Statement of Robert L. Bixby
Executive Director, The Concord Coalition

In the Red: How to Address Our Nation's Fiscal Challenges

Senate Homeland Security and Government Affairs Committee
Subcommittee on Federal Financial Management, Government Information, and International Security

June 26, 2008

I. Introduction

Chairman Carper, Senator Coburn, and members of the Subcommittee, thank you for inviting me to discuss the *2007 Financial Report of the United States Government* and our nation's fiscal challenges. The *Financial Report* raises important issues for the future health of the economy, generational equity, government accountability, transparency of obligations, and the prospect for all Americans to enjoy rising standards of living. There is very little dispute that current fiscal policies are unsustainable and that future generations are the most at risk from inaction. Yet, too few leaders in Washington are willing to acknowledge the seriousness of the long-term fiscal problem and even fewer are willing to put it on the political agenda. By focusing attention on this critical issue you are setting a very positive example.

I am here representing The Concord Coalition, a nonpartisan organization dedicated to sound and sustainable fiscal policy. Concord's co-chairs are former senators, Warren B. Rudman (R-NH) and Bob Kerrey (D-NE). They, along with Concord's President former Commerce Secretary Peter G. Peterson and our nationwide membership, have consistently urged Washington policymakers to adopt credible policies for achieving fiscal sustainability.

Since its inception, The Concord Coalition has strongly supported efforts to better inform the public about the huge unfunded obligations that this generation is leaving to future generations — primarily as the result of projected cost growth in Medicare and Social Security. To help raise awareness, we have organized a nationwide series of public forums known as the "Fiscal Wake-Up Tour," which includes former Comptroller General of the United States David M. Walker[1] and fiscal policy experts of differing perspectives from the Brookings Institution and the Heritage Foundation.

Our experience with the Fiscal Wake-Up Tour, which has now visited more than 40 locations in 26 states, is that the public is hungry for a nonpartisan dialogue on the fiscal challenge. When presented with the facts, they appreciate that each of the realistic options comes with economic and political consequences that must be carefully weighed, and that there must be tradeoffs. Information contained in the *Financial Report*, particularly the Statement of Social Insurance (SOSI), and the extent to which it is conveyed to the public can help to clarify those trade-offs and better inform the process for resolving them.

II. The 2007 Statement of Social Insurance — Unqualified and Unsustainable

How the nation's fiscal commitments are communicated to and understood by the public is of vital importance. Without greater understanding of the problem among the public, community leaders, business leaders and home state media, elected leaders are unlikely to break out of their comfortable partisan talking points — and unlikely to find solutions.

For many years, The Concord Coalition expressed frustration that estimates of the unfunded obligations of Social Security and Medicare were not generally available to the public and almost never discussed. In recent years, that has changed. Pursuant to Federal Accounting Standards Advisory Board (FASAB) standards, the *Financial Report* now includes estimates of unfunded benefit obligations in the Statement of Social Insurance (SOSI). Moreover, FASAB has given these estimates more prominence by classifying them as "basic financial" rather than "supplementary stewardship" information. The President's Budget and the Social Security and

[1] David Walker is now President and CEO of the Peter G. Peterson Foundation, an organization dedicated to finding consensus solutions to the nation's fiscal challenges and other unsustainable policies. Mr. Walker remains active in the Fiscal Wake-Up Tour.

Medicare Trustees' Annual Report have also begun to publish estimates of the programs' unfunded obligations.

This new openness about social insurance costs is welcome. The usual measures of 10-year budget projections and 75-year trust fund "solvency" say little about two key issues: sustainability and generational equity. By contrast, the SOSI takes a more comprehensive view of the commitments being made relative to dedicated resources — primarily payroll taxes and premiums.

A five or 10-year budget window may have been adequate when most federal spending was appropriated annually. It is insufficient now that so much of the budget consists of entitlement programs set on a rising autopilot. A window of 30 or 40 years is needed to establish a reasonable expectation that our fiscal policies are sustainable.

Trust fund accounting is an even less reliable gauge of future commitments. Under this method, Social Security appears to be on solid ground until 2041 and Medicare through 2019. This presents a far more benign view than is warranted because it ignores the growth of these programs relative to the size of the economy, which is substantial, and the huge general revenue subsidies that both programs must draw on to remain "solvent."

Trust-fund accounting assumes that surpluses accumulated in prior years can be drawn down to defray deficits incurred in future years. However, the trust funds are bookkeeping devices, not a mechanism for savings. The special issue U.S. Treasury bonds they contain represent a promise from one arm of government (Treasury) to satisfy claims held by another arm of government (Social Security or Medicare.) They do not indicate how these claims will be satisfied or whether real resources are being set aside to match future obligations. Thus, their existence does not, alone, ease the burden of paying future benefits. The real test of fiscal sustainability is the projected gap between outlays and dedicated resources as they accumulate over time.

Social Security's cash flow turns negative in 2017. By 2040, the annual general revenue subsidy needed to satisfy the trust fund obligations will be about 1.3 percent of the Gross Domestic Product (GDP) — more than last year's deficit for the entire federal budget. For Medicare, the drain on general revenues will be far worse. Medicare Part A is already running a small cash deficit that will grow to nearly half a percentage point of GDP by 2019 when the trust fund is tapped out. In the case of Medicare Parts B and D, trust fund solvency is a meaningless concept because both programs have an open pipeline to the U.S. Treasury for 75 percent of program costs. Taken together, Medicare's annual gap between dedicated resources and benefits is projected to reach 5 percent of GDP by 2040.

The good news in the 2007 *Financial Report* is that the SOSI received an unqualified, or "clean," opinion, from the Government Accountability Office (GAO). This means that the numbers are reliable. The bad news is that these unqualified numbers paint a stark picture of future promises that cannot be sustained by the level of dedicated revenues.

According to the SOSI, over the next 75 years, the present value of promised benefits for Social Security and Medicare ($93 trillion) exceeds the present value of earmarked revenues and premiums ($52 trillion) by $41 trillion. This huge imbalance, not the current debt held by the public ($5.3 trillion), best demonstrates the magnitude of the nation's fiscal challenge. All told, the *Financial Report* shows current and future "fiscal exposures" with a present value of $53 trillion.[2]

III. Why Are We in This Fiscal Hole?

It is often said that our political system only responds to a crisis. If that turns out to be true, our children and grandchildren are in big trouble. The question you are posing at this hearing is whether we, as a nation, will face up to these challenges and fulfill our generational stewardship obligation or instead put the future at risk by waiting for a crisis.

The economic and moral case for fiscal policy reform is clear. An unprecedented demographic transformation is taking hold against the backdrop of steadily rising health care costs and steadily falling national savings. This is a dangerous combination for the future health of the economy.

---

[2] This includes $11 trillion of explicit liabilities, such as debt held by the public, the implicit exposures for social insurance ($41 trillion) and other contingencies and commitments of $1 trillion.

The baby boomers' imminent retirement is ushering in a permanent shift to an older population and a permanent rise in the cost of programs such as Social Security, Medicare and Medicaid, which already comprise 42 percent of the federal budget. There is no plan to pay for it all other than running up the national debt.

No one can say when all this might end up in a crisis, nor what a crisis would look like. Indeed, there may be no crisis at all — just a long slow erosion in our nation's standard of living. In either case, it is a dismal prospect and doing nothing now to avoid it would be an act of fiscal and generational irresponsibility.

The basic facts are a matter of arithmetic, not ideology. Two factors stand out: demographics and health care costs.

Over the next 30 years, the number of Americans aged 65 and up is expected to grow from 13 percent of the population to 20 percent. The working age population will grow by only 14 percent over this time, shrinking from 60 percent of the population to 55 percent. As a result, the ratio of workers paying into Social Security and Medicare relative to the number of beneficiaries will fall by roughly one-third.

At the same time, one of the major engines of economic growth — an expanding workforce — will slow substantially due to the large exodus of older workers from the labor force and lower birth rates following the baby boom.

Even without a fiscal crisis, future standards of living are at risk. As Federal Reserve Board Chairman Ben Bernanke has observed, "the aging of the population is likely to lead to lower average living standards than those that would have been experienced without this demographic change."[3]

Demographic change, however, is only part of the problem. Health care costs have consistently outpaced economic growth by about 2.5 percentage points annually since 1960. If this

[3] Remarks before The Washington Economic Club, Washington, D.C. October 4, 2006.

phenomenon persists, it will greatly compound the growing fiscal problems attributable to the rising number of aged.

Assuming that the growth rate of health care costs does not slow, Medicare and Medicaid will grow by roughly four times as a share of the economy (GDP) by 2050. They will absorb nearly as much of our nation's economy by 2050 as the entire federal budget does today. More than half of that increase would come from the rising cost of health care rather than demographics alone.

Many economists recommend increasing our low level of national savings to better fund productive investments that will help grow a larger economy in the future. A larger economy would make the looming fiscal burden more affordable. Unfortunately, Americans' personal savings rate as a percentage of disposable income has steadily declined from over 7 percent in the early 1990's to essentially zero today. Net national saving (private and public) has plummeted from 8.5 percent of our gross national income 25 years ago to less than 2 percent in 2007.

The savings gap can, and has, been filled with capital from abroad. The portion of the government's privately held debt owned by foreign investors has risen dramatically since 2001 -- from 37 percent to 54 percent.[4] This, however, acts as a growing mortgage on future national income. No nation can prosper without investing, nor can it invest for long without saving, nor can it save for long without a responsible fiscal policy.

All of this has ominous implications for the size of government relative to the size of the economy. By the time today's 20-year olds reach retirement age, the overall cost of government as a share of the economy is on track to reach levels not seen since World War II — the big difference being that instead of spending the money on a life and death struggle against totalitarian aggression we would be spending it on an ever-rising stream of benefit payments.

Today, federal government spending absorbs 20 percent of the economy.[5] At the high end of what the nonpartisan Congressional Budget Office (CBO) sees as a possible range, federal

---

[4] Measured from June 30, 2001 through December 31, 2006. Table OFS-2 U.S. Treasury, Monthly Treasury Bulletin, March 2007.

[5] The average over the past 40 years is 20.6 percent of GDP. The post-WWII high was 23.5 percent in 1983.

spending could rise to 42 percent of GDP in 2050. In contrast, federal spending never went above 44 percent of GDP throughout World War II.

This raises some obvious questions:

- Are all these future benefit promises affordable?
- Who's going to pay the bill, and how?
- What resources will be left for other priorities?
- What steps could we take now to change course?

Borrowing our way through the problem is not a viable option because the rising cost of Social Security and Medicare is not a temporary blip. It gets bigger with time. Incurring permanently rising debt would result in staggering interest costs and ultimately a total debt burden that would crush the economy.

The real choices require scaling back future health care and retirement benefit promises, raising revenues to pay for them, or most likely, some combination of both.

If we are to face these choices honestly, the magnitude of the gap must be clearly understood. It goes far beyond what minor tweaks can cure. Raising revenues to cover projected spending would require an increase over today's level from between one-third to one-half by 2030 depending on the growth of health care costs. On the other hand, if we try to keep revenues at today's level and pay for the increase in Social Security, Medicare and Medicaid by reducing spending on other programs, it would require a cut of between one-half to four-fifths by 2030, again depending on the path of health care spending. With a fiscal "reality gap" of this size, it seems highly unlikely that it can be filled entirely with spending cuts or entirely with revenue increases. [6]

Beyond fiscal imbalance, the policies embedded in today's budget threaten to place ever tighter constraints on the ability of future generations to determine their own fiscal priorities or to meet

[6] These measurements are expressed as a share of the economy (GDP).

challenges that cannot be foreseen. As the share of federal resources pledged to retirement and health care benefits grows, it will leave shrinking amounts for all other purposes.

Some people may believe that the federal government should both tax and spend at about 18 percent of the GDP, while others may find it acceptable to tax and spend at about 30 percent of GDP. No reasonable person, however, would argue that the government should tax at 18 percent and spend at 30 percent. The resulting annual deficits and accumulated debt would shatter the economy. Yet, this is the future we will get if we try to fund the spending required by current law with today's level of taxation.

Generational fairness requires a change in course. The choices we make *today* will determine what kind of society our children and grandchildren inherit 20 and 30 years from now. There is little time for political gridlock. With the first of the 77 million baby boomers on the verge of retirement, the window of opportunity to act is rapidly closing. [7]

The sooner we get stated the better. Inaction now increases the prospects of severe changes later. By contrast, even modest changes in retirement and health care programs, enacted promptly and phased-in over many years, could have a substantial impact in bringing future costs down to a more sustainable level. Similarly, eliminating or even reducing the budget deficit over the next few years would lower government borrowing from the financial markets, provide a much needed boost in national savings and reduce our reliance on foreign lenders. Acting sooner would also reduce interest costs and permit the "miracle" of compound interest to work for us rather than against us. When it works against us, as it does now, it is more of a nightmare than a miracle. Anyone who has tried to live on rising credit card debt knows the difference all too well.

IV. What Can Be Done?

Improving the nation's long-term fiscal outlook will require hard choices on spending and taxes. Policymakers must acknowledge the magnitude of the problem, the need for trade-offs and the

---

[7] The oldest segment of the baby boom generation began drawing "early retirement" Social Security benefits this year. In 2011, they will be eligible for Medicare.

necessity for prompt action. Vague promises of "fiscal responsibility" are not enough. Comprehensive solutions may take considerable time to develop, and once implemented should be subject to periodic review. However, as a framework for action, Congress and the next President should:

- Commit to a balanced budget
- Incorporate long-term projections and controls into the budget process
- Take every reasonable step to constrain the rising cost of heath care and retirement programs—Social Security and, most especially, Medicare
- Make clear to Americans that ultimately taxes cannot be cut unless programs are cut commensurately

Commit to a balanced budget. This is a good first step. Restoring a balanced budget would increase national savings, lower future interest costs, signal to world financial markets that we are serious about getting our fiscal house in order, and reduce our dependence on foreign lenders. The best fiscal policy is one that aims to *prevent total spending, taxes, or debt from reaching levels that could reduce economic growth and future standards of living.* Yet, even with a near-term balanced budget plan, current fiscal policy would remain unsustainable over the long term. That is why even strict compliance with the pay-as-you-go rule (paygo) for entitlement expansions and tax cuts is not sufficient. Assuming that all new initiatives are "paid for" we would still be left with the unsustainable fiscal outlook we already have — a reality that the new Congress and President will be confronted with in 2009.

Incorporate long-term projections and controls into the budget process

The budget process itself is stacked against long-term planning. Nothing requires Congress to review the current-law outlook beyond the next few years, much less take corrective action. Every corporation in America must account for and defray the cost of its long-term commitments. But the federal government does not, even though its commitments are thousands of times larger than those of any corporation.

To remedy this situation, The Concord Coalition has recommended that Congress establish long-term targets for revenues and outlays by major spending category as part of the annual budget resolution. Congress should note how major legislative proposals assumed in the resolution would affect these targets and how the targets differ, if at all, from current law as projected by the Congressional Budget Office (CBO). Separate targets could be established, as a share of GDP at five-year intervals through 2040, for total revenues, defense spending, domestic discretionary spending, Social Security, Medicare, Medicaid, other entitlements, and net interest.

An alternative idea, which is even stronger, is one that I recently joined in publishing with 15 other veteran federal budget experts from across the political spectrum. In "Taking Back Our Fiscal Future"[8] we recommended that Congress and the president should establish explicit, sustainable, budgets for the three leading cost drivers — Social Security, Medicare and Medicaid — stretching out for at least 30 years. Limits would be placed on automatic spending growth to reduce the favorable treatment these programs receive relative to other programs. Once the budgets are set, periodic reviews every five years would determine whether the programs were within budgeted levels.

To protect against significant long-term deviations from the budget and the political incentives to avoid difficult choices, a trigger device would also be enacted making automatic adjustments to benefits, premiums, provider payments or other revenues. Such adjustments could be over-ridden only by an explicit act of the president and Congress.
This would not end the entitlement status of any program, but it would shut off the autopilot and compel some hard decisions that are now being avoided.

While there is ample room to debate the details, the main purpose of both proposals is to inject some needed transparency and accountability into the budget process. Without a mechanism to establish priorities on the record, everyone can continue to ignore the long-term consequences of current policy. With it, they must begin to talk concretely about the size and shape of the government they want and to budget accordingly.

[8] Available at http://www.concordcoalition.org/doc/080331-Taking-Back-Our-Fiscal-Future.pdf.

Over the years, several developed countries have added "automatic stabilizers" to their public pension systems that build in cost restraint rather than cost growth. The first to pioneer this approach was the UK, which in the early 1980s switched the default indexation of its basic public pension system from wages to prices. Since the mid-1990s, a number of other countries have followed suit. Italy, Sweden, Germany, and Japan have all added stabilizers to their public pension systems that are expressly designed to offset demographically driven cost growth. The reforms differ in the mechanisms they employ. What they have in common is that they are all self-adjusting

Several of the countries that have implemented automatic pension stabilizers—most notably, Germany and Sweden—have large and popular welfare states that have historically proved resistant to cost-containment. Retirees in these countries receive almost all of their personal income from public pensions, which are considered cornerstones of social democracy. This is not true in the United States. Why then have they been able to grapple with the long-term cost challenge while the United States has not?

Part of the explanation may be that the challenge appears more urgent. America's age wave still lies mostly in the future. Europe's and Japan's more rapidly aging populations are already overwhelming public budgets, forcing up payroll tax rates, and slowing economic growth. Part of the explanation lies in the nature of the reforms themselves. The incremental benefit cuts triggered by the automatic stabilizers are small in any given year, which has made it easier to defuse the public's opposition. Leaders also seem to perceive an advantage in passing self-adjusting reforms that may spare them the need to revisit a divisive political issue in future years.

As policy experts in America look for ways to regain control over our fiscal future, the best way to do this may be to replace the automatic cost escalation built into today's entitlement system with automatic cost constraint.

The *Financial Report* itself might also help to combat myopic budget planning by incorporating a Statement of Fiscal Sustainability, or other similar assessment of long-term trends. As a matter of sound policy planning and generational equity, we must know if we are on a sustainable fiscal path. The Concord Coalition thus supports a government wide Statement of Fiscal Sustainability as required supplementary information to the government's financial statements. This new statement, in conjunction with the current SOSI, would highlight the nature and magnitude of the federal government's long-term fiscal condition in a comprehensive and contextual manner.

The most valuable contribution of a SOFS would be to show long-term year-by-year cash flow projections under various assumptions regarding spending and taxes. A close look at the unfunded obligations in the SOSI leaves no doubt that the nation faces a huge cost challenge. No single present value number, however, can give a complete and accurate picture of the magnitude of the long-term fiscal challenge or the required response. Present value numbers say nothing about annual spending levels, and hence when the cost burden will become acute. Nor do they tell us the government's annual borrowing needs, and hence its impact on U.S. savings, investment, and living standard growth.

A major limitation of long-term summarized figures is that they can conceal a roller coaster fiscal path and thus obscure the pros and cons of different reform approaches.

Consider two reform plans: one that first allows Social Security and Medicare spending to rise above today's level, then cuts it beneath today's level, and a second that keeps spending from rising in the first place. The impact on the programs' unfunded obligations might be similar, but not the impact on the budget or the economy. It's a bit like wading out to a sand bar. The present value calculation says that you'll be safe and dry once you get there. You need annual budget projections to tell you whether you're going to drown on the way.

There is no doubt, however, that a well-designed fiscal sustainability statement — one that includes annual cash flow projections — would help awaken America to the long-term fiscal challenge. It would provide useful indicators of fiscal sustainability and generational inequity under various scenarios and act as a helpful guide to reform efforts — not by prescribing options but by showing the magnitude and timing of the challenge.

Take every reasonable step to constrain the rising cost of heath care and retirement programs—Social Security and, most especially, Medicare

The most effective long-range solutions would be to *constrain the rising cost of heath care and retirement programs—primarily Medicare and Social Security.* This will require politically difficult choices regarding who should receive benefits, what level of benefits can be provided, and how those benefits should be delivered.

Regarding Social Security, The Concord Coalition believes that reforms should be aimed at three fundamental objectives: 1) fiscal sustainability; 2) increased national savings; and, 3) generational equity. Reform options that could accomplish these objectives include raising the eligibility age to reflect demographic changes, better targeting benefits to those who rely on them most, and adding fully funded mandatory savings accounts to the system. Whatever the mix of options, however, there should be no preconditions for bipartisan negotiations.

Medicare is a much bigger problem than Social Security, not just fiscally but also politically and ethically. Its costs are projected to grow faster than the economy, and faster than can be reasonably supported by the federal budget.

Some people seem to believe that there are simple fixes to Medicare that will not require anyone to give up anything. Just clamp down on "fraud and abuse," or cut back on excessive paperwork, and the problem will be solved. Health policy experts see it differently. Pure waste is no easier to pinpoint in the health system than it is in the federal budget. And, even if we could identify and eliminate all of it, the underlying cost drivers—from technology to expectations of good health to aging—would soon cause spending to grow again as fast or faster than before.

The hard truth is that there are only two direct ways to reduce the growth in Medicare costs: pay health care providers less, or reduce the amount of health care that patients consume. Although both political parties agree that the goal is to deliver better quality of care while controlling costs, that goal is much easier enunciated than achieved.

Spending on health care for the elderly will continue to grow far faster than the economy so long as we pretend that costs can be controlled without any sacrifice. Costs are not rising because of the proliferation of completely useless medical services. They are rising because medical science can do more for more people—and because what it can do is often very expensive, even if the benefit is incremental.

Ultimately our nation must decide what level of health care we wish to provide as an entitlement and how much we are willing to pay for it. Setting limits in Medicare may mean moving toward a whole new paradigm—one in which prospective budgets at the program level and capitation at the beneficiary level finally compel us to make trade-offs between health care and other national priorities.

In short, Medicare should be put on a budget. If program costs exceed targeted levels, Congress and the president should be required to take corrective action. If they decide that program costs should be permitted to increase (for example, by filling the prescription drug "doughnut hole" or by adding long-term care coverage), then the demands of fiscal responsibility require that they identify a commensurate stream of revenue to pay for the expanded coverage or a reduction in other services.

Make clear to Americans that ultimately taxes cannot be cut unless programs are cut commensurately

Treating taxes and spending as "separate deals" is an economic fantasy. To be sure, low taxes theoretically encourage economic growth by providing incentives for work, saving, and investment. However, if taxes fall too far below spending for too long, the resulting deficits will eventually cancel out any positive economic gains. In the final analysis, government revenues must be sufficient to pay its costs. Tax cuts make attractive campaign rhetoric, but unless they are accompanied by reduced spending over the long-term, we are merely shifting the tax burden from ourselves to our children. Debt is not a painless alternative to taxation.

While reforms should be enacted that would substantially reduce the long-term growth in federal spending, it is unlikely that any realistic array of reforms will allow an aging society to hold spending to today's level. Economic efficiency requires that taxes be held relatively stable at a level sufficient to pay for public spending in all future years, regardless of whether this leads to surpluses or deficits in any given year. It makes no sense to cut taxes today if that cut will only necessitate raising taxes tomorrow.

In that regard, The Concord Coalition believes that tax cuts scheduled to expire should not be permanently extended absent a plan for long-term fiscal sustainability.

V. The Importance of Public Engagement

The choices that must be debated involve vitally important issues, such as the future of Social Security, Medicare and taxes. For that reason, the active involvement of the American people is critical.

In this regard, the experience of The Fiscal Wake-Up Tour may prove useful. In our public presentations we explain in plain terms why budget analysts of diverse perspectives are increasingly alarmed by the nation's long-term fiscal outlook.

Our emphasis is on the key areas in which we have found consensus, such as:

- The overall dimensions of the problem;
- The nature of the realistic trade-offs that must be confronted in finding solutions;
- The adverse and inequitable consequences for future generations if we fail to make serious changes, sooner rather than later.

We try our best to cut through the usual partisan rhetoric and stimulate a more realistic public dialogue on what we want our nation's future to look like, along with the required trade-offs. The public has been very receptive to this approach, as has the local media in the 40 locations we have visited.

Participants in the Fiscal Wake-Up Tour do not necessarily agree on the ideal levels of spending, taxes and debt. However, we do agree on the following key points:

- Current fiscal policy is unsustainable.
- There are no easy solutions, such as cutting waste fraud and abuse or growing our way out of the problem.
- The best way to make the hard choices is through a bipartisan process with a willingness to consider all options.
- Public engagement and understanding is vital in finding solutions.
- This is not about numbers. It is a moral issue.

We do not recommend specific policy solutions. Indeed, we are upfront about the fact that we do not necessarily agree on solutions. However, we remind audiences that each of the realistic options comes with economic and political consequences that must be carefully weighed, and that there must be tradeoffs.

Those who want to raise taxes are asked to explain what level of taxation they are willing to support and the manner in which the new revenue should be raised. Those who argue that spending must come down from projected levels are asked which programs they would target and how the savings would be achieved. Those who are unwilling to do either are asked how much debt they are willing to impose on future generations.

Our experience is that when audiences are told the facts, and shown that if they demand their "rights" to programs or policies it will have damaging economic effects to other groups or generations represented in the audience, they begin to accept the need for tradeoffs.

In addition to the Fiscal Wake-Up Tour, the same group of analysts from The Concord Coalition, The Heritage Foundation and The Brookings Institution have been working with Public Agenda and ViewPoint Learning, (both chaired by Dan Yankelovich) on a project called "Facing Up To The Nation's Finances. It is designed to provide insight into how attitudes evolve as people discuss difficult trade-offs with regard to long-term fiscal policy. A report issued by the Facing Up Project in December 2006 made the following observations:

- The public is strongly averse to big increases in the size of the national debt and, with the right kind of leadership, is prepared to accept sacrifices to avoid it.
- For most people, the overriding concern is not resistance to taxes but a profound lack of trust in government. People are willing to pay for what they want so long as they can be satisfied that government will spend the money wisely and for the purposes intended.
- Americans are willing to make changes in entitlements, but again on condition that trust and accountability exist.
- While there is continued strong support for defense spending, it is accompanied by the widespread perception that funds are misallocated and often wasted.
- Americans want to be engaged in addressing these issues and are frustrated by the lack of engagement that contributes to their mistrust of government

VI. Does it Take a Commission?

Partisan divisions in Washington have become so wide that a special task force or commission may now be the only way forward on this issue. If everyone insists on only changing someone else's priorities, talk about fiscal sustainability will remain just that. The best way to end this standoff is to agree on an open, credible process without preconditions — including entitlement and tax options —and negotiate the necessary trade-offs.

Since the regular legislative process has been incapable of dealing with the impending fiscal crisis, a different route makes sense as a means of jump-starting serious action. The Dean of my law school had a saying that seems apt to the political task ahead. When referring to unlikely solutions to tough problems he would remind us that, "Water doesn't run uphill without a pump."

Reducing promised benefits or raising taxes strikes me as the political equivalent of expecting water to run uphill. It goes against nature and is unlikely to happen without some intervening force. One such force would be a crisis. A far better one would be a bipartisan process to act in advance of a crisis — provided that it is implemented in a way that recognizes fiscal and political realities.

In The Concord Coalition's view, any non-traditional effort to bring about action, whether through a congressional task force as your colleagues Kent Conrad (D-ND) and Judd Gregg (R-NH) have proposed (S. 2063) or a commission as proposed by Representatives Cooper (D-TN) and Wolf (R-VA) in the SAFE Act (H.R. 3654), would need five elements to succeed:

- **First, it must be truly bipartisan.** Any perception that the purpose is to facilitate swift enactment of a partisan agenda would doom it to failure. It should have bipartisan co-chairs and equal representation. Doing otherwise in the current partisan environment would be a waste of time and money.

- **Second, it must have a broad mandate.** While it is critical to control the growth of entitlements, particularly Medicare and Social Security, the task force or commission should examine all aspects of fiscal policy.

- **Third, there must be no preconditions.** If either side sets preconditions, the other side will not participate.

- **Fourth, it must engage the public.** In Concord's experience, when people are armed with the facts and given the opportunity for honest dialogue, they are willing to set priorities and make hard choices. Moreover, it seems highly unlikely that the public would react well to a reform package for which it was unprepared.

- **Fifth, its recommendations should be voted in Congress.** Absent this element, the report would likely join many others on a shelf.

A process with these attributes would give all parties the political cover they need to tackle the tough choices and develop a bipartisan consensus for solutions. This would be invaluable regardless of who controls Congress or the White House in 2009.

VII. Conclusion

If nothing changes, future taxpayers will be forced to pay far higher taxes than we pay today, or they will either have to accept much lower spending for all other public purposes--including national defense, homeland security, and education--or face rapidly escalating deficits and the resulting negative consequences for the economy and future standards of living.

We could cross our fingers and hope that the U.S. economy is sufficiently resilient to overcome anticipated fiscal challenges without any change to current policies. However, that outcome is highly unlikely. Wishful thinking is not a sound fiscal strategy. A far more prudent and secure path to bettering the fiscal outlook would be to reassert budget discipline.

Daunting as the long-term projections for the U.S. economy are, there is nothing inevitable about a fiscal crisis. The problems we face—essentially a structural imbalance between what government promises and how much it collects in taxes to pay for those promises—is one that can be cured if we begin to address it now. Fundamentally, this is not about numbers. There are basic philosophical questions:

- Is it morally acceptable to pursue a fiscal policy that threatens to place ever-tighter constraints on future generations' ability to determine their own priorities or to meet new challenges?

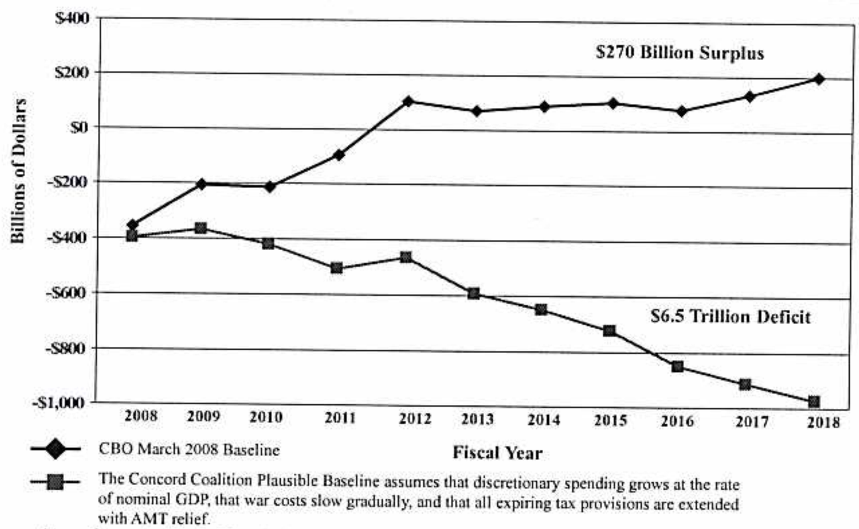
- Have we become so insistent on our own claims to government benefits, regardless of need, that we have forgotten about the well-being of the very people we expect to pay for those benefits—our children and grandchildren?

- Can any modern media–dominated society, fixated on the short–term and the next election, deal on a timely basis with silent, slow–motion, long–term challenges, or is a costly crisis needed to spur action?

These are not easy questions, but they are ones that all of us should confront, publicly and explicitly.

Charts:

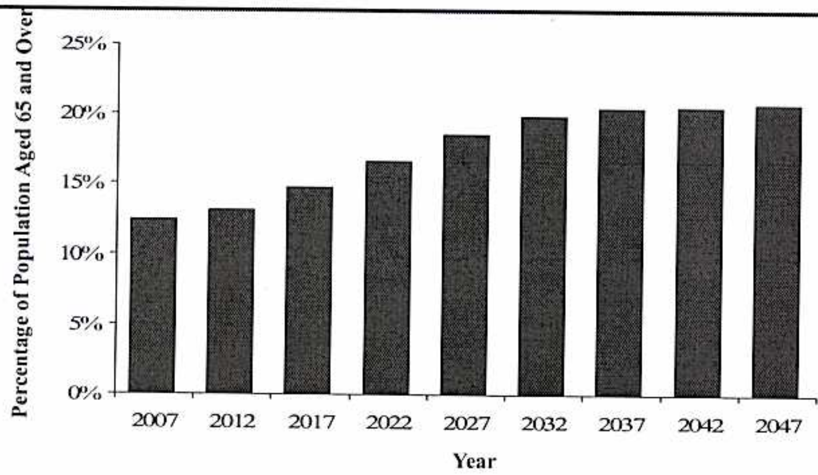
Current Policy Trends Lead to Large Sustained Deficits
Fiscal Years 2009-2018



Source: Congressional Budget Office, March 2008 and Concord Coalition analysis.

THE CONCORD COALITION

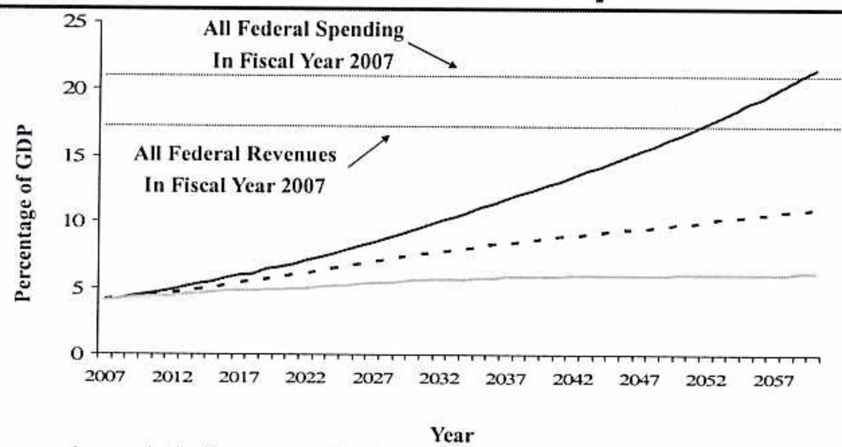
America's Population is Aging
Population age 65 and Over



Source: Social Security and Medicare Trustees' Report, April 2008

THE CONCORD COALITION

Health Care Costs are Rising Faster Than the Economy



Assumes that health care cost growth will not exceed GDP growth.

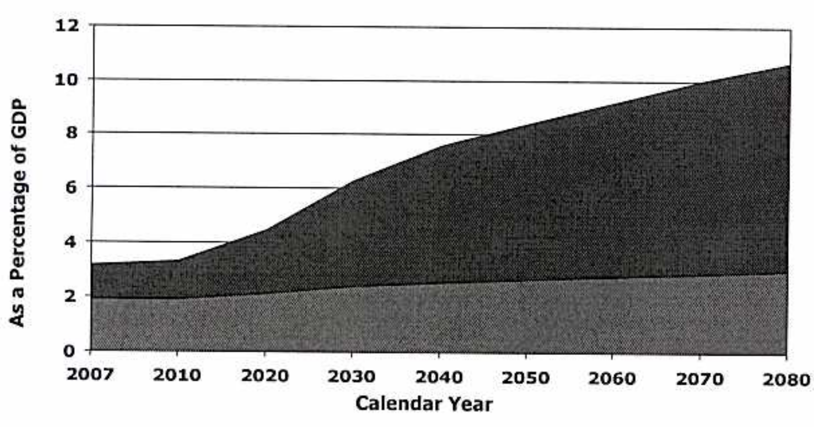
Assumes that health care cost growth continues at the average rate for the past 40 years (2.5 percentage points greater than GDP growth.)

Assumes that health care cost growth rate declines to 1.0 percentage point greater than GDP growth—consistent with the assumption used by the Medicare Trustees.

Source: Congressional Budget Office, December 2007

THE CONCORD COALITION

Medicare Costs Soar in the Coming Decades



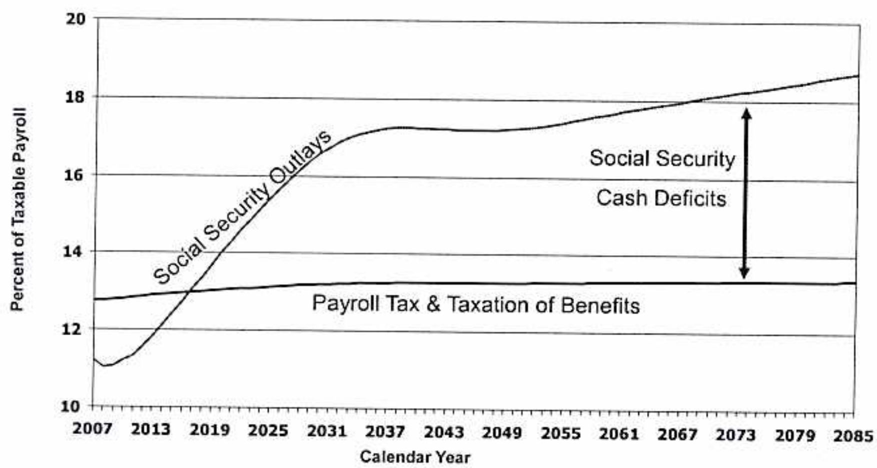
General Revenues required to fund the program

Income from dedicated taxes, premiums, and state transfers

Source: Medicare Trustees' Report, 2008

THE CONCORD COALITION

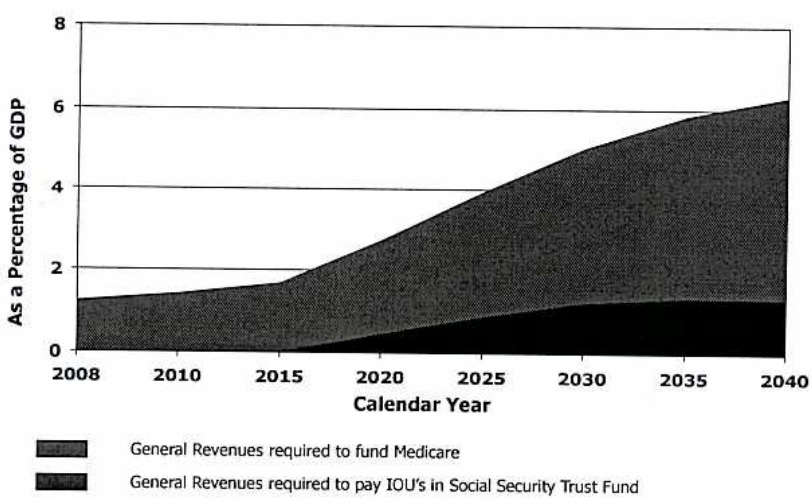
Benefits promised far exceed dedicated tax revenues



Source: Social Security Trustees' Report—April 2007 (Intermediate Projections)

THE CONCORD COALITION

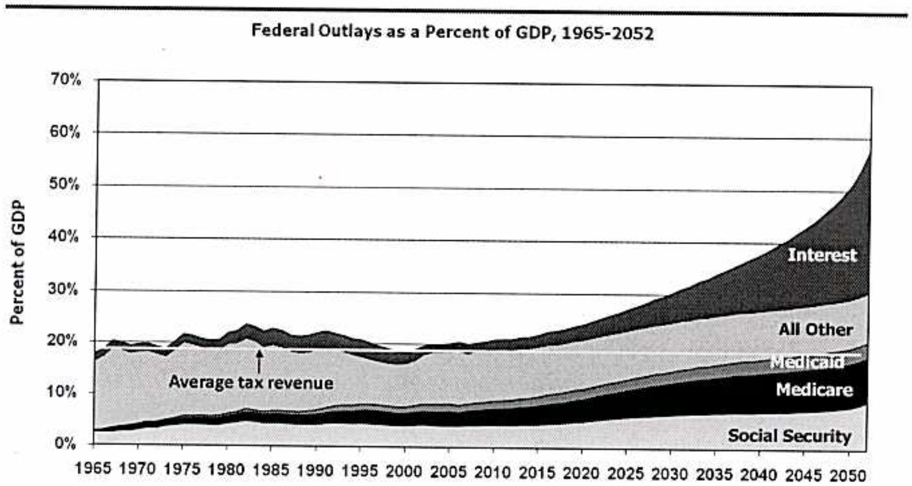
General Revenue Transfers to Social Security and Medicare in the Coming Decades



Source: Medicare Trustees' Report, 2008

THE CONCORD COALITION

Current fiscal policy is on an unsustainable path



Source: Government Accountability Office, March 2008

THE CONCORD COALITION