

TESTIMONY OF THE HONORABLE LEON E. PANETTA
BEFORE THE
UNITED STATES SENATE COMMITTEE ON THE BUDGET
OCTOBER 31, 2007

Mr. Chairman and Members of the Committee:

Thank you for the invitation to testify before your Committee on S. 2063, the bill that will create a Bipartisan Task Force on Responsible Fiscal Action.

I am honored to have this opportunity to again appear before my former colleagues and friends. I have been here before in different capacities to fight for budget priorities and discipline. Although there were political differences on approach, there was a fundamental commitment by both parties to the goal of deficit reduction and a balanced budget.

Today, I am afraid that you are facing an even greater challenge because while there are concerns about a growing debt, there appears to be little will or commitment to making the tough decisions necessary to achieve deficit reduction.

I commend you, Mr. Chairman and Senator Gregg, for your leadership in trying to encourage the kind of bipartisan cooperation that can build on the lessons of the past. I am here to strongly support your efforts.

I appear today in my capacity as one of the Co-Chairmen of the Committee for a Responsible Federal Budget. As you know, our focus over the years has been the federal budget and the need

for fiscal discipline. Our Board is composed of past Directors of the Office of Management and Budget, the Congressional Budget Office, the Government Accountability Office, and Chairs of the Federal Reserve Board and the Budget committees.

I am here to share with you the principles that I learned over the past 30 years of my career in public life in fighting deficits. As Chairman of the House Budget Committee, Director of the Office of Management and Budget and Chief of Staff to the President, I participated in the key budget summits and negotiations aimed at achieving deficit reduction. My hope was that if this nation could ever achieve a balanced federal budget, that it would never again permit runaway deficits to undermine its economic strength. Unfortunately, events, partisanship, and a failure of leadership on all sides have conspired to produce the kind of irresponsible fiscal behavior that again threatens our future.

We govern in our democracy by leadership or crisis. If the elected leadership of this country is willing to make tough choices and work together, it can avoid, or, in the least, control crisis. If not, crisis drives policy.

Today, policy is largely driven by crisis whether it is the War in Iraq, global warming, energy, health care, immigration, Social Security, Medicare or runaway deficits. Every one of these issues in one way or another relates to resources. The failure to have adequate resources to confront each of these issues guarantees that for the first time in our history, our children are facing a reduced standard of living. We cannot invest in their future by borrowing from their future.

Action on the deficit is not just a moral imperative. It is not just a fiscal or economic imperative. In a very real sense, it is about protecting our national security. The prospect of uncontrolled deficits and a “borrow and spend” addiction erodes the nation’s ability to confront every other crisis we face in the 21st century.

This failure of leadership combined with exploding entitlement programs, changing demographics, the rapid growth of health care costs, the slowing of the labor force, and growing interest costs places us on an unsustainable path to fiscal chaos. What is even more discouraging is that it ignores virtually everything we have learned the hard way in the past.

The challenge of large deficits is not new to this nation. In his book, *The Price of Liberty*, Robert D. Hormats traces the concern for fiscal responsibility to the very roots of the United States. George Washington and Alexander Hamilton believed the credibility of a new nation depended on its ability to assume and pay down the debt from the Revolutionary War. It was Washington who said that we should not throw “upon posterity the burdens we ourselves ought to bear.” Lincoln pushed through three Revenue Acts to pay for the Civil War. Roosevelt pledged that future generations would not have to bear the burden for the cost of World War II. Even Lyndon Johnson finally passed a surtax to pay for the Vietnam War. This nation historically has never operated on the assumption that deficits will take care of themselves. That was the purpose of the 1974 Budget Act.

In the 1980s and 90s, with the prospect of deficits reaching records of anywhere from \$250 billion to \$500 billion by the turn of the century, Democrats and Republicans were locked in the same kind of political gridlock we see today. Democrats resisted cutting domestic spending and entitlements and Republicans opposed cuts in defense and any new taxes.

With the failure of leadership to achieve any significant deficit reduction, crisis became the inevitable engine that forced change. The 1987 Stock Market Crash raised serious concerns that unless the federal government exercised greater fiscal discipline, the markets would continue to weaken. President Reagan convened the first budget summit of key administration and congressional leaders to develop a bipartisan deficit reduction plan.

That was followed in 1990 by the second budget summit called by President George H. Bush. Again, key administration and congressional leaders negotiated at Andrews Air Force Base and later at the Capitol to develop a record deficit reduction package of close to \$500 billion plus landmark budget enforcement reforms.

Three years later, President Clinton built on the success of these summits by enacting an economic plan that further reduced the deficit by \$500 billion over 5 years, evenly divided between spending restraint and taxes.

These efforts combined with the Balanced Budget Agreement of 1997 which extended many of the key budget proposals and disciplines, helped produce a balanced federal budget and a projected \$5.7 trillion surplus.

As a participant in most of these historic efforts, the key lessons are clear and, to your credit, many have been incorporated in S. 2063:

- 1) Bipartisan Congressional and Administration Leadership. The key leaders of both parties need to be at the table along with the Administration's economic team. It is important that the committees of jurisdiction on enforcement – Finance, Ways and Means, Appropriations and Budget – be represented. No agreement that provides for serious deficit reduction can be effectively enforced without the support of both Republicans and Democrats. Each party provides political cover on the difficult choices: Democrats provide cover to Republicans on spending and entitlement restraints and Republicans provide cover on revenue increases.
- 2) Everything Must Be On the Table. In order to attack the enormity of this fiscal crisis, any final agreement is likely to require some combination of spending reductions, revenue increases, structural reforms and enforcement disciplines. Any preconditions or exceptions to consideration are likely to doom chances for an agreement.
- 3) Nothing Is Agreed To Until Everything Is Agreed To. In order to allow for a full consideration of all options, the parties must be given the freedom to consider all possible areas without committing to their inclusion. It is only after a discussion of all possible savings and revenues in the budget that the elements of a final agreement can be negotiated.
- 4) Enforcement. No agreement is worth much if it cannot be enforced. It is vital that any final set of policy recommendations should include important enforcement tools such as

spending caps and “pay go” and be considered on an expedited basis. Although S. 2063 includes the requirement for a supermajority vote, I am concerned that no major deficit reduction plan in recent history has passed by a supermajority of both Houses. I believe that like past agreements, it is sufficient if it follows the key budget and reconciliation rules in the Budget Act. Those are sufficient to avoid the biggest barrier to passage – the filibuster in the Senate.

- 5) No Press. If negotiations are going to consider the most sensitive areas of the budget, it is essential that all sides protect the confidentiality of those discussions. The toughest challenge is to establish some degree of trust between the participants. There can be no trust without honest and frank deliberations and that will not happen if negotiations are played out in public. Any press statements must be cleared by the participants and the key spokesmen should represent both parties.
- 6) Deficit Reduction Over 5 Years. The focus should be to achieve a set number for deficit reduction over a 5 year timeframe. To go beyond that may look good but is generally unrealistic. Within a 5 year window, clear and enforceable annual targets can be set for all discretionary savings, entitlement savings and revenue increases. Both CBO and OMB can confirm whether the targets are being met and what adjustments, if any, are necessary to achieve the required deficit reduction.

S. 2063 provides an important and necessary framework for implementing many of the principles I have outlined. These are the important lessons of the past. We know what works and what does not. Your legislation follows a clear precedent for effective deficit reduction. Both you, Mr. Chairman and Senator Gregg should be complimented for your willingness to

break the present gridlock and establish the necessary forum essential to confronting this serious problem.

Politically, while all of us would love to see this legislation adopted in this Congress, the likelihood is that it will not happen. But it can set the framework for action for a new President and Congress. Taking the tough steps required can best happen in the first year of a new administration. For that reason, I would strongly recommend that the leading candidates in both parties for the presidency should be approached by the key budget leaders in the Congress to gain their support for the principles included in S. 2063.

We know that a new President and Congress will confront an unprecedented set of crises facing the nation at a time of deep political divisiveness and distrust. The greatest challenge facing our political leaders will be to begin the process of working together and restoring some degree of trust. It must begin with the budget because every other crisis depends on restoring fiscal discipline.

We govern by leadership or crisis. We have crisis. It is time for leadership.