House Budget Committee
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Chairman Spratt, Ranking Member Ryan and Members of the House Budget Committee, I appreciate the opportunity to appear before you again -- this time as a private citizen and with my partner and new boss, Pete Peterson. As you know, I've changed my position on the battlefield for America's future; however, I'm still very much concerned about our nation's fiscal future and the other serious sustainability challenges that we face in my new position as President and CEO of the newly established Peter G. Peterson Foundation.

Pete has already addressed his long-standing concerns regarding our nation's current fiscal path, along with his hopes and plans for the Foundation. I will address several specific issues that I believe will be of interest to members of this Committee. However, before I do, I would like to congratulate the Chairman and this Committee for gaining passage of a budget resolution this year.

Today, the Foundation is issuing a publication entitled “The State of The Union's Finances”. This citizen's guide provides a clear and compelling picture of our nation's true financial condition and longer-range fiscal outlook. Every member of the Congress, the President, Vice President, all Cabinet members, each of the major Presidential candidates and selected other key officials is being provided with a printed version of this guide. It is also available online at www.pgpf.org.

While the graphics and tables in the guide look nice visually, they present an ugly picture fiscally. As the cover points out, based on historical tax levels and absent meaningful entitlement, spending and tax reforms, the United States will face debt burdens in the future that would make third-world nations look thrifty. And our related debt/GDP ratios escalate dramatically after the 2040 date because we will have passed a "tipping point" by then. Furthermore, as one table in the guide notes and as Pete has stated, we are currently in a $53 trillion fiscal hole. This hole gets deeper by $2-$3 trillion a year on autopilot. We need to start figuring how we are going to start climbing out of that hole. The time is over for merely saying how one will pay for new spending increases or tax cuts. It is critical that we not continue to kick the can of tough choices down the road.

What do we need to do? First, as I have testified before, we need to provide more transparency in connection with our current accounting and budgeting systems. For example, steps need to be taken to provide a fuller and fairer disclosure of where we stand financially and where we are headed fiscally. The Congress needs to consider the affordability and sustainability of major entitlement, spending and tax proposals over the longer-term before they are passed into law. Congress must never allow what happened in connection with the Medicare prescription drug bill to happen again. That bill deepened our fiscal hole by over $8 trillion, when Medicare was already underfunded by approximately $20 trillion at the time.

Increased transparency should also involve some restructuring of the way the current budget is prepared and presented to the Congress and the President. The current budget baseline that attempts to approximate current law results in an incomplete and even misleading picture, especially in the way that it treats automatic growth in mandatory spending programs. For example, assume a 3-percent inflation level, 2 percent real economic growth, and an annual health-care cost growth rate at 7.6 percent. Under current budget rules, having education grow by 2 percent in nominal dollar terms is referred to as an “increase,” whereas having mandatory health spending grow by 5 percent is called a “cut.” This approach does not pass a straight-face test on Main Street and outside the Beltway. It also serves to provide an excuse for not revising mandatory spending programs that are clearly unsustainable while not providing adequate funding for programs that represent an investment in our collective future well being.

Federal financial reporting should, among other things, recognize that the bonds in the so-called “trust funds” should be deemed liabilities, and it should place more emphasis on fiscal sustainability and inter-generational equity. In addition, a Summary Annual Report on the nation’s finances should be issued every year. A longer-range Fiscal Sustainability Report also should be issued by our government every four years, as is the case in several other industrialized nations. I have included as Exhibit I of my testimony a summary of the types of reforms that I advocated as Comptroller General. My views of these issues have not changed just because I'm in a new position. These reforms need to be aggressively pursued and acted on.

In addition to the above steps, we need to re-impose tough statutory budget controls on both the spending and tax side of the federal ledger. After all, both sides of the books contribute to our nation's bleeding bottom line. Unfortunately, as we have seen in recent years, Washington still has not learned the first rule of holes -- "When you're in a hole, stop digging!" This must change, and the sooner the better.

In my view, the Congress also needs to consider adopting biennial budgeting and appropriations processes. And, it needs to provide better recognition of the difference between capital expenditures and operating expenses while providing safeguards to prevent mischaractization of items. The sad but simple truth is that both the budget and appropriations processes have not functioned well in most years of our recent history. The Congress spends way too much time each year dealing with minor issues and not enough time dealing with major ones, frequently with very disappointing results. This is one of the reasons that the public's view of the Congress as an institution is at or near historic lows. In fairness, the same can be said of the current President's ratings.

As you know, the federal government has enacted at least one supplemental spending bill each year for a number of consecutive years. This process can be used to address bona-fide emergencies and contingencies in the future if the Congress moves to a biennial cycle. Furthermore, several states have already proven that biennial approaches can work.

Beyond the budget and appropriations processes, in my view, the regular order for addressing complex and controversial reform legislation, especially entitlement related legislation, is not adequate to deal with the number and magnitude of the reform efforts that we must address if we expect to return to a more prudent and sustainable fiscal path. As a result, I support the need to establish a capable, credible and bipartisan commission to address at least four issues -- statutory budget controls, comprehensive Social Security reform, and round one of both comprehensive tax and health care reform. The Securing America's Future Economy Commission Act (SAFE Commission Act), or H.R. 3654, whose primary co-sponsors are Congressmen Cooper and Wolf, is intended to do just that. How could anyone vote against a bill with a name like that if they have a chance to vote, and provided that its provisions are consistent with its name, which I believe they are?

In my view, if properly structured and staffed, such a commission could make at least a $10-$15 trillion down payment on our $53 trillion federal fiscal imbalance. This would be a significant accomplishment in addressing our nation's financial challenge as well as a positive step that would help improve both the confidence in, and the credibility of the Congress in the eyes of the American people. Why is Washington waiting to bring up this proposal for a vote?

Among various budget options that the Commission should consider is how best to address mandatory spending programs and existing tax preferences. I have previously stated that the Congress should consider establishing triggers that would force re-consideration and reforms of mandatory spending programs. A recent group of fiscal experts from a range of respected Washington think tanks, including the Foundation's own Gene Steuerle, who was formerly with The Urban Institute, issued a comprehensive report that contained a similar recommendation. I also believe that the Congress must periodically review and reconsider all major tax preferences and possibly adopt automatic reconsideration and reform triggers for them as well. In my view, like spending programs, tax preferences are not all created equal. In addition, tax preferences represent "back-door" spending. The U.S. Government foregoes approximately $1 trillion in revenue a year as a result of existing tax preferences. As a result, they must get on the radar screen and become part of our overall reform effort.

In the final analysis, I believe that a commission will likely be necessary in order to achieve timely action in connection with several of the major reform efforts that lie ahead. At the same time, I would like to compliment Representative Paul Ryan on his recent decision to put a comprehensive entitlement and tax reform proposal on the table. Irrespective of what I and others may think about the details of his proposal, it took courage to make it, and we need more leaders who are willing to take such risks.

We must keep in mind that, while Washington is a "lag indicator," political gridlock in Washington is not good when we face a range of serious sustainability challenges that grow with the passage of time. The truth is that there are a number of very disturbing parallels between the factors that contributed to our recent mortgage-related sub-prime crisis and our nation's federal finances. These parallels have gone largely unnoticed; however, absent meaningful and timely action, the probability that we will experience a serious economic crisis continues to rise. Such a "super sub-prime" crisis would make the current mortgage-related sub-prime challenge look like a bump in the road.

The parallels between the mortgage related sub-prime crisis and our federal financial sub-prime challenge include: 1) a disconnect between the parties who benefit from current practices and those who bear the risk; 2) a lack of adequate transparency and understanding regarding the nature and magnitude of related risks; 3) a re-enforcement of the importance of maintaining lender confidence and adequate cash flow, as well as the limitations of credit ratings, and; 4) an illustration of what can happen when there is a lack of effective oversight and action to address large, known and increasing risks before a crisis occurs. These parallels are real. What is Washington waiting for?

Given the importance of our sustainability challenges, we at the Foundation believe that it is important to find new ways to communicate the various sustainability challenges that we face as a nation. We also believe that in this great nation, "We the People" are responsible for what does or does not happen in capitals around the country. At the same time, the people cannot be expected to act of they don't have the facts, haven't been told the truth, or don't understand the consequences of failing to act. Addressing these key factors is what true leadership is all about.

This is a Presidential election year. Therefore, it’s important to state what we should expect the Presidential candidates to say regarding our large, known and growing fiscal and related sustainability challenges. In my view, a real leader would commit to at least five things. First, acknowledge our current problem and commit to making fiscal responsibility and inter-generational equity a priority if elected President. Second, refrain from taking major reform options off the table (e.g., the need for Social Security, Medicare, tax and health care reform). Third, use the “bully pulpit” to state the facts, speak the truth in order to help the American people understand the need for timely action and the consequences of failing to act. Fourth, commit to work on a bi-partisan basis to seek sensible and sustainable solutions to our fiscal and other key sustainability challenges. And finally, a real leader would support the need for a commission along the lines of the SAFE Commission to help increase the chances that we will take timely action in order to help ensure that our collective future is better than our past.

Given the need for greater public awareness and action, in addition to publishing the guide to “The State of the Union’s Finances,” the Foundation has decided to support the distribution of a documentary entitled I.O.U.S.A. This film addresses four key deficits facing America -- our budget, savings, balance of payments/trade, and leadership deficits. It also highlights the efforts of the Fiscal Wake-up Tour that I and representatives of the Concord Coalition, the Brookings Institution and the Heritage Foundation have been, and continue to be a part of. This film will be released in August in selected cities around the country, including the Washington, D.C. area. However, we believe that the film's message is so important that the Foundation has decided to fund a private showing of the film for members of Congress and other invitees the evening of Wednesday, July 9, at the Library of Congress.

In closing, we at the foundation are committed to doing everything we can to help promote responsibility and accountability today in order to help ensure that every American has more opportunity tomorrow. This was a longstanding tradition in this country until fairly recently. It’s time that we returned to this great tradition in order to keep America strong, to help make sure that our collective future is better than our past, and to be sure that the United States of America is the first republic to stand the test of time.

Mr. Chairman, I have a DVD that includes a two-minute theatrical trailer of the film and respectfully request that I be allowed to show it. In any event, thank you again for the opportunity to testify. I look forward to answering any questions that you or the other members of the Committee may have.

Exhibit I: Transparency in Accounting and Budgeting

Exhibit I. GAO, *Long-Term Fiscal Challenge: Additional Transparency and Controls are Needed (Appendix I)*, Statement of David M. Walker, Former Comptroller General of the United States, GAO-07-1144T (Washington, DC: July 25, 2007)

Appendix I:
Transparency in Accounting and Budgeting: Legislative Recommendations of the Comptroller General

Supplemental Reporting in the President's Annual Budget Submission

- Produce as supporting information to the budget an annual Statement of Fiscal Exposures, including:
  - a concise list, dollar estimates, and descriptions of exposures, including—
  - information from Consolidated Financial Statements of the U.S. Government on total liabilities, contingencies, commitments, and net present value of social insurance program payments, and
  - long-term cost (> 40 years) of major tax expenditures, presented together with related spending or credit programs in the same policy area , if appropriate
  - dollar estimate of the effect on these exposures of all major spending or tax proposals
  - an assessment of methodologies and data used to produce such cost estimates
  - a graphic presentation of the dollar amounts of exposures presented as percentage of GDP for each year covered
  - Budget horizon expanded to cover 10 fiscal years
  - President shall include in the budget a statement of the President's budgetary goals for a 10-year period in terms of surplus or deficit and in terms of surplus or deficit as a percentage of GDP

Summary Financial Report for the General Public

- Pursuant to OMB form and content guidance, Treasury shall annually publish a summary financial report on the U.S. Government derived from the information in the audited annual Consolidated Financial Statements of the U.S. Government.
  - Report shall be in format and of length, content and sophistication for general American public
  - Report shall include condensed summary of CG's audit report on the CFS
- First annual report due no later than January 30, 2008 [Note: This requires an amendment to GMRA (31 USC 331(e)(1)) to make audited CFS due by January 15 each year and an amendment to the Accountability for Tax Dollars Act (31 USC 3515(a)) to make agency financial statements due by November 30 each year.]

Statement of Fiscal Sustainability

- Pursuant to OMB form and content guidance, Treasury to prepare and make public every four years an assessment of the long-term sustainability of all major federal programs and activities. Statement of Fiscal Sustainability shall include:
  - PV of projected receipts and outlays of federal programs and activities for 75-year and infinite horizons, including separate reporting for social insurance programs
  - Statement of annual cash flows for programs and activities
  - Reconciliation of changes from prior period Statement
  - Presentation of information using different measures of sustainability and estimates of financial burden on different age cohorts and other demographics
  - Explanation of assumptions used and sensitivity analyses
- First Statement of Fiscal Sustainability due no later than March 31, 2008

Additional Cost Information on Legislative Proposals before Adoption

- Before a Member of the House or Senate calls up for consideration on the floor of either House a bill or joint resolution or an amendment thereto that contains a proposal that would result in a significant increase or decrease in revenues or in mandatory spending, that Member shall obtain from CBO a statement of the long-term costs of such bill, joint resolution, or amendment.
  - CBO and Budget committees to jointly define “significant” for each Congress
  - “Long-term costs” are those financial costs over at least a 40-year period
- The statement from CBO shall be provided to the Members of either House, as applicable, and shall be published in the Congressional Record

GAO Report on the Financial Condition of the U.S. Government

- The Comptroller General shall annually report to the Congress his assessment of the financial condition of the U.S. Government. Report shall include analyses of—
  - the Consolidated Financial Statement (CFS) and the Summary Financial Report
  - results of GAO’s latest long-term fiscal simulations
  - the President’s Statement of Fiscal Exposures
  - the adequacy of information regarding long-term cost implications of existing and proposed policies
  - the Statement of Fiscal Sustainability
  - statutorily-required CBO and JCT reports for the prior fiscal year
- First annual report due no later than January 31, 2009