THE NEED FOR THE BALANCED BUDGET AMENDMENT

HEARING

BEFORE THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

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COMMITTEE ON THE JUDICIARY

BOB GOODLATTE, Virginia, *Chairman*

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THURSDAY, JULY 27, 2017

HOUSE OF REPRESENTATIVES

COMMITTEE ON THE JUDICIARY

Washington, DC

The committee met, pursuant to call, at 10:13 a.m., in Room 2141, Longworth House Office Building, Hon. Bob Goodlatte [chairman of the committee] presiding.

Present: Representatives Goodlatte, Chabot, King, Franks, Poe, Labrador, Collins, Buck, Ratcliffe, Johnson of Louisiana, Biggs, Rutherford, Handel, Conyers, Nadler, Lofgren, Richmond, Lieu, and Schneider.

Staff Present: Shelley Husband, Staff Director; Branden Ritchie, Deputy Staff Director; Zach Somers, Parliamentarian and General Counsel; Paul Taylor, Chief Counsel, Subcommittee on the Constitution and Civil Justice; James Park, Minority Chief Counsel, Subcommittee on the Constitution; David Greengrass, Minority Counsel; Matthew Morgan, Minority Professional Staff Member; and Veronica Eligan, Minority Professional Staff Member.

Chairman GOODLATTE. Good morning. The Judiciary Committee will come to order. And without objection, the chair is authorized to declare recesses of the committee at any time.

We welcome everyone to this morning's hearing on the need for the balanced budget amendment. I'll begin by recognizing myself for an opening statement.

On March 2, 1995, a pivotal day in the history of our country, the United States Senate failed by one vote to send a balanced budget constitutional amendment to the States for ratification. The amendment had passed the House by the required two-thirds majority, and the Senate vote was the last legislative hurdle before ratification by the States. If Congress had listened to the American people and sent that amendment to the States for ratification, we would not be facing the fiscal crisis we are today. Rather, balancing the Federal budget would have been the norm instead of the exception over the past 20 years, and we would have nothing like the annual deficits and skyrocketing debt we currently face.

In 1995, when the balanced budget amendment came within one vote of passing, the gross Federal debt stood at $4.9 trillion. Today, it stands at over 19.5 trillion. The Federal debt held by the public is rising as well and is increasing rapidly as a percentage of the country's economic output. Unlike the past, when the debt spiked to pay for wars of finite duration and then was reduced gradually after hostilities ended, more recently, the debt has risen as a result of having to pay for entitlement programs that are of indefinite duration and difficult to reduce over time. As the nonpartisan Congressional Budget Office has observed, such high and rising debt will have serious negative consequences: interest rates will increase considerably, productivity and wages will be lower, and high debt increases the risk of a financial crisis.

What is particularly troubling is that the debts we are incurring will burden multiple future generations. Indeed, a few years ago, a cross-national study found that the United States ranked worst among 29 advanced countries in the degree to which it imposes unfair debt burdens on future generations. It's time for Congress to stop saddling future generations with the burden of crushing debts to pay for current spending. We should not pass on to our children and grandchildren the bleak fiscal future that our unsustainable spending is creating.

The only way to ensure that Congress acts with fiscal restraint over the long term is to pass a balanced budget amendment. Experience has proven time and again that Congress cannot, for any significant length of time, reign in excessive spending. Annual deficits and the resulting debt continue to grow due to political pressures that the Constitution structure no longer serves to restrain.

In order for Congress to be able to consistently make the tough decisions necessary to sustain fiscal responsibility, Congress must have the external pressure of a balanced budget requirement to force it to do so. The Framers of the Constitution were familiar with the need for Constitutional restrictions on deficit spending.

When the Constitution was ratified, it was the State's that had exhibited out-of-control fiscal mismanagement by issuing bills of credit to effectively print money to pay for projects and service debt. As a result of that lack of fiscal discipline, Article I, section 10 of the Constitution specifically deprived States of the power to issue bills of credit. Over 200 years later, it is the Federal Government that has proven its inability to adopt sound fiscal policies. And thus, it is now time to adopt a Constitutional restraint on Federal fiscal management.

Several versions of the balanced budget amendment have been introduced to this Congress, including two I introduced to this Congress, as I have every Congress for the last decade.

H.J. Res. 2 is nearly identical to text that passed the House in 1995 and failed in the Senate by one vote. It requires that total annual outlays not exceed total annual receipts. It also requires a true majority of each chamber to pass tax increases and a three-fifths majority to raise the debt limit.

H.J. Res. 1, which I also introduced, goes further. In addition to the provisions of H.J. Res. 2, it requires a three-fifths majority to raise taxes and imposes an annual cap on Federal spending.

While my preference is to pass the stronger version of the balanced budget amendment, the two-thirds majority requirement for passing a constitutional amendment demands that we achieve bipartisan support for any approach. Our extraordinary fiscal crisis demands an extraordinary solution. We must rise above partisanship and join together to send a balanced budget amendment to the States for ratification.

We are at a crossroads. We can make the tough choices to control spending and pave the way for a return to surpluses and paying down the national debt, or we can continue further down the road of chronic deficits, leaving our children and grandchildren with crippling debt that is not of their own making. The choice is ours, and the stakes are high.

I look forward to hearing from our distinguished panel of witnesses today about this important issue. But first, we want to hear from the ranking member of the committee, the gentleman from Michigan, Mr. Conyers.

Mr. CONYERS. Thank you very much, Chairman Goodlatte. Top of the morning to all of our colleagues that are gathered here to share their perceptions of this amending the Constitution to require a balanced budget. Great to see you. I look forward to hearing your views on this matter.

For me personally, I've long been reluctant to amend the Constitution to require a balanced budget, because such an amendment could have a devastating consequence for millions of Americans. Simple as that for me. Most importantly, such an amendment would gut our most important social safety net programs, like Social Security and Medicare that are funded by trust funds. So I know you are going to help me see things maybe a little bit differently, and I look forward to your interpretations.

Therefore, critical programs such as Social Security, Medicare, and military and civil service pensions, all of which depend on drawing upon savings accumulated and trust funds, would be prevented from paying current and future benefits.

Way back in the 104th Congress, the Republican chairman of this committee, I remember him well, Henry Hyde, recognized that Congress would not be able to balance the budget without using retiree funds in the Social Security Trust Fund. Here is how he explained it: If you exclude receipts from the revenue that are received by the Social Security system from computing the total revenues of the government, if you take it out of the equation and then the cuts that are necessary to reach a balanced budget become draconian. They become 22 to 30 percent. And you know that we cannot and will not cut programs that we want to subsist and continue by 22 to 30 percent. You have to compute Social Security receipts in determining the income of this government so that the cuts you make to balance the budget are livable and not impossible. That is our former colleague and chairman, Henry Hyde.

I think he was right then, and I think there is much truth in his statement that makes it correct now.

A balanced budget amendment could be used to loot our Nation's savings funded by money taken out of every American's paycheck to pay for other things and to balance the budget, instead of being used to pay the benefits that Americans have earned. It would, in effect, breach the trust embodied by the Social Security Trust Fund.

Additionally, a balanced budget amendment would undermine the Federal Government's ability to respond to a national crisis. Although most amendment proposals contain some sort of emergency exception to the prohibition of deficit spending, they nevertheless also require a supermajority vote in both houses of Congress to override the balanced budget mandate. As a result, Congress may be unable to act in time to respond to a crisis like a war or a hurricane, a flood, or a plain old-fashioned financial meltdown.

Finally, a balanced budget amendment would force the Federal courts to determine inherently political issues, upending the principle of separation of powers and generating massive litigation.

As the late judge and conservative constitutional scholar Robert Bork explained: Scores of hundreds of suits might be filed in Federal district courts around the country. The confusion, not to mention the burden on the court system, would be enormous. Nothing would be settled. Moreover, until one or more such actions finally reach the Supreme Court, nor is it at all clear that what could be done if the court found that the amendment had been violated 5 years earlier.

Now, it's not all the time that I agree with Judge Bork. We should heed his warning in this instance about the potential for endless litigation in courts over budget policy.

To satisfy the dictates of the Constitution's balanced budget amendment as envisioned by these proposals, these courts would need to decide complex economic policy issues that I think are left better for the elected and politically accountable branches to determine. So for those reasons, I oppose the concept of a Constitutional balanced budget amendment.

And so I look forward to hearing from my colleagues on the Members' panel, as well as from all of today's witnesses, on these critical issues. And I thank the chairman.

Chairman GOODLATTE. Well, thank you, Mr. Conyers.

And let me now introduce our first panel of witnesses.

Our first witness is the Honorable John Ratcliffe.

Mr. Ratcliffe is a member of the Judiciary Committee and represents the Fourth District of Texas. Our second witness is the Honorable Bobby Scott. Mr. Scott has previously been a member of this committee, and he represents the Third District of Virginia. Our third witness is the Honorable Vern Buchanan. Mr. Buchanan represents the 16th District of Florida. Our fourth witness is the Honorable Steve Stivers. Mr. Stivers represents the 15th District of Ohio. Our fifth witness is the Honorable Justin Amash. Mr. Amash represents the Third District of Michigan. Our sixth witness is the Honorable Barry Loudermilk, and Mr. Loudermilk represents the 11th District of Georgia. And our seventh and last, but certainly not least, witness is the Honorable Stephanie Murphy. And Mrs. Murphy represents the Seventh District of Florida.

Welcome to all of you. Thank you for agreeing to participate today. We look forward to your testimony. Your written statement will be entered into the record in its entirety. And as you know, we ask that you summarize your testimony in 5 minutes. And we have timing lights in front of you on the table that you all know how to operate.

And, Mr. Ratcliffe, we will start with you. Welcome.

STATEMENT OF THE HON. JOHN RATCLIFFE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. RATCLIFFE. Chairman Goodlatte, Ranking Member Conyers, and my fellow members on the House Judiciary Committee, good morning, and thank you for giving me the opportunity to speak on the importance of amending the Constitution to require the Federal Government to balance its budget.

The issue of balancing the budget is about more than just dollars and cents. It is about more than making sure Federal spending doesn't exceed revenues. It is about accountability to the people who elected us and about restoring the trust that we have broken with the American people. Sure, we talk a lot about what needs to be done. We do that with passionate speeches and with carefully crafted cliches that make for good sound bites.

But speaking candidly to you today as my colleagues, I would ask, if we are going to just continue to promise results only to then later just deliver excuses, or can we instead agree to finally take on the tough choices that are necessary to preserve freedom and opportunity for future generations to allow every American to go as high and as far as their own hard work, determination, and ability will carry them.

Mr. Chairman, the importance of these fundamental questions are what compelled me to introduce what I think is the toughest balanced budget amendment in Congress. It is tough, but governing isn't easy. It is not supposed to be. Making tough decisions after careful deliberation, explaining those decisions with clarity and transparency to our constituents, I think that is what we all signed up for.

The debate regarding the balanced budget amendment is certainly nothing new. But the history of that debate is perhaps the most compelling argument that I can offer you regarding the imperative necessity of passing a balanced budget amendment.

Mr. Chairman, as you mentioned in your opening statement, Congress had the chance to do exactly that in 1995 when a balanced budget amendment passed the House only to then fall a single vote short over in the Senate. At that time, the Federal debt was just $4.6 trillion. But without a balanced budget, what followed over the last two decades has been yearly waves of Federal deficits from Congresses and Presidents of both parties. And the American people have had to watch the Federal debt rise at an alarming and obscene rate, now quadrupling to almost $20 trillion.

Now, critics and opponents of a balanced budget amendment will argue that the real cause of these fiscal imbalances is just a lack of political will, not something that can be cured by amending the process. It very well may be right with respect to the political will part. But can any of us honestly look into the eyes of the American people and tell them that we expect that to change without a constitutional constraint strong enough to stop legislators from being fiscally irresponsible? I can't and I won't.

The 700,000 Texans that I am grateful to represent didn't elect me to posture or message. They elected me to act and to lead on the toughest issues facing our country and impacting our children's future. I think all of our constituents want action and leadership on this issue. They are so tired of hearing us talk a good game, but when it comes time to taking action, watching us consistently fall short of the expectations that we have set. It is no wonder that Congress has such a low approval rating. We consistently overpromise and underdeliver.

So, Mr. Chairman, the opportunity and the choice to finally change this narrative is really now ours. A balanced budget amendment will restore fiscal sanity, it will provide certainty to our national finances, it will save future generations from having to pay off the excesses of today. But most of all, a balanced budget amendment will restore the American people's trust in the Federal Government.

It is my hope and prayer, Mr. Chairman, that this is the Congress that will be remembered for being on the right side of history on this issue. Thank you again for giving me the opportunity to testify today.

Chairman GOODLATTE. Thank you, Mr. Ratcliffe.

Welcome, Mr. Scott.

STATEMENT OF THE HON. BOBBY SCOTT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. SCOTT. Thank you, Mr. Chairman, Ranking Member Conyers, and thank you for the opportunity to return to the Judiciary Committee hearing room. I spent many great days here, and I appreciate the opportunity to return, and also the opportunity to discuss my concerns with the idea of adding a so-called balanced budget amendment to our Constitution.

Reducing our deficit and balancing our budget are goals that every Member here supports. But I worry that we often get distracted by the title of these resolutions without paying serious consideration about whether the specific provisions of the proposal will actually help balance the budget. If we are ever going to balance the budget, the fact is we are going to require members to cast some tough votes. Many of these votes will be career-ending votes, and a constitutional amendment will not change that reality.

One of the first consequential votes I cast in this body was in 1993 on the Clinton budget. It—not one Republican voted for it. Vice President Gore had to break the tie in the—in the Senate. We will remember 53 Members, in addition to Marjorie Margolies-Mezvinsky, lost their seats in the next election by passing a budget that created, in 8 years, over 20 million jobs, tripled—more than tripled the Dow Jones Industrial Average. And by 2001, as a result of that budget, the CBO projected surpluses large enough over the next decade to totally pay off the debt held by the public by 2008. But 53—54 Members of the House lost their seats as a direct result of that vote.

Now, notwithstanding the title, the fact is that most of the proposed balanced budget amendments would actually make it impossible to ever pass a strict deficit reduction plan similar to the 1993 Clinton budget. One proposal requires a three-fifths majority in both houses to enact a revenue increase. Sometimes revenue increases, or tax increases, are necessary to reduce the deficit. But a supermajority will make such necessary revenue increases more difficult and obviously more difficult to balance the budget.

Now, there may be policy reasons that you want to avoid tax increases. But suggesting that that would help balance the budget is just simply absurd.

Now, no tough budget gets three-fifths of a vote. If you look back over the years, over the last decade of fiscally responsible budgets, we haven't had many of them, none of them get close to three-fifths. But let me tell you what can three-fifths of a vote: The fiscal cliff deal. $3.9 trillion in tax cuts passed. It got not only—it got three-fifths. And incredibly, most of the no votes were no because the tax cuts weren't big enough. The deficit wasn't big enough.

Now, the proponents of these amendments say—they will argue that their proposals include a 5-year window from the time of ratification for a glide path to give Congress an opportunity to get its act together so that when the provisions kick in, we will be close to balanced. But there is nothing in any of these proposals that require Congress to make any of this kind of progress. And while passing a balanced budget amendment might give Members of Congress the idea that they can prance around like they have done something, all you have done is just delayed the situation for 5 years. At some point, you are going to have to cast those tough votes.

So under almost all of the proposals, a three-fifths vote would be required to pass any credible budget. You are not going to pass a budget—you are not going to balance it overnight. If you have a really severe deficit reduction plan, the first year is going to be out of balance, so you need three-fifths. Now, the question is does the three-fifths vote make it more likely or less likely that you are going to do something fiscally responsible? Like I said, these are career-ending votes that you are going to have to cast if you want to get this budget in balance.

But there is nothing—we talk about constraint. There is nothing in any of these amendments that limits at all the deficit you can run up once you get to three-fifths. You get three-fifths, no limit at all. You are talking about a Christmas tree and presents for everybody. That is what would happen when you start buying up the votes necessary to get there.

Now, the ranking member talked about litigation. There is going to be litigation over in some of the—there is a limit on what you can—what you can spend based on a percentage of GDP or economic output. There is going to be litigation over what is the GDP in a given year and what was the output. Another question would be on the share of economic output, which—whether or not you want that to happen when there is an economic distress or a national emergency. And another would actually jeopardize spending in a trust fund. If you have collected money one year and want to spend it the next, that might get you out of balance. And what happens to Social Security and Medicare?

The three-fifths vote on a debt ceiling would only institutionalize a dysfunctional system that we have got now. And that is a bad——

But finally, Mr. Chairman, rather than focus on the title, let's talk about the actual provisions. We had a hearing a couple of years ago when the Governor was bragging about his constitutional provisions of a balanced budget. Unfortunately, he had to acknowledge that not one of the proposals—none of the provisions in the proposed constitutional amendment—in his constitutional amendment were in any of the resolutions. No three-fifths requirement to pass the budget, no two-thirds or three-fifths to raise revenue, no three-fifths to borrow money. He was discussing the title but not the actual provisions of the bill.

We shouldn't be distracted by titles, Mr. Chairman. The so-called budget—balanced budget amendment would actually encumber the route to a balanced budget.

And as I said, Mr. Chairman, if you are going to balance the budget, people are going to lose their seats. Nothing in these provisions is going to change that reality, because this—these provisions would actually make it more likely that we would go into more debt and not that we would go in a fiscally responsible way.

Thank you, Mr. Chairman. And I appreciate the opportunity to be with you today.

Chairman GOODLATTE. Thank you, Mr. Scott.

Mr. Buchanan, welcome.

STATEMENT OF THE HON. VERN BUCHANAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. BUCHANAN. Well, thank you, Mr. Chairman Goodlatte, thanks for this opportunity, and Ranking Member Conyers, and fellow members. You know, everybody—and I want to first say I want to thank you, Mr. Chairman, for your leadership on this issue. I have been here 10 years, and you have been in the forefront of this.

But everybody has a reason why they ran for Congress. I ran 10 years ago. And my biggest issue was I was concerned about deficit spending. At that point, we spent—$130 billion was the deficit in that particular year. We have gone from, in 10 years, from 8.6 billion to $20 billion almost in terms of deficit spending.

You know, there was a lot to be made about the stimulus of $800 million. And people asked me about that. But, you know—and it was somewhat controversial, but it got done. We have had a $10 trillion stimulus in the last 10 years. Someone asked me, Why isn't anybody talking or looking at that? So think about that. We have so much outrage on the 800 million. If you look in the last 10 years, and there is plenty of blame to go around, we have had a $10 trillion stimulus. We have created more debt in the last 10 years since the beginning of our country.

So someone says let's just state the facts. The CBO is saying the next 10 years we are going to add another 10 trillion. So at what point do we not understand that we have got to deal with this?

If you look at the—in terms of balancing the budget in the last 50 or 60 years, we balanced it five times. And that was primarily under the Clinton administration. I think it is five or six times. So just the facts. We are clearly bankrupting our children. Our generation, for some of us in here, might be fine, but for our children and grandchildren, they are going to have a bankrupt situation.

I would just say to Mr. Conyers, in terms of—I was born in Detroit. Grew up in the Detroit area. You know, in Inkster. And Detroit was the most—one of the most prosperous cities in America. It was the fourth largest, and it went bankrupt. So it can happen, so——

I would just also just mention that, when we look at the debt in terms of the interest, historically, it is 4 to 5 percent. Four to 5 percent on 20 trillion, you are good at math, is a trillion a year. We only take in 3.3 trillion. So at what point, if the interest rates get there—now, unfortunately/fortunately, the Feds can't raise the interest rate. But I can tell you, seniors in my area in Florida, all over Florida, that were counting on their retirement in terms of CDs, in terms of a bond portfolio they might have, they are getting 1 or less percent. They are eating into their principal. So we are hurting a lot of our seniors, because the Feds can't really raise the rate. They can raise it. If they raise it one point, it is 200 billion. That is the fact.

And we are talking about looking at interest rates down the road. You are talking about $800 billion in the next 10 years per year. So the fact that we don't deal with this is a big issue.

The other thing I would just tell you, after 2008, October 2008, 49 out of 50 Governors have a balanced budget amendment. Florida had to make those tough choices. They cut the budget for the next 3 or 4 years. And people complained a little bit, and then we got back on track, because we are one of the top-rated States now in the country. But it is a big issue. We can't continue to ignore it.

I think also, as I mentioned a little bit earlier today, my bill in terms of a balanced budget amendment—in the first week I was here in Congress, I introduced a balanced budget amendment, and I have done it every year. We can talk about a lot of these other issues. But the biggest issue I think that all of us have to come to the realization with is what are we going to do about outlandish spending? Because at some point, it is not a matter "if," it is a matter of "when" it ends badly. There is no question about it. I have been a business guy for a lot of years. Leverage makes some sense in the right scenario, as long as things are going up, but at some point it ends badly.

I mean, if we thought October 2008 was bad, we are going to have the same impact, but maybe a much bigger collapse. And what—to me, that is just completely unacceptable. So we are leaving this—we are going to leave this country in a bankrupt state for our children and grandchildren. We need a constitutional balanced budget now. It should be the most important thing we are talking about. We have got a lot of good ideas up here. We need to find a way we can all come together, we all have a different amendment, and get this in place, because I have no confidence in the Congress, Democrats and Republicans, of doing anything on this issue short of a Constitutional balanced budget amendment. And we need to act now.

Thank you for the opportunity.

Chairman GOODLATTE. Thank you, Mr. Buchanan.

Mr. Stivers, welcome.

STATEMENT OF THE HON. STEVE STIVERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. STIVERS. Thank you, Chairman Goodlatte and Ranking Member Conyers. Thanks for holding this hearing. And thank you, Mr. Chairman, for your leadership on the balanced budget amendment.

You know, you appropriately mentioned that, in 1995, we came so close to a balanced budget. And in the 20 years since, not much has changed, except that we keep spending more than we bring in. And, you know, what unites all these great folks today that have worked so hard to try to put forward a movement toward a balanced budget is, you know, their belief, and my belief, that if we spend more than we bring in over time, the system will collapse. And so it is—we have to act.

And the ranking member talked about what might happen with a balanced budget amendment, some draconian cuts. Actually, I believe the true draconian option is to do nothing.

A recent CBO report talked about what would happen under the current law with the old-age survivors insurance of Social Security. By 2030, it will be exhausted. In 2031, the cuts will be about 31 percent. We have never seen cuts like that. Other mandatory programs, Medicare hospital insurance will be exhausted by 2028. And you will see draconian cuts there as well.

This—my dad used to tell me, we can do this the easy way or the hard way. And that is the truth here too. We can do this the easy way, which is us deciding to come together.

My proposal for a balanced budget amendment is a bipartisan amendment, Mr. Conyers, that it—it does not require a supermajority to raise taxes. It does not require a supermajority on cap spending. It simply requires us to do things. Because I haven't been here a long time. I have been here 6 years. But I have been here long enough to learn that the only things that happen in Congress are the things that have to happen. We need to make balancing our budget something that has to happen. And if we don't, millions of Americans will see draconian cuts as a result.

I think the gentleman from Florida very accurately talked about what could happen with interest rates. Interest rates are at an artificial low. Our servicing costs on our debt is tiny now, yet it is already more than we spend in veterans' benefits. And if interest rates were to normalize back to normal, 4 to 5 percent rates, you know, we would be spending about 30 percent of everything we bring in just to service the debt. And that doesn't account for anything else. We have to do something, and we have to do something now.

And I would plead to all of you that we—I believe we have to do it in a bipartisan way. You know, would I like a limit on how much we could spend as part of our GDP? Yeah, I would like that. I didn't put it in my balanced budget amendment because I know we need to compromise. I know it has to be bipartisan. To get to the numbers we need, we need Republicans and Democrats to come together to do this and control our own fate, because if we don't, our fate will be controlled for us by other people, by our creditors around the world. And we all saw what happened to Greece, we all saw what happened to Portugal. We all know how bad that situation could be. I don't want to let that happen to the citizens of the United States of America and to the people who depend on our government to do the things that it needs to do to help and—to defend our country.

And, you know, one of the greatest threats—I have been a military guy for 32 years. One of the greatest threats to our national security, as Admiral Mullen said almost 5 years ago, is that our national debt risks our national security. And we all know that. In our own lives, when you owe people money, you are at their mercy. And that is why we need to live within our means and start to pay down our national debt.

I want to thank my cosponsor, Henry Cuellar, for our balanced budget amendment, H. Res. 110. Mr. Conyers, I hope you will look at it. It doesn't require many of the things that you talked about. I know we as Republicans and Democrats have to come together to solve this problem. And I am willing to give up on some of the things that I might like in a balanced budget amendment and simply require it.

I think my—the gentleman from Florida explained it. Forty-nine States, everybody but Vermont, has a balanced budget requirement in their State constitution. And since 2008, countries like Germany, Austria, Poland have added a balanced budget amendment to their constitution as countries because the financial crisis demanded that they do it. And I am not talking about our financial crisis in 2008. I am talking about what happened in Europe in 2007 and 2008.

So there is a way forward. It is a bipartisan way forward. I hope we can all work to make that happen, because the alternative is grim for millions of Americans. And I hope we don't do this the hard way. But the problem will be solved one way or the other. I hope we take the reigns, provide leadership, and lead the country on a better path of a balanced budget.

Thank you for the opportunity to be here. I appreciate all the very passionate advocates that are here today to talk about the future of our country. Thank you, and I appreciate it.

I yield back the balance of my time.

Chairman GOODLATTE. Thank you, Mr. Stivers.

Mr. Amash, welcome.

STATEMENT OF THE HON. JUSTIN AMASH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. AMASH. Thank you, Chairman Goodlatte, Ranking Member Conyers, and members of the committee, for the opportunity to be here. I have enjoyed working with you over the years, and I hope this is another opportunity to find common ground.

The Federal Government's budget problems are no secret. But hearing that the U.S. national debt will soon exceed $20 trillion still shocks the conscience. We have had persistent deficits for most of the last half century, forcing future generations to pay the price of past and current government spending. And there is no sign of change under current policies. This high-debt burden is already undermining economic growth, crowding out other budget priorities through escalating interest payments, and risking a debt crisis with dire economic and fiscal consequences.

If we continue down this path, we will go bankrupt. We all recognize the need for change, but we are faced with the difficulty of prioritizing responsibly without knowing that our work will ultimately pay off. For while this majority may be willing to work to build consensus, forge compromises, and take tough votes, we can have no assurance that future majorities will follow suit. That is why I support a well-crafted balanced budget amendment.

A balanced budget amendment is a binding commitment to be responsible, set priorities, avoid a debt crisis, and lighten the growing burden of indebtedness. But not all BBAs are equal. We should always be cautious about amending the Constitution. And a BBA, in particular, must be carefully drafted.

First, it must be simple, concise, and general. Most of the Constitution establishes broad principles, leaving the details to be filled in by Congress through legislative enactments. Second, it should be narrowly tailored. It should not impose substantive policy, such as requiring a supermajority to raise taxes or eliminating spending to a percentage of GDP.

A BBA should require overall spending and revenue to balance. That is it. And keeping it focused is not only good policy but also good politics. Ratifying a constitutional amendment requires the support of two-thirds of both houses of Congress and 38 State legislatures. It must be bipartisan to succeed. To obtain bipartisan support, it must be workable.

In the State of Michigan, the Constitution mandates that the budget balance every year. Accomplishing this requires multiple revenue-estimating conferences. It also requires the Michigan legislature to conduct quarterly budget meetings to adjust programs as those spending and revenue estimates change. This structure creates too much uncertainty.

In addition, we need flexibility to address emergencies. A BBA should include a safety valve that is tight enough to avoid abuse but loose enough to be useable.

Finally, a reasonable path to balance is vital. Many of the reforms that bend the cost curve start with small savings that become meaningful only over time. Avoiding a shock to the system and instead setting upon a gradual path to balance also will help build trust and grow confidence in the new budget rule.

I would like to briefly discuss my balance budget proposal, H.J. Res. 15, which meets these standards I have mentioned and has garnered substantial bipartisan support over the last few Congresses. I call H.J. Res. 15 the Business Cycle balanced budget amendment, or BCBBA, because it requires balance over the business cycle instead of every year. The spending limit is based on the rolling average of revenue from the three prior years. Because averaging softens revenue fluctuations and avoids the need for shifting estimates, policies would stay predictable.

Under the BCBBA, Congress could choose any level of government spending and revenue. Lower taxes with a smaller government providing fewer services would be possible, as would be a larger government providing more services with higher taxes. The only option taken off the table would be perpetual deficits.

Fiscal policy would be countercyclical. When a recession hits, spending would still be based on the prerecession boom years. This mechanism would allow for temporary deficits. But as the economy recovers, the spending limit would begin to incorporate the lower recession year revenues, producing small surpluses in good years. Setting spending this way would provide the predictability and stability I have highlighted and allow Congress to focus on structural balance and long-term prioritization instead of on constant tinkering to meet immediate desires.

Deficits from recessions and emergencies would be offset by surpluses in economic upturns. Based on conversations with Republicans and Democrats, I chose two-thirds, the normal constitutional supermajority, as the necessary support for emergency spending.

And finally, the BCBBA allows a full decade to reach balance after ratification, because setting national priorities and realizing savings takes time. Phasing out deficits faster would still be an option, but a smoother transition period might be worth taking a little longer.

We need to balance our budget and end the downward spiral into debt. I am convinced that it will take a binding rule, a constitutional amendment to accomplish it. And congressional support already exists for the right proposal.

We can come together to confront the challenges facing our great Nation. But to do so, we need the confidence that our return to fiscal responsibility and sustainability will endure. That is why I support a well-crafted balanced budget amendment. And I urge the Judiciary Committee to continue these hearings and ultimately to bring such an amendment to the floor.

Thank you again for having me here today. I look forward to working with you on this important issue.

Chairman GOODLATTE. Thank you, Mr. Amash.

Mr. Loudermilk, welcome.

STATEMENT OF THE HON. BARRY LOUDERMILK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Mr. LOUDERMILK. Thank you, Mr. Chairman, Ranking Member Conyers. I appreciate you inviting me to this hearing and, more importantly, Mr. Chairman, your interest and the committee's interest in this critically important topic to America.

I serve on the Financial Services Committee. And during our committee hearings, the chairman displays a constant reminder of American's looming crisis. On the monitor in front of the committee room, the U.S. debt clock is constantly running at an alarming pace. Our debt is increasing. As I was a sitting in the committee hearing yesterday, I was looking at the debt clock as it was racing toward $20 trillion at a pace of over $10,000 every second. Most Americans have a hard time grasping just how huge a $20 trillion debt really is.

When I was running for Congress just 3 years ago, that debt was only at $17 trillion. But, in fact, most of us in this room probably don't even have a good idea or have a hard time putting in perspective how massive $20 trillion actually is. So I would like to put it in perspective using something I think everyone can relate to.

Our modern calendar is based upon the traditionally observed birth date of Jesus. Regardless of religious affiliation, if you know what the current date is, especially the current year, you have a general idea of when Jesus was born. Using this common reference point, I calculated how much money you would have to save over this time period just to pay off our national debt. The results were astounding.

If you were to start in a savings account with $17,000 starting at the moment of Jesus's birth and deposited $17,000 every minute, that is every 60 seconds consistently till this moment today, you still wouldn't have enough money to pay off our national debt. That is $17,000 every 60 seconds for over 2,017 years. That should alarm everyone.

Not only is this—the principal on debt overwhelming, but the interest on that debt is increasing exponentially. We must address this crisis immediately or we will be overcome by the interest that soon will be one of the single largest expenditures in our budget. This is why Defense Secretary James Mattis stated in his confirmation hearing that our national debt is the biggest threat to our national security.

Since I have been in Congress, and for the past several years, Congress has attempted to address our debt and deficit through long-term budgeting. This year, as we have done in the past, we will bring to the floor a budget proposal that attempts to balance our budget within a 10-year window. Our Fiscal Year 2018 Budget addresses the fact that we cannot close the fiscal gap in 1 year or even 5 years. It requires a long-term approach to balance the Federal revenues with Federal spending.

Unfortunately, we have been proposing this same course of action year after year, but we never get any closer to actually balancing the budget. If history repeats itself, as it tends to do on Capitol Hill, I expect that next year we will once again be discussing a budget that balances within 10 years. Not 9 years, not 8 years.

If we are serious about securing the Nation for future generations, we must take bold but measured actions to reign in Federal spending before rising interest rates drive it out of control.

In fiscal year 2010, Congress passed a budget that would balance by the year 2020. However, 8 fiscal years later, we are not any closer to actually balancing our budget. In fact, as I have already stated, this year's budget proposes balancing by the year 2028.

In the entitlement-dependent culture of modern America, it will be increasingly difficult to secure the votes needed to cut spending at the levels needed to put us on the path of fiscal responsibility. That is why it is imperative that we pass a balanced budget amendment to force us to make difficult decisions.

My balanced budget amendment, H.J. Res. 29, is built upon the premise that Congress can balance the budget within a 10-year window without major disruption of critical government services. My balanced budget amendment would take effect in the 10th fiscal year after ratification. This would force Congress to implement gradual cuts over time and reform costly government programs. It will also allow Federal agencies, State governments, and the Nation as a whole adequate time to adjust to the leaner and more effective Federal Government.

With a clear and constitutionally mandated path for a fiscally sound government, we must also ensure future debt is only used for times of war or other national emergencies. H.J. Res. 29 forces fiscal responsibility by limiting spending to 18 percent of the previous year's GDP. However, with a two-thirds vote, Congress may exceed the 18 percent limit for one calendar year.

To ensure that the burden of fiscal irresponsibility of future Congresses is not solely placed on the backs of American taxpayers, H.J. Res. 29 requires the vote of two-thirds of Congress to enact any new tax or increase the rate of any existing tax.

Now is the time for Congress to take bold measures to avoid a pending fiscal catastrophe and stabilize our national economy for future generations. Prior to the financial crisis, our national debt was approximately 60 percent of GDP. Today, our debt has grown to over 104 percent of GDP. We must put ourselves on a path forward, but a sustainable path to fiscal solvency. H.J. Res 29 uses a proven concept that Congress can balance the Federal budget in 10 years and then forces us to follow through with that plan.

Mr. Chairman, doing what is right isn't easy and it is often not popular, but it is always right. Again, I thank you for giving me time to present this bill at the committee, and I appreciate your interest.

Chairman GOODLATTE. Thank you, Mr. Loudermilk.

Mrs. Murphy, welcome.

STATEMENT OF THE HON. STEPHANIE MURPHY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mrs. MURPHY. Chairman Goodlatte, Ranking Member Conyers, and members of the Judiciary Committee, thank you for inviting me to testify.

Last month, I introduced a balanced budget amendment which has been endorsed by the Blue Dog Coalition. Like other BBAs, my bill generally prohibits the Federal Government from spending more than it receives in a fiscal year, though prohibition would take effect 5 years after ratification to allow for a smooth transition period.

Unlike some other BBAs, my bill does not dictate how Federal policymakers should bring receipts and outlays into balance. Lawmakers on both parties must take a long look at both the revenue and the spending side of the ledger.

In terms of spending, policymakers should scrutinize both domestic and defense spending, both discretionary and mandatory spending. There is no way to achieve budget balance unless a problem is examined in a holistic manner.

By bill does, however, contain provisions to protect Social Security and Medicare benefits that seniors have earned through a lifetime of hard work. We simply cannot break these promises to the American people.

Moreover, unlike some other BBAs, my bill recognizes that there are times when running of deficit is necessary or sensible, like when we are engaged in military conflict or mired in an economic slump. Therefore, the bill authorizes an exception to the balanced budget requirement when Congress declares war, when GDP does not grow for two consecutive quarters, or when unemployment exceeds 7 percent for 2 straight months. Additionally, a supermajority of the House and Senate may vote to authorize outlays to exceed receipts.

In short, the goal is not to make annual deficits impossible. Instead, the objective is to make it harder for policymakers to sacrifice the long-term stability of our economy or to compromise our children's future for the sake of short-term gain. If the Federal Government is going to spend more than it receives, that decision should be taken in a deliberate and bipartisan fashion and not merely because it is politically expedient.

My broader goal in filing this bill is to spur an honest conversation in Congress, in my Central Florida district, and around the country about the consequences for our economy and for our national security of piling deficit upon deficit. This conversation, if it is to lead to real action, must be bipartisan.

To generalize, the Republican party skillfully talks the talk on this issue, but rarely walks the walk when in power. Meanwhile, the last time our country ran budget surpluses was when a Democrat sat in the White House. Yet today, some Members of my party no longer bother even to talk the talk, with some going so far as to suggest that we can run large deficits in perpetuity without consequence. If this sounds too good to be true, that is because it is.

The problem is clear. In 45 of the last 50 years, the Federal Government spent more than it received. As a result, debt held by the public now exceeds $14 trillion, which is 77 percent of GDP, the highest percentage since 1950.

CBO projects that the debt-to-GDP ratio will reach an unprecedented level in the coming decades. According to CBO, this will have serious negative consequences for the Nation. Federal spending to pay interest on the debt will increase making it harder to fund investments in healthcare, education, transportation, housing, and homeland security. Every dollar spent to pay interest is a dollar less spent to empower the American people. Indeed, CBO projects that, within a decade, the government will spend more on interest than it spends on all domestic discretionary programs combined.

The large and growing debt makes us less safe. Recently, about two dozen former defense, foreign policy, and economic leaders from both parties expressed a view that our long-term debt is the single greatest threat to our national security. That—they noted that putting our debt on a sustainable course over the long term will lead to higher levels of economic growth, continued availability of resources to invest in our defense and our future, and a sustained leadership role in the United States—for the United States in the world. We should heed the warnings of economists and national security professionals before we reach the point of no return.

It is clear our country must change course. Smart policies that generate growth will enable us to reduce deficits and debt. This will require bipartisan leadership, both parties working together to adopt a sensible budget resolution, to pass annual appropriation bills in a timely manner, and to avoid dangerous brinksmanship on the debt ceiling. We still have the time to act. The question is, do we possess the will to act?

Thank you.

Chairman GOODLATTE. Thank you, Ms. Murphy.

I want to thank all the members of this panel. This has been excellent testimony on the part of many Members of Congress, some differing perspectives, but all of your testimony is welcomed here today as we attempt to address this serious, serious problem of our country's growing debt.

It is not our custom to ask questions of Member panels, so we are going to thank you and excuse you. But we would like to work with all of you moving forward as we address this issue.

Thank you.

Chairman GOODLATTE. We welcome our distinguished second panel of witnesses. And if you would all please rise, I will begin by swearing you in.

Do you and each of you swear that the testimony that you are about to give shall be the truth, the whole truth, and nothing but the truth, so help you God?

Thank you.

Let the record reflect that all the witnesses answered in the affirmative.

I will now introduce our second panel.

Our first witness is Douglas Holtz-Eakin. Mr. Holtz-Eakin is the president of the American Action Forum. Our second witness is Professor Alan Blinder. Mr. Blinder is an economics and public affairs professor from Princeton University. Our third witness is Professor David Primo. Mr. Primo is a political science and business administration professor from the University of Rochester. And our fourth and final witness is Mr. Nick Dranias. Mr. Dranias is the president and executive director of the Compact for a Balanced Budget.

Welcome to all of you. We—as you have noted from our earlier panel, your entire written statement will be entered into the record. And we ask that you summarize your testimony in 5 minutes. And we have a timing light in front of you on the table. When the light turns to yellow, you have 1 minute to conclude your testimony. When it turns red, we wish you to sum up quickly.

Mr. Holtz-Eakin, welcome back to this committee. You have been here a number of times before.

TESTIMONY OF DOUGLAS HOLTZ-EAKIN, PRESIDENT, AMERICAN ACTION FORUM; ALAN S. BLINDER, GORDON S. RENTSCHLER MEMORIAL PROFESSOR, ECONOMICS AND PUBLIC AFFAIRS, PRINCETON UNIVERSITY; DAVID M. PRIMO, ANI AND MARK GABRELLIAN PROFESSOR, ASSOCIATE PROFESSOR, POLITICAL SCIENCE AND BUSINESS ADMINISTRATION, UNIVERSITY OF ROCHESTER; AND NICK DRANIAS, PRESIDENT AND EXECUTIVE DIRECTOR, COMPACT FOR AMERICA EDUCATIONAL FOUNDATION, COMPACT ADMINISTRATOR, COMPACT FOR A BALANCED BUDGET

TESTIMONY OF DOUGLAS HOLTZ-EAKIN

Mr. HOLTZ-EAKIN. Chairman Goodlatte, Ranking Member Conyers, and members of the Judiciary Committee, thank you for the privilege of being here today. Let me briefly make four points, and then I look forward to answering your questions.

First, the U.S. has a large and growing deficit and debt problem. Second, left unchecked, the consequences of that will range from bad to disastrous. Third, traditional approaches to dealing with deficits and rising debt have failed. And as a result, it would be wise for Congress to consider adopting a fiscal rule. And the balanced budget amendment is a particularly desirable example of such a fiscal rule. Let me elaborate.

I won't belabor the numbers. Each year, the Congressional Budget Office puts out the Long-Term Budget Outlook. It shows a sustained divergence between projected spending and projected revenues, rising debt relative to GDP, and in the absolute, and an increasing fraction of the budget consumed by interest payments. This outlook has been essentially unchanged since I ran the CBO in 2003. All that has differed is we have changed the dates on the lower axis. It is exactly the same picture.

The consequences of this are significant. It is bad that interest increasingly consumes larger fractions of the budget. In the next 10 years, interest is projected to rise to be the second largest program of the Federal Government, larger than everything but Social Security. Worse, that sustained high deficit and debt is crowding out productive investments in the private sector, hurting the growth of productivity and the rise in the standard of living. And, indeed, there is evidence that the U.S. has entered the zone of debt relative to the GDP that comes with a growth penalty. And we may be experiencing slower consistent growth as a result.

And then in the disastrous scenario, left unchecked, the U.S. will inevitably go into a sovereign debt crisis. The debt spiral is unsustainable, and it will rise. If that happens, households in America will experience a sharp rise in interest rates. Their personal finances will end up in disarray. If we saw 1,000 basis point rise in interest rates overnight, say if the Treasury is going from 3 to 13, you would see the cost of a $250,000 mortgage jump from about $1,200 a month to almost $3,000 a month. A $20,000 car loan, the servicing of that would rise from about $440 a month to $540 a month.

And that is just the beginning, because inevitably, the Members of Congress would have to respond to that crisis by sharp increases in taxes and sharp cuts in annual appropriations for spending in order to satisfy credit markets, and the repercussions will be even more severe than the initial impacts.

We have seen over time a variety of efforts by the Congress to deal with budgetary problems. Whether they are PAYGO rules or the most recently, the Budget Control Act, they share the characteristic that it is too easy for Congress to renege. And inevitably, Congress has reneged on those attempts to constrain itself. And that has led me to conclude that the only way for this to get solved is to impose a fiscal rule that governs the Congress that it cannot easily circumvent.

Other countries have tried such fiscal rules. There is some examples in my testimony of the Netherlands and Sweden imposing constitutional-like rules to govern their Congress. This appears to be the mechanism necessary to get the U.S. to avoid the disastrous consequences of the trajectory that we are on. And so it seems to me that one—one should consider the fiscal rule. There are a variety of potential options, one of which might be a debt-to-GDP target or something like that.

But I think the balanced budget amendment is a particularly desirable rule because it is simple and transparent. People have to understand the rule in order to politically support it. I don't think they will support a complicated debt-to-GDP kind of formulation. There is a direct link between the actions of the Congress and the outcome of the rule. You can raise taxes, lower taxes, raise spending, lower spending, balance the budget. And those linkages are important. And there are ways that you can deal with emergencies. And most balanced budget amendments come with contingencies to deal with wartime or other emergencies.

And lastly, I think the concern over sharp, abrupt balancing what is clearly a nonsustainable budget outlook is overstated. If you were to pass out of the Congress a balanced budget amendment, it would take years for the States to ratify it. Those years would provide a trajectory glide path to balance, and I think the adjustment would be a lot smoother than most people fear.

And so I appreciate the chance to be here to talk about the economics of this approach today, and I look forward to your questions.

Chairman GOODLATTE. Thank you, Mr. Holtz-Eakin.

Professor Blinder, welcome.

STATEMENT OF ALAN S. BLINDER

Mr. BLINDER. Thank you, Mr. Chairman, Ranking Member Conyers, and members of the committee, for this opportunity to testify here today on why, in my view, we should not enact a balanced budget amendment to the U.S. Constitution. There are so many reasons that I can't touch on all of them in 5 minutes, so I will just make five points very quickly. Doug had four; I was his teacher once, so I will get five.

First, a balanced budget is the wrong long-term goal for a growing economy, which I haven't heard mentioned before. If the U.S. economy didn't grow from year to year, then balancing the budget might be a sensible long-term goal for this Congress, but every year there are more Americans and higher GDP per capita, so, as a matter of pure logic, the analogy to a balanced budget for an economy that is growing is for the debt to grow at the same rate as nominal GDP, which is what Doug just mentioned. These days, by the way, that would mean a deficit in the range of 3 percent of GDP.

Second, balancing the budget every year would put fiscal policy in a straight jacket that would, among other things, deepen recessions.

As you know, the budget naturally moves in the direction of deficit whenever the economy sags because receipts decline and expenditures rise. These automatic stabilizers, as they are called, make recessions milder by boosting spending when the economy is weak. And, by the way, it is private spending that gets boosted.

To force the budget to remain balanced during a recession, Congress would have to either raise taxes or reduce spending, as has been mentioned already today. That would siphon off demand just at the time when the government should be putting demand back in to shorten the recession. So versions that, for example, balance the budget over the cycle, as I just heard from one of the Congressmen previously, are much, much better than versions that balance it every year.

Third, there are—and here is why where I think I differ from Doug—I know I differ—there are better ways to impose fiscal discipline than a balanced budget amendment. One real-world example is very familiar to members of this committee and to every Member of Congress and was just mentioned; that was the Pay-As-You-Go requirement that began under the first President Bush in, I think it was, the 1990 budget agreement. That was a smart innovation that subsequently helped President Clinton balance the budget by fiscal year 1997 and then to produce a string of surpluses following that.

Shortly after that string of surpluses, however, Congress discarded the PAYGO requirement, and the deficit exploded. That doesn't look like a coincidence to me. It looks like—it is not literally but it is closer to a controlled experiment than to a coincidence. PAYGO came on; the deficit shrank. PAYGO came off; the deficit exploded.

Congress can easily—well, maybe not easily. Congress has the power to go back to the good old days when we paid attention to PAYGO.

Fourth, a balanced budget amendment invites gimmicks and bad policy to work around the strictures of the amendment. I can't go into detail, but such gimmicks are likely to give rise to court cases in which judges are called upon to decide whether the balanced budget amendment has been violated or not violated, thereby, in effect, making judges the arbiters of economic policy. And I don't think that is any better an idea than making economists the arbiters of judicial issues.

Fifth, a balanced budget amendment that imposes a higher bar for raising spending than for cutting taxes—and, as you have just heard, some of them do and some of them don't—such a version of the BBA would create biases and distortions.

So, for example, if the Constitution—I think this is an important example—if the Constitution makes it easier to cut taxes than to raise spending, Congress may decide to pursue its goals through tax expenditures rather than through direct appropriations, which it does too much anyway. That is almost always a bad idea because appropriated funds get far better congressional oversight and much more monitoring and enforcement by the executive branch than tax expenditures do, which just go on and have almost no enforcement.

Finally, it is worth pausing to consider the 20-percent-of-GDP spending limit that is in section 2 of H.J. Res. 1. We have crossed that line many times in the past, in fact, in 26 of the last 40 fiscal years, including all 8 Reagan years, but we typically haven't passed it by much. The average over that period was 20½ percent. So if you are worrying about limiting Federal spending to about 20 percent of GDP, roughly, I think you can stop worrying because the political system we have had for four decades basically does that.

Thank you very much for your attention.

Mr. KING [presiding]. The gentleman's time has expired, and we appreciate his testimony.

The chair would now recognize Professor Primo.

STATEMENT OF DAVID M. PRIMO

Mr. PRIMO. Mr. Chairman, Ranking Members Conyers, and members of the committee, thank you for inviting me here to discuss the need for a constitutional amendment to help rescue the Federal Government's finances.

My three-part message today is this:

First, the United States faces fiscal pressures that threaten our economy, and it is a serious mistake to let relatively low deficits today lull us into a sense of complacency about the future.

Second, the short-run focus on politics combined with Congress' institutional prerogatives make it difficult for legislators to implement durable reforms to address these fiscal threats.

Third, a constitutional amendment, if well-designed, will provide the foundation for Congress to enact credible and sustainable fiscal policies.

So, first, do we even have a debt and deficit problem still? One Washington observer commented recently, quote, "Anxiety about the Federal deficit seems to be fading everywhere—in Congress, among voters, and on the 2016 campaign trial," end quote.

Well, today's deficits may seem manageable, but within a decade they will again exceed $1 trillion if we continue on our current trajectory. These deficits will be piled on top of a national debt that has more than doubled in the past decade, and it is only going to get worse. The debt is projected to hit 150 percent of GDP by 2047 and an unimaginable 250 percent of the Nation's economic output by 2091. The current path is simply unsustainable and threatens the well-being of Americans, especially those in future generations, who will bear the brunt of the economic pain and lower economic growth caused by our inaction today.

While analysts disagree about how much debt is too much debt for the health of the economy, researchers at the International Monetary Fund have found that a nation is especially vulnerable when its debt grows faster than its economy. That is us, that is this country, if we do not take action.

So it is clear that, to get on a stable fiscal path and stay there, Congress needs to act quickly and credibly. So why hasn't it? And this takes me to my second point: Congress is its own worst enemy when it comes to long-term fiscal management. Congressional reelection motivations make it tempting for lawmakers to leave difficult decisions about programs like Medicare for tomorrow. But waiting until there is the political will to act typically means waiting until a crisis occurs.

Now, even if these political hurdles are overcome, Congress faces still another obstacle, specifically Article I, section 5 of the Constitution, which reads, in part, "Each House may determine the rules of its proceedings." This single line constitutes a major obstacle for legislators attempting to enforce budget rules. More generally, Congress, unlike a corporation, cannot write a contract that binds future Members. This is true both with respect to substantive reforms, such as changes to entitlements, and process reforms, such as changes to budget rules. As we saw with budget reforms like PAYGO, what Congress does today a future Congress can undo tomorrow.

And my third and final point proposes a solution to this quandary: a well-designed constitutional amendment that places permanent, truly enforceable limits on Congress' ability to tax and spend. Such an amendment will create an environment under which the question for Members is no longer whether to fix the Nation's fiscal problems but, rather, how to do so.

Now, the promise of a constitutional amendment as an enforcement mechanism binding Congress lies in its durability, but this durability is also a peril. Bad rules can be locked in just as easily as good rules can be. And that is why we must pay careful attention to rule design.

For instance, the amendment should account for economic ups and downs by setting spending targets or limits based on a multiyear period or long-term economic performance. The amendment should be flexible enough to account for major disruptions like war and, at the same time, should be precise enough to avoid end runs around its provisions. Concerns about U.S. Supreme Court involvement in enforcing the amendment could be addressed by limiting remedies and clarifying which parties have standing.

The one thing we don't want to do is reject the entire enterprise of constitutional budget rules, as some skeptics do, based on critiques of specific proposals.

In closing, an amendment to the U.S. Constitution is a serious step for the country and one fraught with political and procedural challenges. But we are much less likely to achieve credible, sustainable budget changes otherwise. While successes in budgeting do occur on occasion, these successes have typically been short-lived. A well-designed constitutional budget rule will make agreements durable, reduce political uncertainty, and ensure that future generations are protected from a fiscal crisis.

Thank you again for inviting me to testify. I welcome your questions.

Mr. KING. The gentleman's time has concluded precisely with the conclusion of his testimony. Excellent.

The chair would now recognize Mr. Dranias.

STATEMENT OF NICK DRANIAS

Mr. DRANIAS. Thank you.

Mr. Chairman, Ranking Member Conyers, members of the committee, I am here to make one fundamental point, and that is: A balanced budget amendment is a civil rights issue. We cannot protect the voices and the right to representation of future generations if we leave a limitless credit card in the hands of the Federal Government.

The Federal Government is a radical outlier, in that it has no limit whatsoever, constitutionally, on its credit card, on its borrowing capacity. And that creates a huge potential for abuse of shifting bad policy decisions and the bill—taxation without representation—to future generations.

I am here before you today because a civil rights issue like this should unite everyone—it should not be decided on the basis of any partisan divide—and as a representative of the Compact for a Balanced Budget Commission, the first interstate agency formed to partner with Congress, representing five States who have agreed solemnly in a compact to ratify a specific balanced budget amendment.

There is finally the opportunity to get this job done, because H.C.R. 73 was filed today. It is being prime sponsored by Representative Luke Messer, and, unlike any other proposal before you, it only requires simple majorities to pass.

It does require yielding some leadership to the States, but that is entirely consistent with the constitutional design. Because we have talked about a well-crafted amendment and a well-crafted constitution, and fundamentally it is about checks and balances, separations of power, and finding a way to ensure that, structurally, incentives exist that no one's rights are abused. That is precisely what this balanced budget amendment and the Compact for a Balanced Budget is about.

It is a well-crafted amendment because it strikes at the core problem. The core problem is not budgetary symmetry. The core problem is not really even budgetary processes. The core problem is limitless borrowing capacity.

In 1798, Thomas Jefferson said, if he had one amendment to restore the Constitution to its first principles, it would be removing the capacity to borrow from the Federal Government. Now, that is a little radical; it goes a lot farther than is necessary. But he was striking at a recognition that, with limitless borrowing capacity in the hands of any debtor, any human being, let alone an elected official, it is a structural incentive to create fiscal abuse, particularly if you are sending the bill to the next generation.

Now, I am here to urge you today to recognize that many of the concerns expressed by Representative Conyers, by Professor Blinder, and others on, some would say, the other side of the ideological spectrum from me are legitimate in many respects. It is not the right way to go about fiscal responsibility, to have some fixed demand for a balanced budget all the time.

But they are wrong in assuming that you can safely place limitless borrowing capacity in the hands of Congress and just hope for PAYGO to arise simultaneously. There is a reason why PAYGO failed. There is a reason why it went on and it went off. It is because the pressure to spend beyond our means is unstoppable over time when you have limitless borrowing capacity and you can send the bill to future generations.

So, in conclusion, I just wanted to emphasize—I would be happy to take a lot of questions on this—the balanced budget amendment that has been already drafted, that five States—Alaska, Arizona, Georgia, Mississippi, and North Dakota—have agreed to ratify if and when it is proposed, is designed very carefully to address every concern that has been ever raised about past balanced budget amendments. Those concerns are addressed reasonably. And it is critically important to emphasize that it does what every good constitutional reform should do, which is check and balance power.

And with that said, I hope that this civil rights issue of protecting future generations from being saddled with our policy choices and taxes for decisions on spending they never had a chance to influence will be protected and that we will come to view a balanced budget amendment as akin to the same sorts of amendments we have approved in the past to represent folks that have been excluded from the political process.

Thank you very much.

Mr. KING. I thank the gentleman for his testimony.

That concludes the testimony of the witnesses. We will now proceed under the 5-minute rule with questions. And I am going to honor the queue that we have and recognize Mr. Franks first for his 5 minutes.

Mr. Franks of Arizona.

Mr. FRANKS. Well, thank you, Mr. Chairman.

Mr. Chairman, someone once said that great societies finally come when old men plant trees under whose shade they will never sit. And I am convinced that statesmanship and everything that we are about here today is ultimately about coming generations. We have it pretty good right now, in many ways, but some of the trajectories and some of the directions that we are going I think do, in fact, threaten our children's future.

And, Mr. Dranias, I was especially moved by your analysis that the balanced budget amendment is a civil rights issue, because I could not agree with you more. With all the arguments that say, you know, we want to make sure that we are able to spend to help people, do we not realize that bankruptcy will preclude all of that? And I think that we do face a potential sovereign debt crisis in the near future. And I am kind of giving a little speech here because I think what you are doing here is vitally important.

In all candor, Mr. Chairman, I have signed on to the Compact for America balanced budget amendment approach just recently because I looked it over carefully and I believe it to be the most comprehensive, competent, well-considered approach I have ever seen since I have been in Congress and have been fighting for a balanced budget amendment for a long time. And I certainly want to express my thanks to Mr. Goodlatte for his commitment to this issue for so long.

I guess what it comes down to, Mr. Dranias, is that sometimes people need to understand not only the implications of continuing on the road that we are on but how the best approach would be to ameliorate the problem.

And so what I would like to do is to ask you, first, two questions. One, what is your prediction in terms of the likelihood of having a sovereign debt crisis? And, two, what will it really mean to this country if that should occur?

Mr. DRANIAS. Mr. Chairman, Representative Franks, if I may, the Compact has a sunset date of April 12, 2021, because 5 years ago when our team of experts were engaged in drafting the amendment and the approach and we looked at the exponential growth in the national debt and we looked at Third World countries and how their debt trajectories went, it became very clear to us that 8 to 10 years out, which now is April 12, 2021, was when perhaps the only real option, from a policy perspective, might be some form of default.

And so you have asked when is the crisis coming. Our judgment, as embodied in the sunset in the Compact, where it self-repeals April 12, 2021, is it is coming soon. And it is coming soon because the level of debt is simply unsustainable. We are now beyond 100 percent of the GDP, where Greece was 7 years ago, if you count all of the debt.

And, by the way, we don't believe in just counting the publicly held debt. The debt that is being held in the Social Security Trust Fund counts too, unless we are planning to default on it.

And so the reality is it is coming; it is coming fast. And that is why something like H.C.R. 73, which only requires simply majorities, and yielding some leadership to the States is what we need to do.

Mr. FRANKS. Well, I have also been struck by the Compact for America balanced budget amendment approach because I think, first of all, that it is in line with some of Mr. Holtz-Eakin's concerns, and I think that it actually is very parallel. And I also believe, in all deference, that it vitiates most of Professor Blinder's arguments and that it deals with them in a forthright way.

I also am convinced that your approach is especially unique in that it does not conflict with other balanced budget amendments. In other words, if this Congress should ever find a way to get that two-thirds necessary for a balanced budget amendment, some of which has been expressed here today, the different versions, there is no conflict in what you are doing.

So I guess I would just ask Mr. Dranias, with the time that I have left here, if you would just give us the quick overview of what your amendment does.

Mr. DRANIAS. Mr. Chairman, Representative Franks, I would be happy to.

First, the amendment fixes the debt capacity, the credit card limit, of the Federal Government at 105 percent of what is outstanding when it is ratified. So if we had $20 trillion in debt outstanding on ratification, the credit card limit, so to speak, of the Federal Government would be $21 trillion.

Now, that would be a permanent, nominal limit. You could pay it down, borrow it back, do what Keynes said we would do, which is pay it down in good times, borrow it in bad times, not do what we actually do, which is borrow all the time, right?

And the other key component of this amendment—and there are a couple more beyond—is that any further flexibility in this fixed debt limit is not held by the debtor who has the spending problem. Any additional debt capacity that Congress may obtain has to be obtained by a referendum to the States, reinstating the States into a position of oversight on Federal debt policy, like they had before the 17th Amendment when they controlled the Senate. And the States would have to approve, with simple majorities—not an impossible threshold—26 State legislatures would have to approve an increase in that debt limit.

Now, we don't imagine that that would be utilized all that often, because $21 trillion, if we ratified it today, is a lot of debt capacity. If Congress just got the hang of, you know, not borrowing so much, paying it down in good times, living within its means, the opportunities to go to the States, hat in hand, should be few and far between.

But the critical structural component is you can't have, with all due respect, the debtor in charge of deciding what his credit card limit is. There has to be outside oversight. This is a check and a balance. It is more important than any words on parchment. You could have the most wonderful words on parchment and if you control the words, you are not going to control the problem.

Mr. FRANKS. Mr. Chairman, I know my time has expired, so let me thank the chairman.

And let me thank you, Mr. Dranias, on behalf of my children. I hope you succeed—and all their contemporaries—and I will do everything I can to help.

Thank you, Mr. Chairman.

Mr. KING. The gentleman's time has expired.

The chair now would recognize the ranking member of the full committee, Mr. Conyers from Detroit.

Mr. CONYERS. Thank you, Mr. Chairman. I appreciate the varied testimony here.

Before I begin, could I ask unanimous consent to submit for the record on behalf of Congressman Scott—who made a brilliant statement and led us in a good discussion. But he has a survey by the National Conference of State Legislatures that he would like to put in the record.

Mr. KING. Hearing no objections, so ordered, Mr. Conyers.

This information is available at the committee and can be accessed online at: https://docs.house.gov/meetings/JU/JU00/20170727/106327/HHRG-115-JU00-20170727-SD002.pdf.

Mr. CONYERS. Thank you very much.

Mr. CONYERS. Professor Blinder, your testimony attracted three questions from me. The first was, how could a balanced budget amendment devastate Social Security or Medicare?

And my second question was asking you to explain why automatic stabilizers are important and how a balanced budget might negatively affect it.

And the last part of my discussion would be, would a court have to decide budget policy questions if someone alleges a violation of a balanced budget amendment?

Why don't you see where our discussion leads us on those three considerations, sir. Thank you.

Mr. BLINDER. Okay. Thank you, sir. I will do my best, though the third one that you pose is a really hard question.

First, exempting pieces of the budget, whether it be taxes, Social Security, Medicare, defense, whatever is the favorite of the particular Members of Congress that want to exempt that, shrinks the base to which either tax raising or expenditure cutting would be necessary to get the budget from an unbalanced situation to a balanced situation.

Every member of this committee has lived through a process in recent years where the nondefense discretionary part of the budget is just getting squeezed and squeezed and squeezed and squeezed. That is a likely candidate, by the way, for the residual. But my point is there will be a residual and it will just be tougher on what is left, rather than leaving that to congressional decisions when the issue is extant.

The automatic stabilizers are very important, and their importance is much underestimated. On the fiscal side, given the realities of Congress, fiscal stabilization comes almost 100 percent and sometimes more than 100 percent from the automatic stabilizers, not from discretionary policy. Monetary policy is entirely different. The people of the Federal Reserve are engaged in discretionary monetary policy to fight recessions whenever they look imminent or are upon us; don't have to rely on automaticity. But the Congress relies on automaticity.

So what does that mean? It means that the income tax, the payroll tax, and just about every other tax you can think of, the receipts from those taxes shrink automatically as the economy shrinks. Nobody has to legislate anything. Unemployment benefits, TANF, food—I am not supposed to call it "food stamps'" anymore—SNAP, and a whole variety of other programs, their spending rises automatically, again, without Congress having to do that.

The automaticity is important, I mentioned, because of the problems in the wheels of Congress but also because of the speed. Even if the wheels of Congress turned perfectly, nobody can react instantly, even before the data. You don't have to have the data, because the economy is just shrinking, and the automatic stabilizers go to work automatically. So it is extremely important, and short-circuiting them is a potential catastrophe—complete catastrophe.

On the "who will enforce it," you know, I almost like to throw the question back to the Judiciary Committee. This is really a big problem. When Congress is not obeying the law, who enforces it? Generally what happens is somebody either has or claims standing to sue and brings a suit or something like that. How that might play out is going to be completely dependant on circumstances, and, frankly, I haven't the foggiest, but don't want to go there. I think it is a bad idea to go there.

Mr. CONYERS. Just in the few seconds left, what would happen to Social Security or Medicare facing a balanced budget amendment?

Mr. BLINDER. That is going to be up to Congress. Social Security and Medicare are, in a large sense, on autopilot. They are entitlements, basically. And it would be up to the Congress in a particular year, say, when it had to balance the budget and it was unbalanced, does it pass legislation cutting Social Security benefits or cutting Medicare benefits or raising the taxes that finance those. It will be one of those horrible questions that Congress has to face if we had a requirement for an annually balanced budget.

Mr. CONYERS. Okay.

Thank you very much, Mr. Chairman.

Mr. KING. I thank the gentleman from Michigan.

The chair would now recognize the gentleman from Arizona, Mr. Biggs.

Mr. BIGGS. Thank you, Mr. Chairman. And I appreciate each of the participants being here on the panel today and also our colleagues who testified earlier. And I really appreciate this, because I do think this is one of—it is perhaps, quite frankly, the most fundamental and basic problem we face, and it is a threat that is really existential. And so I am glad we are having this discussion today. I hope we continue to have this on a more regular basis until we can start bringing this problem under control.

We have talked in the previous panel a lot about the fact that 49 States have some version of a balanced budget requirement constitutionally. Arizona has one. And I had the privilege of working on numerous Arizona budgets, and I want to just relate how Arizona's balanced budget amendment works. It simply basically says, if you have a deficit at the commencement of the new fiscal year, you must either raise revenue or reduce spending. That is really it.

But then we have some additional constraints. It takes a supermajority to raise revenue in Arizona. And you will never get—at least not in my experience, and that was 14 years—you will never get a supermajority to raise revenue. But what you will get is something you will have to do, and you will have to reduce spending and try to bring your budget into balance that way. A lot of people didn't like that, but I am pleased to say, at least when I left, we had finally achieved a balanced budget. And that is including years of difficulty following the 2008 real estate bubble bursting in Arizona.

I raise that to you because we heard in the previous panel—I can't remember how many testified, about eight people. Virtually each one of them has kind of their own version of how this should work. Chairman Goodlatte has his version of how this should work. There are others that have how that should work. And in the Article V States movement, there are additional. And I would say I have probably read at least two dozen different balanced budget amendments over the last few years.

I support a balanced budget amendment. The question is what that amendment does and what it looks like. I don't support all balanced budget amendments, but there are some out there that I can support.

And so I think we all agree—at least—I just want to—when I was in college my freshman year, in macroeconomics we were taught about guns and butter—this was a long time ago—guns and butter. You can't have guns and butter, right? But we continued to do that in the United States. And if a balanced budget amendment doesn't address that fundamental problem, you will never succeed in whatever you do with regard to balancing your budget. And that requires political will.

Now, two other things. I think if you repealed the 16th and 17th Amendment, a balanced budget amendment would probably become not unnecessary, to be honest with you, because all of a sudden the States would be fully engaged and active in what happens here at the Federal level instead of being recipients of all the mandates that we give.

So I am giving that little diatribe—I didn't meant to run on with my little diatribe too much, but I just needed to point that out.

Now, I want to talk briefly about Mr. Dranias, because he and I have known each other a long time, and we have debated this thing for 10 years, at least, back and forth. And I will say that I find his approach to be one of the most ingenious in attempting to try to resolve some of the issues that I think exist in a States-initiated Article V process.

But, nonetheless, I still think that there are constitutional issues with that approach as well. I think that Article I, section 10 would require the Congress to approve an interstate compact. I know that is debatable, but I am pretty firm in my conviction there because that would be a problem.

So I would just say, you know, because I am out of time already—which is funny how that happens to a politician; you just run right out. But I would commend Mr. Dranias because I think his is the most assiduous at trying to control and direct an Article V States-initiated procedure to a unique end.

I am not satisfied—and Mr. Dranias knows this. I have written about him in my book, even, and we have discussed this at length. But I appreciate all the approaches, because this issue—and I will just close how I began—is an existential threat to this Nation. Nothing else will ultimately matter unless we bring this under control. And so I encourage the chairman and all of us to get on the train and do this as quickly as possible and work out this assiduously.

And, with that, my time has expired. Thank you, Mr. Chairman.

Mr. KING. The gentleman returns his time.

And the chair would now recognize the gentleman from New York, Mr. Nadler.

Mr. NADLER. Thank you, Mr. Chairman.

Let me start off by saying that it is hard for me to imagine a more pernicious proposal than the balanced budget amendment.

In 1905, in the Lochner case, Oliver Wendell Holmes, dissenting, said, "The 14th Amendment does not enact Mr. Herbert Spencer's Social Statics." That is to say, the 14th Amendment does not enact a particular view of economics. And I believe it is fundamentally wrong to bind future generations and future Congresses to a particular economic doctrine—balanced budget or any other doctrine—that may be popular today.

The Constitution should provide procedures for government and should protect individual rights but should not lock in policies, especially economic policies. Whatever one may think of the debt or how to reduce it or the proper level of government expenditures as a percentage of GDP, those kinds of policies should be enacted as legislation, which can be modified, amended, or repealed by future majorities, not enshrined in the Constitution to bind future generations to the opinions of this generation. That is fundamentally undemocratic and tyrannical.

If you thought I was reading a quote, I was. It is a quote from myself at a prior hearing on this topic.

Let me go further and say that we are told that States have balanced budget amendments. Indeed, they do. But States have capital budgets. If they borrow in the capital budget, they must balance the operating or expense budget. To say that a budget that does not distinguish between operating and capital, a combined budget as we have, must be balanced is to say we should never borrow money, which is an insane view. We should borrow money to make investments. Any corporation, any State borrows money to build a bridge, to make an investment and earn a return on capital.

I would also observe that someone said we should limit the debt to 20 percent—or the expenditures to 20 percent. Why 20? Maybe it should be 24 or 16. That should be determined by a majority of the day. If we had enacted this kind of amendment before we adopted Social Security, we would have said 14 percent, and you never would have had the ability to enact Social Security. And maybe we want to make other changes in the future.

Mr. Dranias' proposal is particularly—I was about to say "insane," but I will be more kind—ridiculous, because he would inshrine in the Constitution a limit on debt, let's say $20 trillion, which, as inflation goes up, means a constantly lower debt ceiling every year, which means that you would have a tighter and tighter budget every year, no matter what the popular will and no matter what the economics may dictate.

Now, if you had said that the debt should not be more than a percentage of the economy, I would still disagree with you, because that should be determined annually by Congress, but at least that wouldn't lock you into a constantly declining and a constantly declining budget.

These are some of the basic problems. A balanced budget amendment enshrines a particular economic view and binds future generations, a particular economic view that precludes investment— that may very well preclude investment, preclude economic gains. And, again, any particular thing you write into the Constitution, a 20-percent limit, why is that sacred? Because we believe it in this generation and not our children, we should bind them. It is fundamentally wrong for a constitution.

Let me ask Professor Blinder—oh, let me also point out that we did achieve a balanced budget during President Clinton's term, and what stopped the balanced budget were the Bush tax cuts. That was an economic decision. The country determined, or the Congress, the Republican Congress, determined that it is more important to have tax cuts than to have a balanced budget.

Remember that Alan Greenspan testified at one of the hearings that we had to enact the tax cuts because, otherwise, we would pay off the entire national debt in 10 years, and that would be a bad thing for various reasons. So we know how to do—well, he did testify to that.

And we know how to achieve balanced budgets. We know how to achieve paying off the national debt if we wanted to. But those are political decisions that each generation should make for itself. And the fundamental flaw in the constitutional amendment, besides tying our hands from economic crisis, tying our hands from any decisions, is it ties the future hands.

What if, for example, a future generation determined that they wanted to make medical care a Federal responsibility entirely? Might not increase spending, but it would mean that the spending would now be in the Federal budget, not in terms of insurance budgets. Now, maybe that is a good idea, maybe it is a terrible idea, but how can we determine that our grandchildren or our children should be precluded constitutionally from making such a decision if they want to?

We can't foresee future economics; we can't foresee future possibilities. And to bind our children and grandchildren to a particular economic view and, even worse, to a particular figure in an economic view is extremely pernicious and would, I think, destroy economic growth in the country over the long term.

My time has run out before I have time for questions because I feel so strongly on this. I yield back.

Mr. KING. I thank the gentleman from New York, who has returned his time.

And the chair would now recognize Mr. Johnson from Louisiana for his 5 minutes.

Mr. JOHNSON of Louisiana. Thank you, Mr. Chairman. Sorry I missed some of the testimony. I have had other things down the hall.

Mr. Holtz-Eakin, you testified before this committee almost 2 years ago on the same topic, and in your testimony then you wrote that, quote, "the Federal Government faces enormous budgetary difficulties, largely due to long-term pension, health, and other spending promises, coupled with recent programmatic expansions," unquote.

So you may have addressed this already, and if you have spoken to it, I apologize for missing it. But here we are 2 years later, and some of those programmatic expansions have continued even more so. I assume you still feel that statement is true? Or would you elaborate on that further, about the overall concern?

Mr. HOLTZ-EAKIN. Nothing has changed fundamentally. I mean, we have an unsustainable budget outlook, largely because of the projected growth in the mandatory spending programs. And those are programs which have not been touched in any significant way.

Mr. JOHNSON of Louisiana. You may have addressed this as well, but when we talk about modifying the mandatory spending programs, there are often scare tactics that are employed by the opposition of that, certain special interests, and they are trying to prevent necessary changes from being made.

When I do townhalls back home in Louisiana, I see the result of that, because people are just alarmed. They feel like, you know, the government is going to end their lives, and, you know, they hold up signs that we want people to die and all that.

What is the simplest approach to explaining that? What I do is I put the U.S. debt clock up on the screen at my townhall and I make them watch that number, which increases $10,000 per second, you know. When you are just talking to the average citizen, not to professors and academics, what is the best way that you explain the crisis, in your own words?

Mr. HOLTZ-EAKIN. So it is clear that we are on a trajectory for a sovereign debt crisis and the only question is when, not if. You can look at Greece, Portugal as examples of the consequences of that, and people understand that.

But, to me, the most important point to be made is no one wants to change Social Security, for example, for green eyeshades reasons. When I look at Social Security, I see a program that, under current law, is kept solvent—the actuaries can certify it—because we are promising to cut benefits about 30 percent across the board in less that two decades. It is a disgraceful way to run a pension program.

This is the United States of America. We should have a sustainable social safety net. And so, yes, we should modify Social Security, take care of the red ink in the Federal budget, but also give people a safety net that is going to be durable.

Medicare is even worse. Payments in, plus the premiums saved by seniors—the gap between that and spending, it is about $300 billion a year and rising. It is responsible for a third of all the Federal debt outstanding, and we have seniors not receiving the best possible medical outcomes. So that is not a program you want to enshrine forever and say, “Don’t touch it.” You want to fix it. We should have much better programs.

And I think if people understood that, they would be less resistant to structural changes in the safety net. And we need to make those changes from a financial point of view.

Mr. JOHNSON of Louisiana. I guess this might be a question for any or all of you, but I saw a CBO study, and this may have been covered this morning as well, but it said that—I think it said that entitlement spending will eclipse GDP in 2030. So it is not 100 years down the road; it is right around the corner in relative terms. Does that estimate——

Mr. HOLTZ-EAKIN. I don’t think that is right. The spending per se is not going to eclipse GDP.

I think the most striking thing about this conversation, to me, is this is a conversation that used to be called the long-term budget outlook in 2003 when we published it; it is now the budget outlook. It is here in the next 10 years. Within 8 years, we will run a trillion-dollar deficit. Of that, 60 percent will be interest on previous borrowing. We are perilously close to borrowing just to pay off the credit card. That is an unsustainable trajectory.

And so, whether we want to or not, we have to do something different. And if Congress is unable to do it of its own volition, I am here today beaten into the position that we ought to constrain it somewhat.

Mr. JOHNSON of Louisiana. Thank you.

I will yield back, Mr. Chair. Thank you.

Mr. KING. The gentleman returns his time.

The chair would now recognize the gentlelady from Texas, Ms. Jackson Lee.

Ms. JACKSON LEE. Mr. Chairman, thank you so very much. And thank you and the chairman of full committee for giving this moment of discourse. And I thank the ranking member for his thoughtful presentation.

I think those of us who are sitting at least in the four seats on this side of the aisle have been through this before, I might say, over and over and over again.

And I do appreciate all of the witnesses who have come to express views. And there is one, I think, general theme that none of us would disagree with, is that we want the Nation to be fiscally sound. I can’t imagine that any of us would disagree with that. And we would want to be creative, to a certain extent, in that fiscal solvency.

But let me lay the premise—and, Professor Blinder—excuse me. Is it Blender or——

Mr. BLINDER. Blinder.

Ms. JACKSON LEE. It is Blinder. Let me pose questions to you, without ignoring my friends to your left or your right, because I come with a different perspective, or a perspective that all is not well in the 50 States. So for there to be a restraint on the Federal Government’s ability to be the umbrella in rainy day, it is a difficult posture to be in. And as I listened to the testimony of some, they have indicated that we can do a contingency here, we can refine it here. All I know is that, when the States call, they expect for you to come.

The other thing is that the States have not been too effective with their balancing budget responsibilities. Take, for example, the political collapse—and I do not want to reflect negatively on my friends in Illinois, but my colleagues tell me it is a complete collapse. There is a definitive fight between the Governor and the legislature. They have a requirement for a balanced budget. I don't know if they have ever balanced it, but they are in an outright fight. And I find that to be an enormously difficult posture to put us in.

So I want to raise these questions, Doctor. We have already asked the question about Social Security and Medicare, but today is the 52nd commemoration of Medicare and Medicaid. Obviously, we are in a big fight in the Senate on its very weak and ineffective attempt to undermine the Affordable Care Act because they cannot find a substitute. In the course of that, they are threatening millions of losing their insurance.

That is a place where the Federal Government had to step in. We would have been very happy for all 50 States to say: We are okay. We have provided health insurance for those with chronic illnesses, preexisting conditions, and families. And we would have put a stop sign in Washington and said, it is done.

So I would like you to speak to those issues. I do believe that a balanced budget is anti-democratic, but I would like to speak to the issues of an economic downturn, contingencies that are beyond our imagination, and the ineffectiveness of many States in their balanced budget. I think the gentleman from New York talked about the capital budgets.

And so, yes, be fiscally responsible. I am interested in Pay-As-You-Go. I think, however, it would have to not be political, and that is the problem with Pay-As-You-Go. It is a "gotcha" sometimes, the party that is in, rather than a balance, even though I was here for the 1997 balanced budget, and the only thing that we needed to fix after that was the Medicare issue with doctors, called the doctor fix, but we did get in CHIPS and we balanced the budget. And I guess we were able to do so, as you indicated, because we were getting the benefit of the Pay-As-You-Go, but then we created surpluses as well.

So would you answer those questions about contingency, responsibilities for the least of those, and that our friends in the States have their challenges too, and why would we, in essence, strap ourselves down to not be able to respond to these major issues?

Mr. BLINDER. I will. Thank you, Congresswoman.

First, let me start with the point that Congressman Nadler made a moment ago, rephrased slightly differently. The States do not balance their budgets on Federal definitions. So it is just a false analogy. If it was true, there wouldn't be any State debt out there. And I come from New Jersey, and I can tell you there is State debt.

Ms. JACKSON LEE. And I come from Texas, and there is.

Mr. BLINDER. There is State debt. And all the States have debt. So they do not balance by Federal definitions.

Ms. JACKSON LEE. But that is a representation, and you are—both of us—all three of us are debunking that. But go ahead. I yield.

Mr. BLINDER. It is a fact.

The second thing is to your point about the automatic stabilizers. Because of the versions of balanced budget amendments that almost all of them labor on, the States are often automatic destabilizers in a recession. Their revenues fall off. They have this balanced budget requirement, excluding capital expenditures, for the operating budget. They have to cut the operating budget or raise taxes—exactly the wrong thing.

Part of what we rely on the Federal Government to do—part—is to offset these pernicious effects of procyclical State and local government budgets. That is a part. That is not the biggest part, but it is a part. We don't want to take that away.

Thirdly, for a variety of reasons, of which I will mention one, when it comes to the need to raise revenue, the Federal Government has much greater taxing powers than the States. Now, that is not in the Constitution. There is nothing in the Constitution that says the Federal Government can raise a lot of money and the States can't. It is because of mobility.

If Texas—let's take New York instead. It is less fanciful. If New York State would double its personal income tax rate, people would move to New Jersey and Massachusetts and Texas and Florida and all over the place. There is much less mobility—and the same goes for businesses, by the way, even more. There is much less mobility for businesses and for people across national lines. Not that many people are going to flee to Monaco. Some will, but not many.

And so the States are strongly constrained in their ability to raise tax revenue. Again, I know. New Jersey has pushed it out to the limit——

Mr. KING. If the gentleman can conclude his thought, the time has long passed, please.

Ms. JACKSON LEE. Can he finish his thought?

You can finish, Professor.

Mr. BLINDER. No, I was basically finished.

Ms. JACKSON LEE. Okay.

Mr. Chairman, I am yielding back, but I do want to put on the record and maybe get a response in writing, is that our economy is at $22 trillion. It is a growing economy. And so I would like to hear from all of the speakers on the effect of a balanced budget on the growing economy. Why not utilize that growth to be fiscally responsible and invest in the American people?

I yield back. I would like that answer from all of those. I yield back.

Mr. KING. The gentlelady's time has expired.

And the chair now recognizes the freshest member of this committee, the gentlewoman from Georgia, Mrs. Handel.

Mrs. HANDEL. Thank you, Mr. Chairman.

And thank you to all of our witnesses today.

We heard earlier about a number of balanced budget amendment proposals, and, interestingly, several of them have fairly broad, bipartisan support. So that says to me that there is really a growing realization that the crushing debt that we are facing is unsustainable and, frankly, irresponsible and that some type of a balanced budget amendment is necessary.

We just heard one case for why a State budget is not analogous to a Federal budget and not an appropriate reference point. I would like to hear from you, Professor Primo, if you have a different perspective or if it is the same perspective on that.

Mr. PRIMO. Without a doubt, the States are different than the Federal Government. The Federal Government can mint money; the States can't. And we do hear the argument, well, the States carry debt, so obviously they are not balancing their budgets. But if I had to pick right now, would I rather have the fiscal responsibility we see at the State level writ large—there are exceptions—or the fiscal responsibility we have at the Federal level, I would pick the States every day.

And so, just because the States aren't perfect, just because balanced budget rules may not capture all spending, it doesn't mean that we can't learn from the fact that the States do, year in and year out, have to be much closer to balance than the Federal Government does.

And the research I have done shows that States that have the strictest balanced budget rules spend less, they have lower deficits, they are more fiscally responsible.

Mrs. HANDEL. Yes. And to the credit of the Georgia State legislature—and we have one member with us, Legislator Rakestraw—I have seen that in practice.

Let me ask you one more question before I move to another witness. We also heard earlier that there is a sense that perhaps a balanced budget amendment would enshrine a particular economic policy into the Constitution and put it as a burden onto further Congresses, et cetera. Share with me your perspective on that, if you think that is the case or not the case and why.

Mr. PRIMO. I am really glad you asked that because, as Representative Nadler was making that point, I said to myself, wait, what we are doing now as a country, what the Congress is doing now in letting debt continue to go up year in and year out, that is imposing on future generations.

Saying that you have to live by the realities of the marketplace, the realities of if you carry too much debt you are going to default, that is not imposing an economic view, that is imposing economic reality, whereas saying we are going to run up debt, we are not going to worry about it because we can deal with it tomorrow, which is what this Congress has been doing for decades, that, to me, is imposing on a future generation.

Mrs. HANDEL. Exactly. Thank you. And I talk about this often with my sister, who is the mother to my beautiful nieces, 12 and 13, and I worry about that significantly.

I want to move to Mr. Dranias. We obviously have talked about a number of balanced budget management approaches, and there is any number of ways to come at this. And we have seen, frankly, a real difficulty in trying to move it forward. The closest we have come, 1995, where we got it passed on the House side but failed on the Senate side by one vote.

Given that difficulty and the different approaches, could you walk us through—and we have about a minute, 40—walk us through how the steps to doing the Compact, what that entails and if that is really a realistic approach? Is it doable, I guess—doable?

Mr. DRANIAS. I would be happy to, Mr. Chairman, Madam Representative.

The Compact involved two overarching components. One is a congressional resolution activating it, which is H.C.R. 73, filed today by Representative Luke Messer. That only requires simple majorities. It is a concurrent resolution. We have a good argument against filibuster we can talk about off line. Okay? If that passes, we are done on the Congress side.

On the State side, we need to get 38 States, the number needed for ratification to agree to the Compact. We have 5 in; we need to get 33 more. We have a pretty heavy lift to get it done before 2021, but hopefully the critical mass will be provided by H.C.R. 73.

Mrs. HANDEL. Okay. Thank you very much.

And let me just also thank Representative Rakestraw for being with us today. I appreciate your being here and your leadership on this issue.

Mr. Chairman, I yield back the balance of my time.

Mr. KING. The gentlelady returns her time.

The chair now would recognize himself for his 5 minutes.

And I would reflect that, when I arrived here in this Congress, I was elected in 2002, and we had a balanced budget. We had balanced it for several years in a row, as some of the witnesses have testified today. I expected to arrive here in this Congress and continue with a budget that was balanced by the will and the majority of the House and the Senate.

And the first budget that I encountered way over-blew our spending. And I went to the chairman of the Budget Committee, who is a good friend to this day, and I said, where is our balanced budget? And he said, it is impossible to balance the budget. Our financial centers have been hit on September 11, 2001. We are at war. We had to stand up TSA. We have all kinds of security expenses all across this country to protect ourselves from the scope of an enemy at that time which was unknown.

It was frustrating to me, and I said, I am going to go out and write my own balanced budget. I am going to have a balanced budget that I get to vote on the floor of the House. I didn't have the skill set at that time in the first weeks of my term here to rewrite the entire budget of the United States Government.

I worked on that. I joined the Republican Study Committee immediately. I went on the steering committee so that I could have more of a voice on the agenda of that Study Committee, and I pounded on the table and said, we have to bring a balanced budget. I did that every year for 5 years.

And, finally, the chairman of the Republican Study Committee, Tom Price, now Secretary of HHS, brought a balanced budget to that table at the Study Committee. And I said, what got into you? He said, well, we have been listening to you, King. Well, it is was a surprise to me that that was the case.

But that budget balanced in 10 years, from the Republican Study Committee. The next year, we brought it down to 9, then 8, then 7. I am not actually sure what has happened with this now by the time we got down to 5 or so.

That is how hard it is to bring a county that is in a crisis from a war into a place where we are today, where, now, somebody testified that the anxiety is diminishing about balancing the budget because, politically, we seem to have accepted the idea that we are going to have to cut some taxes and spend some money and look for a stimulation in this economy.

Well, I am at this place where I want to see a balanced budget, and I will vote for the one that is most likely to get us to balance this as strongly as we can. But I was very interested in the testimony about looking at a span of time and balancing this budget within economic cycles as opposed to a fiscal year. I think that is a thought that we haven't debated very much in this committee over the years, and that is one that hopefully is front and center.

But I also wanted to turn to Mr. Holtz-Eakin and ask him a question about something I didn't hear brought up, and that is that, of the different ways that we can get to balance—raise taxes, cut spending—I am, of course, in favor of cutting the spending—but what about the component of printing money on this and injecting more money into the currency? How does that fit into the equation as you see it, Mr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. It is an option that one could basically monetize the deficit, and over time, that will lead to higher inflation, inevitably. The real value of the debt will decline. The nominal dollars will be there. I don't think there is anyone who has looked at economic history in the U.S. or across the globe that would argue this is a good approach to dealing with fiscal problems.

The best approach to dealing with fiscal problems is better fiscal policy, and I think the fundamental issue that the Federal Government has is it doesn't have a fiscal policy. There's a budget resolution in the House sometimes. There's a budget resolution in the Senate sometimes. They agree on one, occasionally. But there is no single thing that the President, the House, and the Senate agree on that adds up spending and revenues in a coherent way, and that is what is needed.

Mr. KING. Again, let me take you to another place. Fast-forward to the economic crisis when this all comes to a head, which some of you have testified about and some of the members have, to that crisis. Now, the political scenario in the House and the Senate and across the Nation is feeling this crunch. And if we hit a collapse that would be a global bankruptcy situation, and Greece has been mentioned here, but—there are a number of countries in the world that could bail Greece out, but there is nobody that can bail out America.

So what does—since no one can bail us out, does that create a global Great Depression far worse than the 1930s or the 1980s, that I feel like? And then is printing money to service that debt become such a high temptation that that is how we do that or we create this economic chain letter?

Mr. HOLTZ-EAKIN. In that moment, there will be global repercussions. The U.S. treasuries are the foundation of the global financial system. Their liquidity will be impaired badly, which means you won't be able to buy or sell them. And chaos will prevail.

There will be no good responses if we get to that moment, whether it is trying to print money, raise taxes, slash spending across the board. Those will all be bad outcomes. We shouldn't even run the experiment. We should fix it in advance.

Mr. KING. I would just quickly ask Professor Primo if he would respond also to that.

Mr. PRIMO. Mr. Chairman, the—you know, these situations that you described, printing—monetizing the debt and so on, you know, it is conceivable they could occur under a balanced budget amendment, if it didn't specifically prevent that. But it is far more likely to occur if we don't take action and we let a crisis emerge. And this is sort of one of the things that economists, like, call creeping risks, that the economy is not going to implode tomorrow. It is not going to implode the day after tomorrow. But it is consistently getting worse a little bit every day, every year. And, you know, there is no, you know, announcement that we are going to have an economic crisis tomorrow. And that is—that is the risk, because we don't know exactly when it is going to occur. And so to deal with it now is going to make us much better off.

Mr. KING. But you don't believe that we can go on in perpetuity the way we are going?

Mr. PRIMO. It is simply unsustainable. And that is—sort of one of the issues is, very quickly, that, you know, people will say, oh, but, you know, you are going to make these cuts or those cuts. You are going to hurt people. But the reality is not doing anything. That is what is going to jeopardize future generations.

Mr. KING. Great. Thank you, Professor Primo.

My time has expired. And the chair will now recognize the gentleman from Colorado, Mr. Buck.

Mr. BUCK. Thank you, Mr. Chairman.

Professor Blinder, you probably don't remember me. I took your class almost 40 years ago, and I intended to be an economics major. And after doing poorly in your class, I changed to politics, and here I am in Congress. So I——

Mr. BLINDER. I apologize.

Mr. BUCK. Oh, no. It wasn't your fault. You are a world-renowned economist. And I have a huge amount of respect for you. And I very much appreciate you helping me make a career decision early in my life.

There is a young man who is interning for me, who is seated behind you on your right, and he is also a—Jonathan Feld, he is also a student of yours, much more recently than 40 years ago. But I really appreciate you. I have followed your career in public service as well as a professor.

Professor Blinder, the only problem I have is that—I think you are absolutely right on the economics. If we followed PAYGO, we would be much better off than where we are right now. And if we did other things in Congress that were responsible, we would be much better off than where we are right now. But I feel like you are outside your wheelhouse in the political reality of this particular subject.

Congress cannot act responsibly. The pressures, the incentives on Congress are to get reelected. That is what most Members' priority is when they are here. And to get reelected, we need to keep taxes low and benefits high. And the problem—nobody is going to say, well, I am voting for you because you gave me less. And so the—

the only way to create some sort of accountability in Congress is with an outside force.

And by the way, one of your former students just wrote a book called Drain the Swamp. I won't tell you which student it was. But if you ever want to see my views of what the political reality is here, I highly recommend it to you.

I think the only professor that has read it is Robbie George at Princeton. But I—I would love to get your feedback on—they tried PAYGO in 2009, 2010. It was a complete disaster. We tried Gramm-Rudman-Hollings. It was a success for a couple of years and then a failure.

We have tried to implement different ideas, restrictions on our abilities, and it doesn't work. Unless we have a baseball bat over our head, we are not going to, as a Congress, act within our bounds. And I would love to get your thoughts on that.

And I would also love to get a picture with you afterwards, so——

Mr. BLINDER. We both put on a few years since you were a Princeton undergraduate, I think.

Thank you.

Let me disagree with you a little. First, a preface. Gramm-Rudman-Hollings failed because it targeted the budget deficit, which is, as we call—say in the trade, an endogenous variable. It is the outcome of what happens when you get all the spending and you get all the taxes. Congress can't control that any more than King Canute could control the tides.

PAYGO was different. PAYGO said if you bring forth a bill for more spending, cut taxes, you need pay-fors for it. Congress can control that, and it did control that.

Mr. BUCK. Can I interrupt you?

So the way we controlled it was to say we are going to sell oil from the strategic petroleum reserve, and we bought that oil for an average of $87 a barrel, we are selling it for an average of $42 a barrel. In view of Congress, that is a profit, and we are going to give ourselves credit for that and spend this extra money. By the way, that same barrel of oil was sold three times for three different bills.

Congress is fundamentally dishonest. It is a fraud, and we have to—and I am not suggesting that balanced budget amendment is the answer, because Puerto Rico had a balanced budget amendment, and they found ways around that to the point of bankruptcy. But we have to find some way of creating an honest system where we actually move forward responsibly.

Mr. BLINDER. I agree with that. When this Congress reenacts PAYGO, which I hope it will before a budget-busting tax cut, for example, which is what happened to it in the early Bush administration, it would be wonderful if the new PAYGO rule excluded asset sales. You could do that. In normal accounting, that would be considered phony accounting. So you are—to the specific point, you are absolutely right. But that can be remedied.

Now, your general point. Is this the magic bullet that is going to solve everything? No. You are 100 percent right. Congress will do what it will do. But this helps.

PAYGO—there is a natural tendency for revenues to grow year after year, because the economy gets bigger and prices go up, and mundane things like that just bring revenue into the Federal Treasury. That is the secret sauce of PAYGO. If you can control the rest so that any act of Congress has to be—balanced budget at the margin, that is that act, not the whole budget, but that act is balanced budget, PAYGO will take you in the direction you want to go. It did for 5, 6 years. I believe it can work again, and it would be a great thing if somehow this talk about a balanced budget amendment, which by the way goes back—I think I first testified this in the 1980s. I didn't—I didn't check to see if that is——

Mr. BUCK. Probably the 1880s, to be honest.

Mr. BLINDER. Well, I am not that—I am old, but I am not that old. But somebody did, probably, then.

But if somehow that could get turned in the direction of reinstating PAYGO, I think that would be terrific.

Mr. BUCK. And I am out of my the time. I appreciate your thoughts very much. And I can spend hours with each of you talking about this, because it is my passion as it is so many others' passion here.

Thank you.

Chairman GOODLATTE [presiding]. The gentleman's time has expired.

The chair will now recognize the gentleman from Florida, Mr. Rutherford, for his 5 minutes.

Mr. RUTHERFORD. Thank you, Mr. Chairman. Panel, thank you for being here this afternoon.

And in—you know, there is an old saying that vision without action is just daydreaming. But action without vision is chaos. Sometimes I think lacking that long-term vision we tend to see some chaotic reactions within Congress as was just talked about. Our attempt at Gramm-Rudman, debt ceilings that have changed over 100 times since their implementation. But that is, I think, the strategy and the reason that I would be interested in a balanced budget amendment, because it creates that vision. And—at least where we are going. Not necessarily how—exactly how we are getting to get there, but where are we going.

And, Mr. Dranias, you were cut off by time when—you were explaining some of the elements of your compact. And I would like to hear the rest of that at this time.

Mr. DRANIAS. Mr. Chairman, Mr. Representative, I really appreciate that opportunity.

As we said, there is a fixed debt limit in nominal terms, but there is flexibility. With a referendum to the States, you can increase that fixed debt limit. So if it did become too small from the perspective of an outside, oversight committee of sorts, then you could always—you could lift it with that consensus. But the key thing is avoiding the conflict of interest of the debtor deciding his own debt limit.

Now, the next couple of features are really great. As you know, with the current debt limit, you get into the midnight hour threat of impoundments all the time. And everyone panics, and one side or the other folds. We have built into this amendment a requirement that the President put on his tables, any impoundments that he is considering when we get to 98 percent of the debt limit. And so you will have at least a couple of months to discuss specific impoundments. And not only that, but to avoid Presidential abuses, we give Congress the ability to do a simple majority override by concurrent resolution with impoundments of their own in equal or greater amounts. So this brings the two parties together with specific items to discuss before panicking with the debt limit coming, right? So that is an innovation.

And then the other thing we do, and I say this with respect to Congressman Justin Amash, is we do address the tax issue. The reality is debt is taxes. Tax policy is inherent in addressing debt, because somebody is going to pay it eventually, and it is going to be through taxes.

And the other thing is there is a bias in favor of spending whenever you have debt in a system, because it is easier to borrow and spend than it is to tax and spend, right? So you have to balance that disincentive with some sort of tax limit policy.

The policy we came up with we believe is bipartisan, and it is this: The first part, I think some folks on the left won't like, and that is two-thirds of each house of Congress for any increase in income or other taxes. But then we add an exception, which I think can bring common ground to anyone of goodwill, and that is we preserve simple majorities for anything that eliminates tax loopholes, we preserve simple majorities for replacing the income tax with an end-user consumption tax, and we don't touch tariffs, impose duties. So we preserve the current simple majority rule on the revenue side for the areas of taxation which most economists say cause the least damage. It keeps revenues on the table, but it makes sure we don't destroy the growth we need to keep fiscal responsibility going.

So that is the amendment, Mr. Chairman, Representative.

Mr. RUTHERFORD. Thank you very much. I really appreciate hearing the rest of that.

Mr. Primo, that—the big problem in the Federal budget stems from healthcare costs right now, and it is getting worse by the day. Until we fix those costs, we really can't control our spending.

I would like to ask you, it was suggested earlier that a budget—a balanced budget amendment would put at risk Medicaid-Medicare. Is that necessarily the case?

Mr. PRIMO. In some senses, that gets the logic backwards. Medicare, Medicaid, Social Security all are already under threat. And a balanced budget amendment is intended to make sure that those programs are dealt with before we reach a crisis, and I think this is a recurring theme in this hearing and a recurring theme on the issue of entitlements, which are these, frankly, scare tactics that are used, that the world is going to come to an end. The Federal Government has to—has to roughly balance its budget. And that is simply not true because the alternative is far, far worse.

Mr. RUTHERFORD. Thank you very much. I appreciate you highlighting that fact.

Mr. Chairman, I yield back.

Chairman GOODLATTE. Thank you, Mr. Rutherford.

I want to follow up on the questions of the gentleman from Florida. As you have mostly, not all of you, but mostly testified, and as you heard from the panel of Members of Congress before you, most of them, and as you heard from me in my opening statement, I think the debt situation is an increasingly dire situation that—I don't know when it will become a dramatic problem, but I think it is a serious problem right now when you look at the impact, for example, of the government's policy of keeping interest rates low. Yes, that has other benefits in terms of investment and so on, but it also has the very powerful benefit of keeping the amount of interest that the government has to pay on its debt exceedingly low, and yet it penalizes those people who have saved all their lives and had the expectation that they could have some income from their savings. Now they have to take a greater risk to get any kind of return on their savings or just live off the savings, because what you get from a bank deposit, which was supposed to be the safe place to put your money, is no money to live on. So we are seeing consequences of this already right now.

Now, I want to know what other solutions there are besides the kind of discipline that we impose upon—the States have imposed upon themselves and that they have imposed upon local governments and economic realities impose upon businesses and families. There are lots of different ways to do a balanced budget amendment, but—and there are lots of ways to try to solve this problem without doing a balanced budget amendment. But I think I will start with Professor Blinder and then ask the others of you.

You mentioned the use of PAYGO as a discipline. It certainly is workable when Congress does it. But Congress very easily decides not to do it when it is not attractive politically to do it. So I am just wondering what we missed in terms of different things done in the past that could be a substitute for the discipline of simply the law saying, as virtually every State has said it should say for themselves, you are not exempt from the laws of economics. The Federal Government is different than the States, no question about that, and its impact on the economy in terms of how it raises money and spends money is different. But we are not exempt from the ultimate consequences of it.

Do you care to respond to that?

Mr. BLINDER. Well, what you said at the end is 100 percent true. We are not exempt from the ultimate consequences.

Let me say a couple of—one word about interest rates and then about PAYGO. The Federal Reserve is—you are talking about the government is keeping interest rates low. It is the Federal Reserve you meant.

The Federal Reserve is actually trying to push interest rates up now. It has nudged the short end up about 100—yeah, about 100 basis points.

Chairman GOODLATTE. One-tenth of 1 percent.

Mr. BLINDER. One percentage point.

Chairman GOODLATTE. One percentage——

Mr. BLINDER. But over a period of time. It is going very slowly which, by the way, it should.

But anyway——

Chairman GOODLATTE. I am not trying to get into fiscal policy. I am just observing that I think one of the unspoken reasons why interest rates have been kept low is because of the dramatic impact that it will have on the Federal budget if they allow them to go back to historic levels.

Mr. BLINDER. Having once been vice chairman of the Federal Reserve, I think I can say, with very little doubt, that that is not what is motivating the Federal Reserve's decision on interest rates.

But the point I wanted to make, Mr. Chairman, was that while the Fed is doing that, it has been frustrated that the long-term bond rate of the United States Treasury won't go up. It would actually like that to go up. Not to the stratosphere. But it has been trying to push it up, and the market will not go up.

What that is telling you is that the markets don't believe these dire scenarios, that the markets are eager to scoop up U.S. Treasury debt at extremely low prices. So I was—you know, I was going to say I would like—I would make a bet against some of these doomsday scenarios. But the market is making trillions and trillions of dollars of bets every single day.

On the PAYGO, the point that you made and Congressman Buck made and others have made, that it is pretty tough to discipline Congress, I mean, you are 100 percent right, and you know it better than I do. Some things work better than others. The PAYGO worked quite well. The Gramm-Rudman-Hollings did not work. The PAYGO worked quite well until the Congress decided, at President Bush's urging, that cutting taxes was more important than PAYGO. I think that was a mistake.

I would like to see the Congress go back. And maybe there are—and, again, you will know better than I—ways you can toughen the discipline of the rule. I give you an example. The so-called Byrd rule in the Senate has held for a long time, and Senators obey it. They could rescind it, just like Members of the House could rescind rules of the House. They haven't. I am not sure what the secret sauce of that was, but that is worth thinking about.

Chairman GOODLATTE. I don't want to—that is an entirely different subject that is one that I am also passionate about, but I am going to stick to this one.

Let me turn to Mr. Holtz-Eakin and get his thoughts on that.

Mr. HOLTZ-EAKIN. Let me say a word about PAYGO and not be quite as enthusiastic as my professor and former colleague.

In the spirit of reunions, 33 years ago, we wrote a paper together, Public Opinion and the Balance Budget. So here we sit today.

Here is the thing. PAYGO keeps you from making things worse. So PAYGO, if it works perfectly and Congress disciplines themselves, means that we get to keep what we have got.

The CBO budget outlook is the answer to the question, What do you have if you put it on auto pilot and you don't do anything? And the answer is disaster. So PAYGO is just not strong enough in 2017. It may have been great in 1995. It is not going to work now. You need asking stronger, and you need to change course. I think that is the crucial fact.

And we are just in a different era than—were in the 1990s. The fundamental issues are in mandatory spending, not discretionary. We do not want to have another dot-com bubble that generates revenue flowing into the Federal Treasury. That was a bad outcome, it turns out. We are not going get a peace dividends from the fall of the Soviet Union. We are in a bunch more dangerous world. Mandatory spending is a bigger chunk of the budget, two-thirds. And the baby boom is now retiring. It is not 15 years before their retirement.

So the Congress is going to have to face this particular budget outlook with different remedies than the ones in the past, because the problems are bigger, they are more immediate, and they are harder.

Chairman GOODLATTE. Professor Primo.

Mr. PRIMO. If we don't enact a balanced budget amendment or something—some sort of constitutional budget rule, I could imagine that periodically there will be bursts of political courage in Congress where we will see some measure of fiscal responsibility, and then something will happen. The rules will be ignored. There will be an economic downturn. Some event will occur that we will say, ah, wait, wait, wait. We have to some exceptions. We have to change things. And then the rules will kind of disappear. We saw it with Gramm-Rudman-Hollings. We have seen it with PAYGO.

And that is the alternative. It is just sort of lurch from reform to reform without any sustained effort to actually make the budget workable in the long run. I mean, that is why you need constitutional budget reform, because in the absence, we are going to see what we have seen for the last 40 years, little blips of success, but overall, market failure.

Chairman GOODLATTE. Mr. Dranias.

Mr. DRANIAS. Mr. Chairman, members of the committee, I am all for PAYGO. I just recognize what Representative Buck recognizes, which is if you don't make it a constitutional rule in some fashion, it is not going to stick. And at the core of the balanced budget amendment in H.C.R. 73 is a version of PAYGO. It says you can't spend more at any point in time than what taxes bring in, unencumbered proceeds, and authorized debt. So PAYGO is fine. It is the political mechanism of enforcement that is the problem. And let me leave you with this analogy.

Chairman GOODLATTE. Let me disagree, because I think Mr. Holtz-Eakin makes a good point that PAYGO is fine as far as it goes, but it doesn't go anywhere near as far as it needs to, because most of our spending is on automatic pilot that doesn't get addressed by that, because we don't address that. It just happens, and we have to come up with the funds for it. And most likely our solution most of the time—I don't vote for the most liberal budgets. I always vote for the most conservative ones. But they never get 218 votes. Never. Every single year I vote for the tightest budget offered, and it never gets 218 votes in the House and never even considered in the Senate.

Mr. NADLER. Will the gentleman yield?

Chairman GOODLATTE. Yes, I will yield.

Mr. NADLER. Let me ask professor—professor—Mr. Holtz-Eakin. You said a moment ago that the growth in the budget is all in the mandatory spending entitlement programs. That is the way the basic growth is. And that is what is going to produce real problems.

Okay. Do I gather from that that you would anticipate that a balanced budget amendment would force major reductions in those programs, in Social Security and Medicare, in the mandatory programs, and that that is one of the reasons we want it?

Mr. HOLTZ-EAKIN. I actually don't know what Congress would do. I know——

Mr. NADLER. No. If we pass the balanced budget amendment, wouldn't that——

Mr. HOLTZ-EAKIN. It would have to balance. I don't know how Congress would choose to balance. I don't. And so I don't have a forecast of that type. It would force the Congress for the first time to come to terms with making mandatory spending, discretionary spending, and revenues add up. There is no mechanism that does that.

Mr. NADLER. But if—I understand. But if, as you said, the growth and the problem is largely in the mandatory spending——

Mr. HOLTZ-EAKIN. Yes.

Mr. NADLER [continuing]. Then you would have to change that curve. You have to reduce the mandatory spending because it just isn't enough in other places to do it, if what you said is correct. Is that not a logical conclusion?

Mr. HOLTZ-EAKIN. I believe that is right and what you should do. I also believe you should address those programs because they are not very good programs.

Mr. NADLER. That is a different question.

Thank you. I yield back.

Chairman GOODLATTE. Thank you.

And to continue with you, Mr. Dranias, I am very interested in what you are doing, because it is one of a number of different approaches that are being taken from the outside to try to influence this, because I think it reflects that there is increasing concern. Twenty-eight or 29 States have called for a constitutional convention on a balanced budget. Some want a broader constitutional convention.

But what is your perspective on that? Is that going to continue to grow, that the discipline for this, that the Congress won't provide with things like PAYGO is going to come from the outside if we don't pass a balanced budget amendment?

Mr. DRANIAS. Mr. Chairman, I think it will continue to grow. And I think you should welcome it. Members should——

Chairman GOODLATTE. I do welcome it, as a matter of fact.

Mr. DRANIAS [continuing]. Welcome it.

But what is great about H.C.R. 73, which activates the compact for a balanced budget is you can have an opportunity to partner right now, and it only takes simple majorities. And there is a good argument against filibuster. So—and, by the way, it is synergistic with all the other movements, because what the other movements have is a movement to a convention. They don't have an amendment.

In the compact is an amendment that five States have agreed to ratify. And so at least you've got a starting point for a conversation and all those other efforts.

And, frankly, Mr. Chairman, if I may say, the reason why all these other statutory or semi-statutory limits don't work is our current system is something like this. It is like you had the right to buy a steak dinner at the next table's cost at Ruth's Chris, only it is the next table 10 years from now. I mean, who is not going to have a steak dinner every single day? Who is not going to invite their vegan friends and their service animals? It is never going to end. And that is why unlimited borrowing capacity is such a threat to our fiscal responsibility. The incentives to use it are overwhelming for human beings, period.

Mr. BUCK. Will the gentleman yield?

Chairman GOODLATTE. Yeah, I would be happy to yield.

Mr. BUCK. I want to just clarify one thing from Mr. Nadler's question to Mr. Holtz-Eakin.

You said, at least I heard, I thought, that we need to reduce mandatory spending. I think what we need to do, and I am asking you if agree with me, is that we need to reduce the deficit caused by mandatory spending. If we were to fix Social Security, if we were to raise the retirement age, if we were to raise the cap on FICA, if we were to means test, if we were to do various things and Social Security were sustainable for a long period of time, we wouldn't need to reduce the benefits of Social Security. What I think you are talking about is the deficit caused by the Social Security fund right now.

Mr. HOLTZ-EAKIN. Yes, you would want to reduce the deficit that is produced by the social safety net. And to do that you don't need to have absolute cuts. You need to slow the growth rate going forward so that you can bring it into alignment with the revenues, which are also growing.

Mr. BUCK. And we can discuss——

Mr. NADLER. Will the gentleman yield? Will the gentleman yield? I just——

Mr. BUCK. I don't think it is my time to yield.

Chairman GOODLATTE. It is my time to yield, but I will be happy to yield to.

Mr. NADLER. Thank you.

I just want to say that what the gentleman just mentioned, raising the retirement age of Social Security and various other things, are, in fact, benefit reductions. Maybe they are good ideas or not. But raising the retirement age of Social Security, which, of course, cuts the increasing cost of Social Security, is, in fact, a benefit reduction.

Chairman GOODLATTE. I will reclaim my time. And I don't want to have a debate here, because we have the witnesses. But I will say that minor tweak—I think the point is that minor tweaks on a regular basis of that system could keep it actuarially sound. And that is not true of some of our other entitlement programs that are—Medicare, for example. I think the first year it was in operation, 1966, it cost $1.2 billion to serve 18 million people, mostly senior citizens. This year, we are going to serve about 56 million people, about three times as many people, and it is going to cost 500 times as much money, at close to $600 billion. That is an unsustainable trajectory. It is got to be reformed. But we will how—to do that, we will discuss another day.

This has been an excellent presentation. I appreciate all of your testimony, and we will move forward on this issue.

Thank you again. I want to thank every member of the committee for their participation today, and the hearing is adjourned.

Oh, I am going to reconvene. Without objection, all members will have 5 legislative days to submit additional written questions for the witnesses or additional materials for the record.

And now the hearing is adjourned.

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