nonpartisan Center on Budget and Policy Priorities puts it, "asserting that the deficits that lie ahead are primarily the result of policies enacted since President Obama took office is Orwellian. It stands truth on its head." The Recovery Act, for instance, has saved or created between 1.5 and 2 million jobs—but it has contributed only fractionally to our deficits. So then, what do the facts say about why we're in this hole? Because, as the Center shows, "the tax cuts enacted under President George W. Bush, the wars in Afghanistan and Iraq, and the economic downturn together explain virtually the entire deficit over the next ten years."

The most important lesson we can draw from the years of recklessness is this: when it comes to budgeting, what is politically easy is often fiscally deadly. It is easier to pay for tax cuts with borrowed money than with lower spending; easier to hide the true costs of war than to lay those costs before the people; easier to promise special cost-of-living adjustments than explain why an increase is not justified under the formula in law; easier to promise 95% of Americans that we won't consider raising their taxes than to ask all Americans to contribute for the common good. Those kinds of easy choices are so often selfish choices—because they leave the chore of cleaning up to someone else. Easy choices may be popular—but the popularity is bought on credit.

Washington's behavior will only change when the incentives change: when voters demand more responsibility, and when the political price for easy choices rises sharply. As I said, I'm hopeful that just that is happening. But the public has a responsibility, too: to educate itself about the sources of the deficit and the range of realistic solutions—not to demand that government continue to escalate entitlement payments and lower the deficit at the same time.

We can't meet this challenge unless the public is ready to confront tough choices, and unless leaders in both parties are ready to be honest about tough choices. When deficit solutions meet resistance, which they will, and when they are painful, which they will be, it's our job to explain why they are also correct—and essential.

But I believe we do have a president and Congress that take the deficit seriously. President Obama and Congress have taken four major steps to return our country to fiscal health.

First, President Obama proposed a budget that would cut our deficit by more than half by 2013. It also contains a freeze on non-security discretionary spending that will force Congress to rigorously identify priorities. It's true that less discretionary spending will barely put a dent in the deficit. As former Republican Senator Alan Simpson explained, "To say that all we have to do is take care of waste, fraud and abuse, and foreign aid is a like a sparrow's belch in the midst of typhoon." But our willingness to curtail the growth of

programs we value—along with Democrats' work to cut earmarks to less than 2% of the budget—is powerful evidence that Washington will tighten its belt before asking the public to do the same.

Defense spending is exempted from the freeze, because we should ensure that our men and women in uniform have the resources necessary to do their job while they're in harm's way. But that doesn't mean that defense spending should be exempt from cuts where they do not undermine the mission we have set for our military. We must apply the same oversight to defense spending as we do to other discretionary spending.

That's why, in another second deficit-cutting step, President Obama signed a bill to reform weapons acquisition, bringing the process more competition and fewer conflicts of interest. The Government Accounting Office reports that the 96 largest weapons systems alone are responsible for \$296 billion in waste and cost overruns. That kind of defense waste only makes America weaker in the long run.

Third, we continue to work to pass a health insurance reform bill that is not only deficit-neutral, but takes on the skyrocketing health care costs that are the single greatest driver of our deficits. Its passage will be a step, though not the final one, toward ensuring the fiscal sustainability of our health care entitlements for decades to come. In fact, according to the Congressional Budget Office, the health care reform bills that passed the House and Senate last year would be fully paid for in the first decade and reduce the deficit by approximately \$1 trillion in the second decade.

And fourth, we have brought back the pay-as-you-go law. President Clinton used PAYGO to help turn deep deficits into a \$5.6 trillion projected ten-year surplus; but the decision by President Bush and a Republican Congress to do away with PAYGO paved the way for record borrowing and threw us back into the red. Whether it comes to cutting taxes or increasing Medicare benefits, PAYGO is so valuable because it removes from the table the easy and usually unspoken solution—we'd rather our children pay for it. I was proud to sponsor the PAYGO law. Paying for what we buy can't get us out of our hole—but it can stop us from digging any deeper.

The PAYGO law did include exemptions for extensions of current policies, but I think that the attention given to those exemptions has obscured the importance of applying real discipline to new policies. For instance, the principle of paying for what we buy applies to the enormous fiscal issue of health insurance reform, restraining spending. The requirement that we include tough choices to offset the costs of expanding access to health insurance has made the task of passing the legislation much harder, but will prevent Congress from creating a massive unfunded liability. By contrast, the Medicare prescription drug program that was enacted after statutory PAYGO lapsed created an unfunded liability of more than \$7 trillion.

It's also important that we passed a PAYGO law capable of responding to emergencies and recessions. Congress will use the emergency designation to provide for the extension of unemployment benefits and other safety net programs, which have traditionally been

designated as emergency spending during recessions; but we will offset the costs of all other parts of our jobs agenda. Cutting the deficit can't strangle job creation, because getting our economy back on track is crucial to generating more revenue.

All of those steps are essential, but they are not enough. To return our budget to balance, President Obama is creating a bipartisan fiscal commission. Along with Speaker Pelosi and Majority Leader Reid, I've pledged that its recommendations will get an up-or-down vote in Congress. Given the seriousness of our situation, the commission must come to a consensus, and Congress must act on its proposals at the end of the year. The president has appointed two proven budget-balancers to chair the commission: former Clinton White House Chief of Staff Erskine Bowles and former Senator Alan Simpson.

I hope congressional Republicans will take the work as sincerely and seriously as the chairmen take it—that they will come to the table without preconditions, ready to contribute their ideas and not just their criticism from the sideline. The commission has a bipartisan pedigree, and it won the votes of 16 Republicans in the Senate. But I was disappointed to see that seven Republican supporters of the commission bill, including Minority Leader McConnell, decided they were against it as soon as President Obama said he was for it.

President Reagan and Speaker O'Neill's work on Social Security reform in the '80s, and the Republican reaction to the Medicare changes in the health care bill, both teach the same lesson: the real work of cutting deficits is so easy to demagogue that it rarely succeeds without support from both sides. That's one of the reasons why the fiscal commission must not take any option off of the table, from raising revenues to cutting entitlement spending. And that's why both parties have a duty to appoint members who are willing to compromise and make tough decisions.

It's also clear to me that if the commission takes a one-handed approach, it will fail, both politically and substantively. Congressman Ryan's thoughtful budget proposal shows what an approach looks like when it relies entirely on cutting spending. He should be commended for putting together a serious and detailed plan to tackle the deficit. It doesn't raise a single tax. But as a consequence, it significantly changes Medicare.

That strikes me, as I think it would strike most Americans, as very much the wrong solution. But Congressman Ryan deserves respect for his honesty—for being one of the few members of his party, or of either party, to tell the public exactly what he'd cut. That's far better than pretending that the solution to higher deficits is simply lower taxes and wishful thinking. In fact, as much as his party's leadership tries to distance itself from his plan, Paul Ryan's program, or something very much like it, is the logical outcome of the Republican rhetoric of cutting taxes and deficits at the same time.

But it seems to me that the only solution that can win the support of both parties is a balanced approach: one that cuts some spending and raises some revenue while avoiding extremes in either direction. A balanced approach would spread the effects of change across American society, rather than concentrating them on seniors.

What are our options for a budget agreement? On the side of entitlement spending, an agreement might recognize that Americans are living longer lives and raise the retirement age over a period of years, or even peg the retirement age to lifespan. Another option is to make Social Security and Medicare benefits more progressive, while strengthening the safety net for low-income Americans. That could preserve those programs as a central part of our social compact, while protecting their ability to help those of us in the greatest need.

On the side of revenues, President Obama was correct in refusing to take any options off of the commission's table. No one likes raising revenue, and understandably so. But if you're going to buy, you need to pay. In 1993, President Clinton proposed an economic plan aimed at accomplishing fiscal balance, and he paved the way for the greatest American prosperity in a generation. The bipartisan tax compromise in 1986 also showed the importance of a simplified, more efficient tax code. If need be, I am hopeful that both parties will agree to look at revenues as part of the solution—not as a gateway to higher spending, but as part of a compromise that cuts spending and balances the budget.

None of this, to put it mildly, will be easy. It will take bipartisan trust, presidential leadership, and a public spirit that many assume is beyond America's reach in the year 2010. But I do not share that cynicism, because America has made a career of proving it wrong. As James Fallows recently wrote in *The Atlantic*: “During just the time when Frederick Law Olmsted designed Central Park, when Theodore Roosevelt set aside land for the National Parks, when Dwight Eisenhower created the Pentagon research agency that ultimately gave rise to the Internet, the American system seemed broken too.”

Saving America from debt would belong next to those accomplishments—because, in every era, these very fiscal issues are among the greatest tests a nation can face. We are not the first great power to meet this challenge from within. We would not be the first to fail. Spain under the Habsburgs, France under Louis XVI, the Ottoman Empire in the 19th century, the British Empire in the 20th—all of them were crippled by borrowing, by interest payments, by debt. We are not exempt. In every era, these fiscal issues are questions of national security and national success.

And in a democracy, they are questions of national character. They are not technical puzzles for a few of us, in seminars, think tanks, and backrooms. They are a defining challenge for all of us, in field hearings of the commission, on the radio and online and in family rooms. Our willingness to face reality is a measure of our character. Our willingness to reject easy answers from our leaders is a measure of our character. Our willingness to put the welfare of our children ahead of our own—to plant seeds for them whose fruit we may never taste—is a powerful test of our character. More than wealth and more than might, those are the virtues that have made America flourish. Those are the virtues we need to pass this test.

So I can say with confidence: if we are unable to raise our heads even for a moment above the daily partisan fight, if the collapse comes—we will deserve it. And if we regain a measure of our lost trust, and support one another through shared sacrifice, and return our country to fiscal health—we will deserve that, too.