

**Testimony before the National Council on Disability
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Thank you for the opportunity to testify before you today. I am a senior policy advisor at the Committee for a Responsible Federal Budget. I run the Moment of Truth Project, a project begun by the Committee to build upon the work of the President's Commission on Fiscal Responsibility and Reform. Prior to my current position I served as a member of the staff of the Fiscal Commission, also known as the Bowles-Simpson Commission.

On a personal note, I am the proud son of a disability rights activist. My mother, Barbara Houghtaling, is a member of the Pennsylvania State Independent Living Council and serves on the board of the Northeast Pennsylvania Center for Independent Living. Through her work with these organizations and others I have learned a great deal about the issues facing the disability community and the importance of programs to help individuals with disabilities live full, independent lives. I saw first hand the value of programs such as home and community based waivers, the services offered by Centers for Independent Living and other government programs that allowed her to return home after her accident and live an active, full life

One of the key points in my testimony is that the goal of reducing the deficit and stabilizing our debt and the goals of these valuable programs are not mutually exclusive and in fact addressing our deficit now will serve to protect these programs over the long term.

The need for action

The current fiscal path we are on is simply not sustainable. Spending is rising rapidly, and revenues are failing to keep pace. As a result, the federal government is forced to borrow huge sums each year to make up the difference.

The Budget and Economic Outlook published by the Congressional Budget Office (CBO) earlier this year showed that the country is continuing to head down an unsustainable fiscal path.

CBO projects the deficit to rise from \$1.3 trillion (8.9 percent of GDP) last year, to \$1.5 trillion (9.8 percent of GDP) in FY2011, and fall back to \$1.1 trillion (7.0 percent of GDP) in FY2012. Debt held by the public has continued its upward climb. In 2010, debt held by the public reached over \$9 trillion (62 percent of GDP). Under the CBO baseline, debt held by the public will double to over \$18 trillion (77 percent of GDP) by 2021.

Yet while these numbers are quite scary, they are actually optimistic. CBO's "current law" projections ignore several current practices by lawmakers, which tend to make deficits even worse. For example, CBO is required to assume that all of the Bush tax cuts enacted in 2001 and 2003 will expire at the end of 2012 as scheduled under current law, the 28% cut in Medicare payments to physicians will go into effect even

though Congress has consistently prevented those reductions from going into effect and Congress will allow other policies reflected in current law to take effect even though they have been blocked in the past.

Under a realistic baseline which assumes all provisions from the 2001/2003 tax cuts extended last year will be continued permanently, Congress continues to enact patches for the Alternative Minimum Tax to prevent millions of middle class taxpayers from being subject to the AMT, and Medicare physician payment rates will be frozen rather than allowed to fall 28 percent next January, deficits in the future are significantly larger than what CBO is projecting under their current law baseline -- \$10.5 trillion over the next decade instead of \$7.0 trillion.

The United States cannot afford debt levels this high, particularly considering the rapid projected growth of Social Security, Medicare, and Medicaid expected to occur outside the ten-year budget window. Over the long run, as the baby boomers retire and health care costs continue to grow, the situation will become far worse. By some time next decade, revenue will be able to finance only interest payments, Medicare, Medicaid, and Social Security. These mandatory payments will squeeze out funding for all other priorities. Every other federal government activity – from national defense and homeland security to transportation and education – will have to be paid for with borrowed money.

Unfortunately, these pressures are no longer just long-term problems; they are increasingly becoming short- and medium-term issues. The Congressional Budget Office reported earlier this year that Social Security outlays exceeded revenues last year, and will remain in the red permanently.

In bad economic times, temporary deficits financed by government borrowing might make sense in order to soften the blow of a recession. The fiscal problem facing our nation is not so much the record deficits we face today – although they are becoming of increasing concern – but rather the prospects that borrowing will remain high throughout the decade, and rise substantially as time goes on. Under the reasonable set of assumptions I just outlined, our national debt will surpass 90 percent of Gross Domestic Product (GDP) by the end of the decade, a level not seen since just after World War II, and a level most economists find problematic.

Federal debt this high is unsustainable. It will drive up interest rates for all borrowers – businesses and individuals – and curtail economic growth by crowding out private investment and making it more expensive for entrepreneurs and businesses to raise capital, innovate, and create jobs.

Higher debt means the government will spend more money on interest payments, and therefore have less available for other important priorities. By 2020, we will be paying nearly \$1 trillion a year in interest alone – much of it to our competitors overseas. That is \$1 trillion that won't be available to educate a child, feed a family, provide health care, build a road or bridge or make any other critical investments.

In a worst-case scenario, investors could lose confidence that our nation is able or willing to repay its loans – possibly triggering a debt crisis, at which point the bond markets will force decisions upon us. If we do not act soon to reassure the markets, the risk of a crisis will increase, and the options available to avert or remedy the crisis will both narrow and become more stringent. Delaying action will place the economy at greater risk and make the choices more painful. The Congressional Budget Office projects that if we wait ten years to act our economy could shrink by as much as 2 percent and spending cuts and tax increases needed to plug the hole could nearly double from what is needed today.

Waiting for a fiscal crisis to force action is the most harmful and inhumane thing we can do, as it would likely lead to high levels of unemployment and force across-the-board cuts in government spending (and across-the-board tax increases). By acting now, we can protect those who are the most vulnerable and reduce the deficit on our own terms. Policymakers can set priorities and make choices and exercise reasoned judgment in enacting savings, protecting valuable and worthwhile programs and phasing in changes gradually. If we are forced to act – which we will be eventually if we remain on this unsustainable fiscal path – we will not have a choice and will be forced to enact dramatic, immediate cuts in order to reassure markets, in which case policymakers won't have the luxury of making reasoned choices and those programs and investments that are the most important to Americans will be jeopardized.

Politicians can argue about what brought us to this position, with Democrats pointing to the tax cuts enacted in 2001 and 2003, two wars that were not paid for and other policies enacted during the Bush administration and Republicans pointing to the stimulus package and the substantial increase in spending under President Obama. The reality is that there is plenty of blame to go around. Our deficit is a result of both tax cuts and spending increases, of policies supported by Republicans and policies supported by Democrats and by the inevitable challenges created by the aging of society that both parties have largely ignored. In short the problems we face are the result of a lack of discipline in all parts of the budget, and a solution will require us to impose discipline and make sacrifices in all parts of the budget.

Dealing with these challenges will require comprehensive reform which addresses not only domestic discretionary spending, but also tackles defense spending, slows the growth in entitlement spending, and reforms the tax code. Failure to address all areas of the budget will make it nearly impossible to bring our medium and long-term fiscal situation under control.

That is the approach that was taken by the President's Commission on Fiscal Responsibility and Reform. The Fiscal Commission put forward a comprehensive fiscal plan that included over sixty specific recommendations for reforms of spending programs and the tax code, and many other illustrative options. The plan would achieve nearly \$4 trillion in deficit reduction through 2020, more than any effort in history, by going after every sacred cow, while protecting the most vulnerable and prioritizing investments in education, infrastructure, and high value-added R&D.

The plan would stabilize the debt beginning in 2014 and cuts our deficit in half by 2015 to 2.3 percent of GDP, surpassing the goal of 3.0 percent. By 2020, the plan would cut the deficit by three-quarters to 1.2 percent of GDP and bring the debt down to 60% of GDP. Over the long-run, the plan makes additional reforms to ensure lasting solvency for Social Security and put in place tools to control federal health care cost growth.

The Fiscal Commission plan is built on a few responsible, balanced, bipartisan principles that I believe should guide any discussions about deficit reduction

First, a fiscally responsible plan must be bold and comprehensive. It must restrain spending across the federal budget, reform the tax code, bring down health care costs, and make Social Security solvent and strong for the next 75 years and beyond.

A comprehensive approach is necessary not only to match the magnitude of the problem, but to allow for the tradeoffs and balance necessary to reach a bipartisan agreement. Commission members were willing to accept painful choices in parts of the budget that they cared about only if there were equally painful choices in other parts of the budget important to other members. Taking tax reform or Social Security off the table, for example, would have undermined prospects for agreement.

Second, revenues need to be part of the solution, but as part of fundamental tax reform that moves toward a more efficient tax code that promotes economic growth. Today, we spend over \$1.1 trillion a year on “tax expenditures” – credits, deductions, loopholes and exclusions which are really just spending by any other name. If we reform or eliminate these tax breaks, we can dramatically reduce personal and corporate tax rates, improve economic growth, and at the same time reduce the deficit.

Second, a plan to reduce the deficit must therefore promote economic growth and not undermine the economic recovery. Our nation must continue to invest in education, infrastructure and high value research if we are to compete in a knowledge based economy, but these investments must be done in the context of a fiscally responsible plan. In order to avoid shocking the fragile economy, the Commission recommended waiting until 2012 to begin enacting programmatic spending cuts, and waiting until fiscal year 2013 before making large nominal cuts. In addition, revenue changes would not begin until calendar year 2013, after spending cuts are already well underway.

Finally, a deficit reduction plan must protect the most vulnerable in society. We must ensure that this nation has a robust, affordable, fair, and sustainable social safety net.

I am not suggesting that the Commission plan is the only approach or even that it is the best approach. None of the commission members who voted for the plan supports every element of that plan. There will be arguments that the Commission went too far in some areas or not far enough in others. That is a debate Congress should have. However, the Commission plan does demonstrate that it is possible to get bipartisan support for a comprehensive to reduce the deficit and stabilize the national debt which protects important programs and values.

Thank you again for inviting me to appear today. I look forward to your questions.