



Congressman Joe Pitts

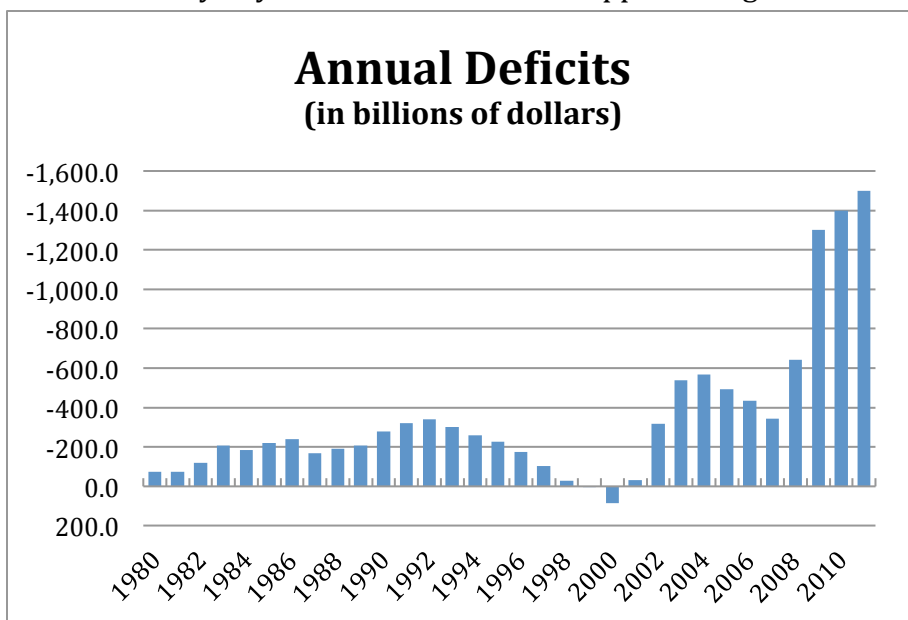
Sixteenth Congressional District of Pennsylvania

Memorandum on the Government's Debt

TO: Citizens of the 16th Congressional District of Pennsylvania
FROM: Congressman Joe Pitts
DATE: August 2, 2011
RE: The Budget Control Act of 2011

German Chancellor Otto von Bismarck is supposed to have said, "There are two things you will never wish to watch: the making of sausage and the making of legislation." The legislative process is complicated and difficult, especially when different parties control different parts of our government. When Congress has to compromise on a particularly difficult issue, the process usually follows a familiar pattern: both sides jockey for maximum leverage until a deadline is reached, and then an agreement is arrived at. That is just what happened in Washington. I wish that the two sides could treat each other with more civility and reach agreements before the eleventh hour. We have to remember, however, that the two parties have significant differences. These differences are a matter of principle for both sides, and finding a middle ground is not easy. On top of that, the underlying issue is among the hardest Congress has ever faced.

The federal government is borrowing money at an alarming rate. We borrow \$58,000 per second. We borrow \$4 billion every day. Our total debt is now approaching \$15 trillion and climbing faster all the time. Something must be done or the entire nation will face severe consequences. After taking office in January, 2009, President Obama appointed a debt commission to propose a solution. It's recommendations have so far been ignored. In February of this year, the President proposed a



budget for fiscal year 2012 (which begins October 1). For the third year in a row, the President's budget request made no attempt to balance the budget, even in the long-term.¹ When the Senate voted on it in May, it was defeated 97 to 0.

When Treasury Secretary Timothy Geithner requested a \$2.4 trillion increase in the debt limit, by far the largest increase ever, Republicans insisted that any increase be paired with a decrease in spending. While this was unprecedented, it was also critically necessary.

Provisions of the Act.

The Budget Control Act of 2011 is designed to do what is immediately necessary (raise the debt limit), while putting in place a framework for doing what is critically necessary over the long term (control spending).

- ✓ The act allows a \$2.4 trillion increase in the debt limit, but in stages. \$400 billion immediately, followed later by \$500 billion later, which Congress can vote to stop—but only if it can override a Presidential veto. Another increase of \$1.2 trillion to \$1.5 trillion will be available in December after a special House-Senate joint committee decides on matching cuts in spending (or tax increases).
- ✓ It cuts almost \$1 trillion over ten years, including defense programs. "Discretionary" spending would be cut by \$21 billion in FY 2012 and by \$42 billion in 2013.
- ✓ Democrats and Republicans in the House and Senate will each appoint 3 members (total of 12) to a joint committee, required to find at least \$1.2 trillion in savings by

Timeline of Debt Limit Negotiations

February 18, 2010 – President Obama creates debt commission.

November 2, 2010 – Republicans win control of House of Representatives.

December 1, 2010 – Debt commission reports, but is ignored.

January 6, 2011 – Obama Administration asks for debt limit increase with no cuts in spending.

January 28 – Moody's Investors Service warns of "negative" outlook on U.S. debt rating.

February 14 – President proposes budget that borrows \$1 trillion or more per year into the foreseeable future.

April 18 – Standard & Poor's revises its outlook on U.S. debt to "negative."

May 16 – Previous debt ceiling is reached, requiring accounting gimmicks to keep government operating.

May 24 – Vice President Biden begins negotiating with Congressional leaders.

May 31 – House defeats bill to raise debt limit by \$2.4 trillion without any cuts in spending, 97 to 318.

June 23 – Biden negotiations fail as Democrats continue to insist on tax increases.

July 19 – House passes the Cut, Cap and Balance Act, which includes a \$2.4 trillion increase in the debt limit, conditional on spending cuts, spending caps, and passage (but not ratification) of a balanced budget amendment to the Constitution.

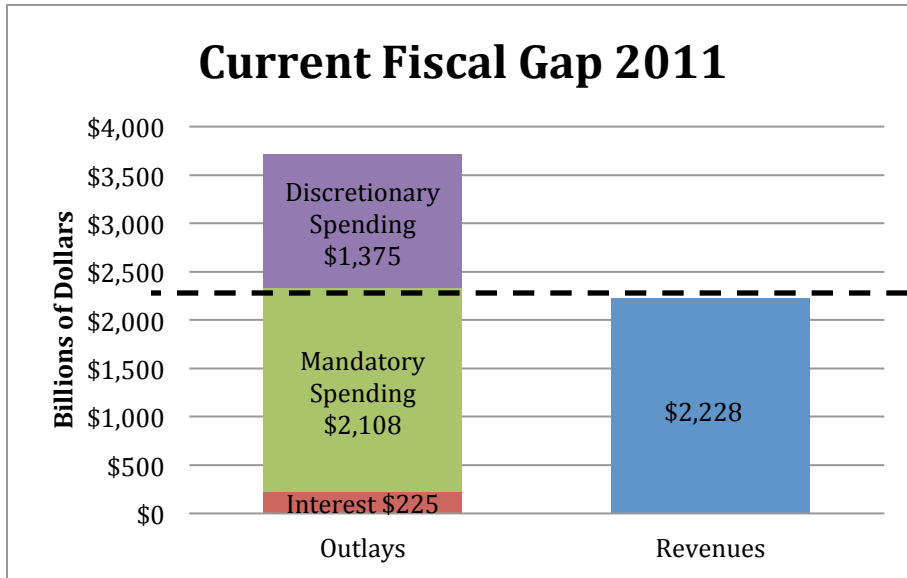
July 22 – Senate rejects Cut, Cap and Balance Act.

July 29 – House passes the Budget Control Act of 2011.

July 29 – Senate defeats Budget Control Act, 59 to 41.

August 1 – House and Senate leaders and the President agree on revised Budget Control Act.

¹ President George W. Bush, who also spent a lot of money, always submitted budgets that planned for a return to balance. President Clinton, working with a Republican Congress, succeeded in actually balancing the budget four times.



November 23. Both chambers must vote on the cuts, without amendments and without a Senate filibuster.

✓ If the joint committee's report does not pass, automatic spending cuts ("rescissions") will go into effect.

✓ The House and Senate must both vote on a balanced budget

amendment to the Constitution. It does not have to pass.

I voted for the Budget Control Act because I believe it is the best that can be achieved under divided government. The government's debt situation is dire, and action must be taken. I wish that a clearer path to a solution could be accomplished. I wish, for instance, that the House and Senate could send a balanced budget amendment to the states. The Budget Control Act does put us on the right trajectory, even if it is not a comprehensive solution. It requires us to vote on a constitutional amendment. My hope is that the robust debate that led up to enactment of this bill will serve to educate the American people about the seriousness of the problem. Democracy works. If the American people demand a solution, Congress will respond.

It's Not Just About the Current Economic Situation.

Our federal government is currently spending about \$1.5 trillion more a year than it takes in. About 42 cents of every dollar we spend is borrowed. Just imagine the consequences you would quickly face if you managed your personal finances that way. Those are exactly the consequences the federal government is facing.

Why are we spending \$1.5 trillion more a year than we have? Certainly some of that amount is because of the current bad economy. When the economy is weak, the Treasury receives less tax revenue. But even the President's rosier projections estimate deficits of \$1 trillion a year far into the future. Clearly, there is another problem.

The Problem.

The first problem is that for decades Congress has been making more and bigger promises than it (and we) can afford. Elected officials do not like to say "no." The cumulative effect of decades of always or usually saying "yes" is a government that is facing the prospect of bankruptcy. The second problem is that some of our biggest and most important commitments, like Medicare, are costing far more than they were projected to

cost and simply cannot survive on their current trajectories. The retirement of the Baby Boom generation has brought this problem to a head. Every day, 10,000 seniors enroll in Medicare and Social Security, something that will continue for the next 19 years.

Just How Much Should the Government Do, Anyway? Just as you must, Congress must decide which things are most important. Unfortunately, politicians like to say “yes” and to be “all things to all people.” It was not always this way. A century ago, Congressman Joe Cannon—chairman of the Appropriations Committee, and later Speaker of the House—said, “You may think my business is to make appropriations, but it is not. It is to prevent their being made.” Joe Cannon believed his first duty was to keep government small and leave as much money in the hands of those who made it as possible. He was so well regarded that the building I work in in Washington is named after him. Congress must regain its ability to exercise that kind of restraint.²

Bailouts, Healthcare, and the Stimulus That Didn't Work. While the biggest problem is a longstanding imbalance between revenue and spending, the immediate crisis has been brought on by an unprecedented government spending spree. Wall Street bailouts, the government takeover of healthcare, the ineffective 2009 stimulus bill and other recent initiatives (under President Obama, but also under President Bush) were hugely expensive.

The Deficit. The result of this spending is massive annual deficits. While we used to count our deficits in billions, we now count them in trillions. Many people confuse the “deficit” with the “debt.” The deficit is the amount we spend in one year that exceeds the amount of money in the Treasury. It is the amount we have to borrow in a given year to pay for total government spending. In recent years, this number has averaged about \$1.5 trillion. The opposite of a deficit is a “surplus.” Congress ran four consecutive surpluses from 1997 through 2000. Those were the first and only surpluses we've seen since the Administration of Lyndon Baines Johnson.

The Debt. The debt is the accumulated amount we owe from every year's deficit (that hasn't been paid off). Our government's debt is growing at an alarming and dangerous rate. In 1980 we owed \$900 billion. In 1990 we owed \$3.2 trillion. In 2000 we owed \$5.6 trillion. Today, we owe more than \$14 trillion. No one doubts that our debt is out of control.

The Unfunded Liability. In addition to our annual deficits and our accumulated debt, there is a third way to look at our future situation: the unfunded liability. If deficits are mostly about the past, and our debt is about the present, then the unfunded liability is about the

How Much is 1 Trillion?

- ✓ A trillion is a thousand times a billion.
- ✓ A trillion is ten times the number of stars in the Milky Way Galaxy.
- ✓ It takes 12 years for a million seconds to pass. It takes almost 32,000 years for a trillion seconds to pass.
- ✓ A trillion is just over 1/15 of our current debt.

² In 1903, when Joe Cannon was elected Speaker of the House, the government consumed just 6.8 percent of the nation's gross domestic product. In 2009, the government consumed 41.8 percent of the nation's produced wealth.

future. This is the total cost of our government's binding future commitments that we have no way to pay for. People calculate this number in various ways, but I have seen estimates that exceed \$100 trillion (over 75 years).³

The Reckoning. Politicians and economists have known for decades that our spending commitments exceeded our ability to pay for them. It was easy, however, to postpone action to some imaginary future date when the problem might be easier to deal with. In fact, the only future date we knew was coming with certainty was the retirement of the Baby Boom generation. Our most important social safety-net programs, Social Security and Medicare, are predicated on the idea that current workers pay for the benefits of current retirees. There are no "trust funds" in which money is saved or invested. This worked well as long as there were many more workers than retirees. This, however, is no longer the case. Not only are retirees living much longer, but the now-retiring boomers are also a demographically huge group. The whole funding formula for Medicare and Social Security has been turned on its head. For the first time ever, both of these programs are now spending more than they take in. That means they are both on a crash course with bankruptcy. Congress must act to save them.

This is a key point: *unless Congress acts to save Medicare and Social Security they will go bankrupt.* Willfully ignoring the problem, as some are doing, is deciding to allow these programs to collapse. Planning to do nothing is planning for insolvency. Medicare in particular is the single greatest factor behind the massive deficits we are racking up every year. The most recent Medicare Trustees Report says quite plainly:

*Projected long-run program costs for both Medicare and Social Security are not sustainable under currently scheduled financing, and will require legislative corrections if disruptive consequences for beneficiaries and taxpayers are to be avoided. The financial challenges facing Social Security and Medicare should be addressed soon. If action is taken sooner rather than later, more options and more time will be available to phase in changes so that those affected can adequately prepare.*⁴

We must act now to save and strengthen Medicare and Social Security. Those who deny there is a problem, or who believe the problem can be fixed simply by raising taxes again or by eliminating waste and fraud, are deluding themselves and endangering both the nation's solvency and the retirement security of every American.

The Politics.

Winston Churchill had some interesting things to say about American democracy. About democracy in general he said, "[D]emocracy is the worst form of government except all those other forms that have been tried."⁵ He also once said, "I want no criticism of America at my table. The Americans criticize themselves more than enough."⁶ He is also

³ National Center for Policy Analysis.

⁴ <https://www.cms.gov/ReportsTrustFunds/downloads/tr2011.pdf>

⁵ Speech to the House of Commons, November 11, 1947.

⁶ Langworth, Richard, editor. Churchill By Himself. New York: Public Affairs, 2008. P. 128

popularly believed to have once said, “You can always count on Americans to do the right thing—after they’ve tried everything else.”

There is a lot of truth in those three statements. Democracy is a messy business, and the American people have just watched it at its messiest. Personally, I believe that 24-hour cable news channels tend to magnify controversies so much that simple disagreements now look like great controversies, and controversies now look like catastrophes.

Even so, I do wish it had been easier to get a majority of Congress to support a bill that raised the debt limit while reining in spending. The reason that it was so hard to do is illustrative of a deep political divide that unfortunately exists in our country. Conservatives, like me, believe that the government is taxing too much, borrowing too much, and spending too much. Liberals, like House Minority Leader Nancy Pelosi, believe taxes are too low (at least for the “rich”) and that there are many more things the government ought to be doing (which will cost money). It is hard to reconcile these two viewpoints.

The 2010 election was, however, a referendum on this issue. After trillions were spent on bailouts, sadly ineffective stimulus spending, and a hugely expensive new healthcare law, Americans spoke out strongly for a humbler and smaller government. Eighty-seven new Republican freshmen were elected to Congress who feel passionately that their whole reason for being in Washington is to shrink the government, balance the budget, and repeal President Obama’s healthcare law. They are in no mood to compromise on debt and spending.

On the other side, the President felt very strongly that he did not want to deal with these questions again until after the 2012 presidential election. Moreover, he felt very strongly that tax increases needed to be part of the deal. He spoke often of a “balanced approach” and of “compromise.” While this sounded good, a majority in Congress felt strongly that Americans pay enough in taxes and that raising taxes with unemployment over nine percent was unwise.

While I was disappointed that a handful of my Republican colleagues seemed determined to let the perfect become the enemy of the good, I was equally disappointed with the President. He has shown little real desire to address our debt situation. He has increased spending by trillions. He appointed a debt commission to get him past the 2010 election and then ignored their recommendations. He requested this \$2.4 trillion (biggest-ever) increase in the debt limit

President Obama’s Record on Debt Elimination

- ✓ As a senator, opposed a debt limit increase (calling it a “failure of leadership”); as president, asked for the largest increase in American history.
- ✓ Has increased our debt by trillions of dollars.
- ✓ Appointed a debt commission to get him past the 2010 election, but then ignored its recommendations.
- ✓ Asked for a \$2.4 trillion debt limit increase with no cuts in spending.
- ✓ Never offered a written plan of his own during negotiations.
- ✓ Attempted to leverage the negotiations to get a tax increase on job creators.

without suggesting any reductions in spending. Throughout the negotiations he never offered a plan of his own. He tried to leverage the situation for a tax increase. It seems to me that the President is playing the decades-old game of “kick the can.” We can’t kick the can anymore.

The Solution.

What’s done is done. The debt is now approaching \$15 trillion. So what do we do? As the New York Times outlined a couple of years ago, there are only a handful of options:⁷

1. **Raise Taxes** – We can raise taxes to bring revenues closer to expenditures. However, taking money out of the private sector hurts the economy which, in turn, reduces tax receipts. It would also likely increase unemployment.
2. **Cut Spending** – We can cut spending to bring expenditures closer to revenues. This is politically difficult because every federal program has vocal advocates supporting it and the most expensive programs also tend to be the most popular.
3. **Induce Inflation** – Allow inflation to increase high enough that it erodes the value of the debt. This happened in the 1970s, but severely harmed the American people who saw their investments lose value, their buying power shrink, and their standard of living fall.
4. **Default** – We can simply refuse to pay our debts, as countries like Argentina and Russia have done. This would be morally wrong, would dramatically increase the cost of future borrowing, and would spark worldwide economic panic.
5. **Growth** – We can do everything in our power to build a robust and strong economy. Robust growth increases tax revenues as people make more money.

Recent Big-Ticket Legislation	
\$2.9 billion	Dodd-Frank Bill
\$1 trillion	Health Care Bill
\$13 billion	Net Loss on Auto Bailouts
\$317 billion	Fannie & Freddie Bailouts
\$787 billion	Stimulus Bill
\$25 billion	Energy Dept. Car Loans
\$25 billion	Foreclosure Prevention Bill
\$700 billion	Bank Bailout*
TOTAL: \$2.86 Trillion	
*Various accounts repaid	

Clearly, cutting spending and growth are the two most preferable options on this list. If those are our goals, what are the best means to accomplish them?

Balanced Budget Amendment. For decades, there has been a strong movement in the country to amend the Constitution to require a balanced budget. Congress has proven itself incapable of living within its means. Congress has repeatedly enacted measures to rein in spending, only to repeal them later. A balanced budget amendment would force Congress

⁷ “The Debt Buildup.” The New York Times, November 23, 2009.

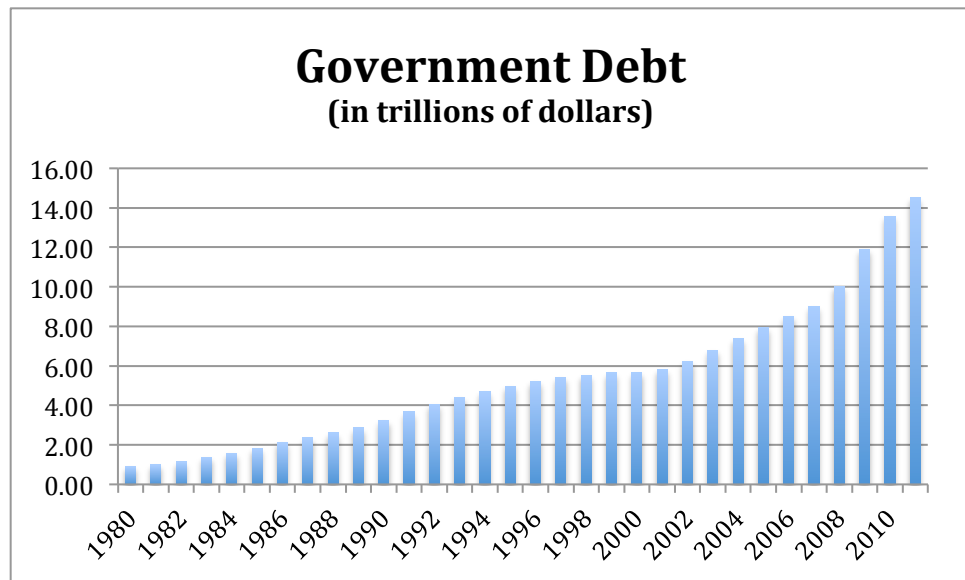
to make the hard choices that are necessary. Even Thomas Jefferson called for a balanced budget amendment, writing:

I wish it were possible to obtain a single amendment to our Constitution. I would be willing to depend on that alone for the reduction of the administration of our government; I mean an additional article taking from the Federal Government the power of borrowing.⁸

More recently, a balanced budget amendment passed the House in 1995 and failed in the Senate by just one vote. Most conservatives now insist that a balanced budget amendment also require a two-thirds or three-fourths supermajority to raise taxes.

Interestingly, many Americans are unaware that there are two ways to amend the Constitution. Every amendment to date has been passed by two-thirds of the House and Senate and ratified by three-fourths of the states. But if two-thirds of the states call for a constitutional convention, such a convention must meet and may propose an amendment for ratification by

the states. As of now, 32 states (including Pennsylvania) have called for a convention to propose a balanced budget amendment. If two more states join them, we will have our first Constitutional Convention since 1787—this time to require Congress to live within its means.



Spending Caps. Congress can limit in law how much it can spend. This has been done before. The problem is that since Congress writes the laws, Congress can at any time reverse or supersede an existing law. Nevertheless, this is a useful tool that can, at the very least, make it harder for Congress to increase spending.

Entitlement Reform. Medicare and Social Security are careening into bankruptcy and must be saved. Finding ways to make them more efficient and less expensive by introducing competition, increasing efficiency, and other key changes will have the added benefit of helping reduce our debt. As President Obama said in 2009:

If we do nothing to slow these skyrocketing costs, we will eventually be spending more on Medicare and Medicaid than every other government program combined. Put

⁸ Letter to John Taylor of Caroline, November 26, 1798.

*simply, our health care problem is our deficit problem. Nothing else even comes close. Nothing else.*⁹

Tax Reform. Ironically, reducing tax rates while also simplifying our tax code would actually increase government revenue. Because the United States has the second highest corporate tax rate in the world (after Japan), many companies prefer to keep their overseas profits overseas. This keeps capital offshore, reducing investment in the United States. Likewise, reducing corporate taxes while closing countless loopholes could by itself increase tax revenue. Lowering other taxes, like the capital gains tax, would encourage economic activity that would be good for the economy and thereby increase overall tax receipts.

Unfortunately, President Obama has consistently insisted on raising taxes on “the rich.” Sometimes he refers to them as “millionaires and billionaires.” What he means is anyone making more than \$200,000 a year. Moreover, fully half of all businesses in the United States now pay their taxes the way you and I do: by filing a 1040 form. Any business that is in a position to hire would be counted by the IRS as a “rich person” and be forced to pay higher taxes—taking away money that might otherwise be used to create jobs.

What You Can Do.

The most important part of the solution is increased public awareness. For decades, Congress has spent money irresponsibly because Americans have asked it to. I can attest to this. When I am in Washington, I generally have a meeting scheduled every 15 minutes. About four out of five of them are people asking for money. And all for good causes. I’m one of the brave ones who is willing to say, “no.” Generally speaking, though, politicians do not like to say no to their supporters and constituents. It is for that reason that congressional earmarks got so out of control until Republicans finally put a stop to them. The American people need to realize that we simply don’t have the money to fund every worthy program and project. I encourage you to speak to your friends and neighbors and educate them about what it is really going to take to balance our budget. More than anything else, it is going to take a country that demands less from its government.

When I first ran for Congress, balancing the budget was at the top of my announced list of priorities. For four years, I served on the House Budget Committee—and we did it. For four years in a row, we not only balanced the budget; we also ran surpluses and used that money to pay off billions in debt

Unfortunately, since then, our debt situation has gotten far worse. I am committed to doing what it takes to save our country from the fiscal tsunami that is headed our way. We are, however, a democracy. Congress will, at the end of the day, do what the American people demand. You and I must help build a partnership between the American people and their government—a partnership that believes in a humbler government that does not try to be all things to all people.

⁹ Remarks to Joint Session of Congress, September 9, 2009.