PREVENTING AMERICA'S LOOMING FISCAL CRISIS: THE NEED FOR A BALANCED BUDGET AMENDMENT TO THE CONSTITUTION

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WEDNESDAY, MARCH 16, 2016

United States Senate,
Committee on the Judiciary,
Washington, D.C.

The Committee met, pursuant to notice, at 2:14 p.m., in room SD-226, Dirksen Senate Office Building, Hon. Chuck Grassley, Chairman of the Committee, presiding.

Present: Senators Grassley, Hatch, Cornyn, Lee, Flake, Perdue, Tillis, Schumer, Durbin, Whitehouse, Klobuchar, and Blumenthal.

OPENING STATEMENT OF HON. CHUCK GRASSLEY, A U.S. SENATOR FROM THE STATE OF IOWA

Chairman Grassley. Instead of giving my statement, I am going to put my statement in the record, and I am going to turn the chair over to the Chairman of the Constitution Subcommittee, the Senator from Texas.

[The prepared statement of Chairman Grassley follows:]

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Chairman Grassley. And I will turn to the Senator from Texas to give an opening statement, and then Senator Schumer's staff said I could go ahead. So you go ahead and give your statement, and then if Schumer is here, we will go with his statement. Otherwise, we will go with the statements of the witnesses.

OPENING STATEMENT OF HON. JOHN CORNYN, A U.S. SENATOR FROM THE STATE OF TEXAS

Senator Cornyn. Well, thank you, Mr. Chairman. Thanks for convening this important hearing.

Our Nation confronts a fiscal crisis of epic proportions, but most people just are unaware of it. Our national debt is approaching $20 trillion, a sum that boggles the mind and should shock our conscience. That debt will become an increasingly large share of the economy. Federal deficits will grow and continue to pose an increasing risk to our national security. I am not the only one who remembers Admiral Mullen, Chairman of the Joint Chiefs of Staff, when asked what the greatest national security threat was confronting our country, he said, "The debt."

Well, these facts are pretty much undisputed, and they are hurting our economy now, and they could destroy it in the future. We will crowd out the private sector, endanger entitlements that seniors depend upon in their later years, and leave ourselves open to interest rate risk, suffocating the middle class, and burying small businesses.

Empirical studies show that the high levels of Government debt inhibit economic growth, which we could use more of right now, by creating uncertainty and displacing needed private investment. In addition, a high level of debt can lead countries to hit what is sometimes called "the debt intolerance ceiling," which could lead to a crisis of confidence and economic turmoil.

We all understand we are on an unsustainable course, and so far we have done nothing to address it. We are barely even talking about it, which is the purpose of today's hearing, to talk about it and to offer solutions that different people have proposed and to invite others to offer solutions that they might have.

We are 7 years into the current administration, and President Obama's plan to spend our way out of a recession has proven to be a failure. We are poorer, to be sure, and growth remains anemic.

Under the President's last budget plan submitted to Congress and the American people, the interest costs alone, interest on the debt, would be larger than appropriations for the Defense Department by the year 2022. Interest on the debt alone larger than our national security expenditure by 2022.

President Obama's budget proposal will increase spending by $2.5 trillion and raise taxes by $3.4 trillion over the next decade. And the President's proposed budget never, ever balances. The President's budget increases debt by more than $7 trillion at roughly three-fourths of GDP. That is the highest level of debt since World War II.

So I am glad we are here today to talk frankly about this issue and discuss potential ways to address it. I know no one person, no one party has all the answers to this, and, frankly, it is going to take more than one person and one party to try to solve the problem. But, fortunately, the Founding Fathers left us a number of ways to handle it.

One, we can address our Nation's runaway debt through a balanced budget amendment, the kind of fiscal rule that can put us back on course. In the 1990s, the Congress considered a balanced budget amendment, and a number of Democrats embraced the idea. But even those who did not accepted the need for some mechanism to enforce budget discipline, and when Republicans were in charge of both Houses of Congress when President Clinton was in office, we actually did balance the budget through legislative cooperation between Congress and the Executive.

Another avenue available to us is through legislation, and there are a number of really interesting ideas out there. Senator Perdue recently introduced his Accurate

Accounting Act, which introduces zero-based budgeting into the process. Senator Portman is the author of the Dollar for Dollar Reduction Act, which would require any increase in the debt ceiling to be accompanied with corresponding savings in Washington programs. Senators Enzi and Isakson have proposed budget reforms that would convert an annual spending process into a 2-year cycle, giving Congress more time to do the job of oversight--something which is sorely needed. Senator Ayotte has the Baseline Reform Act, which would reform the nuts and bolts on how Federal budgeting is computed. And as I recall, Senator Corker has a piece of legislation he has previously introduced called the CAP Act. In other words, there are a number of legislative proposals, but, honestly, none of them have been acted upon, and as long as they are, then they are not particularly helpful in addressing this problem.

Now, I recall our friend Senator Durbin, the senior Senator from Illinois, was part of originally a Gang of Six, and maybe it evolved into a Gang of Eight, to try to deal with this issue. But 5 years later, our fiscal situation is a lot worse. The national debt has crossed over from $16 trillion then to almost $20 trillion now, which is larger than our economy. And yet so often when we bring up this topic, many of our friends across the aisle simply act like it is no big deal.

My hope is that the party of Bill Clinton will agree to step up and work with us in a bipartisan way to find a legislative or constitutional or any other suggestions they may have about how we can dig our way out of this mountain of debt.

Well, unless the critics who believe that doing nothing is the appropriate response change their point of view, I am not particularly optimistic about Congress summoning the political will that will be necessary to put our country back on track. And as I said earlier, no one party can do this. The only way it is going to happen is with bipartisan cooperation. So that is why I am encouraged to see that some States have taken the initiative to push for a balanced budget through a constitutional convention. You can do it through legislation. You can do through it a constitutional amendment, and we have amended the U.S. Constitution 27 times in our Nation's history. There is no reason why we could not do it again given the seriousness of the problem and the importance of it. Or the people can petition the Government under Article V of the Constitution for a constitutional convention.

Well, the people are clamoring for solutions, and if we do not offer them solutions and if we do not achieve them, I am sure that ultimately the people will be heard from, and I am just wondering whether that is the route we want to take.

So, Mr. Chairman, thank you for convening the hearing, and I look forward to hearing the witnesses.

Chairman Grassley. Senator Schumer.

OPENING STATEMENT OF HON. CHARLES E. SCHUMER, A U.S. FROM THE STATE OF NEW YORK

Senator Schumer. Thank you, Mr. Chairman, and thank you. I will giving a brief statement. I know Senator Durbin will be coming up and being the Ranking Member after he speaks, and I am glad to see my friend Senator Durbin and Senator Hatch here as well.

Okay. Now, to quote the oft-quoted Yogi Berra, "It is deja-vu all over again." We have seen a balanced budget amendment before this Committee several times over the last 5 years and several times before that. Each time it has ultimately failed. It will fail again.

Ignoring for a moment that this balanced budget amendment is just a convenient political cover for a Republican majority that is rapidly backtracking off a promise to do a budget, there is an irony here in addition.

The first irony: Cannot get a budget done, but they want a balanced budget amendment.

Second irony: Now that the President has announced his pick for the Supreme Court, the majority on this Committee has doubled down on their tactic of see no, hear no, speak to now Supreme Court nominee--despite the fact that the

Constitution clearly spells out that it is the Senate's job to consider a nominee.

I must say to my dear colleagues--and they are my friends, but I must say to my colleagues, before we start trying to edit the Constitution, don't you think we ought to try to follow it? Don't you think we should be doing our jobs?

Article II, Section 2 already says that the President shall nominate a Supreme Court nominee. And it is the Senate's role to give advice and consent. No amendment needed. The language is plain. A group of constitutional scholars assembled by my friend Senator Klobuchar a few weeks ago testified that the text in Article II is crystal clear. The Senate's role in considering a nominee is at the very heart of our system of checks and balances. The Committee should hold a hearing and a vote on Merrick Garland as it has done, even in Presidential election years, every single time in the last 100 years. We should do our job, period.

Frankly, if Merrick Garland cannot get bipartisan support, no one can. He is a thoughtful jurist with impeccable credentials who already has garnered overwhelming bipartisan support for a job that requires nearly the exact same criteria as a Supreme Court Justice. So let me repeat: Before we consider editing the Constitution, as today's proposal would, shouldn't we make we are following it?

Thank you.

Senator Cornyn. [Presiding.] Now back to the topic for which we are gathered. First we will hear from Senator Hatch, the distinguished Chairman of the Senate Finance Committee and senior Senator from Utah, and then Senator Durbin, the Assistant Minority Leader and Senator from Illinois.

STATEMENT OF HON. ORRIN G. HATCH, A UNITED STATES SENATOR FROM THE STATE OF UTAH

Senator Hatch. Well, thank you, Mr. Chairman. I appreciate the privilege of being before this Committee, and I want to mention, my fellow Committee members, Senate Joint Resolution 6 raises three questions:

First, is the magnitude and continued growth of the national debt a crisis that must be addressed now?

Second, is a constitutional amendment the only effective way to address this crisis?

Third, is this particular amendment appropriate for this purpose?

I believe the answer to each of those questions is yes.

First, the national debt is a worsening crisis that must be addressed now. I introduced my first balanced budget amendment in 1979. Since then, the national debt has grown by more than 600 percent, and it has more than tripled as a percentage of gross domestic product.

The impact of the national debt is even more important than its size. The Congressional Budget Office and Government Accountability Office have been warning about mounting debt for more than 30 years. The United States is now in the longest period in history with the national debt above 90 percent of GDP, a toxic level that economists warn slows economic growth and raises interest rates.

While the national debt has nearly doubled over the past 7 years, the interest rate on that debt has been effectively zero. The Concord Coalition estimates that as interest rates inevitably rise, nominal interest payments on the national debt will more than triple over the next decade. The Committee for a Responsible Federal Budget projects that by 2025 we will spend more on interest on the national debt than on national defense. Now, that is becoming a self-propelling crisis.

My second point is that in no other way except by amendment to the Constitution can Congress be compelled to balance its budget in peacetime. That is my firm conviction, but those are not my words. The Appropriations Committee expressed that view in 1947 in its report on a balanced budget amendment, introduced by Senator Millard Tydings, a Democrat from Maryland. Congress has tried to tackle the debt crisis in other ways, only to confirm that achieving real fiscal discipline will require the Constitution. Willpower has not worked. The budget has been in deficit more than 85 percent of the time since 1947. Deficit control legislation has also failed. The national debt was 42 percent of GDP when we enacted the Balanced Budget and Emergency Deficit Control Act of 1985 and was 95 percent of GDP when we enacted the Budget Control Act of 2011.

Third, Senate Joint Resolution 6 is the appropriate amendment to tackle this serious and growing crisis. I cosponsored a balanced budget amendment in 1977, less than 2 months after first joining the Senate and only 2 days after joining this Committee. The amendment before us today is obviously more robust than past proposals, but then as I described, the national debt crisis is much worse. At the same time, it is not nearly as rigid as opponents claim. None of its requirements is absolute. Senator Joint Resolution 6 simply makes it more difficult for Congress to be fiscally reckless.

By requiring super majorities for deficit spending, raising the debt limit, or raising taxes, the proposal effectively ensures bipartisan support for taking those steps and, therefore, that there is truly a compelling reason for doing so. It will force Congress to more directly address priorities and more rigorously examine whether spending is justified. Most Americans, I suspect, believe that we should be doing that anyway, but it is not going to happen as it should without being required.

Enforcing fiscal discipline is not only about practical economic benefits, it is also about limiting the overall size and scope of Government. This is why a former President wrote that if he could achieve a single constitutional amendment, it would prohibit the Federal

Government from borrowing. That President's name was not Bush or Reagan or even Jackson. It was Jefferson. He wrote in 1798 that nothing would more effectively keep the Federal Government within what he called "the general principles of the Constitution." Opponents of a balanced budget amendment do so for the very same reasons, because it will limit Government.

Three-quarters of Americans supported a balanced budget amendment in 1976, and three-quarters support it today. The Peter G. Peterson Foundation's Fiscal Confidence Index consistently shows that the vast majority of Americans say that their concern about the national debt is increasing, and that it should be a top priority for Congress.

Congress cannot amend the Constitution. We can only propose amendments, which do not become part of the Constitution unless ratified by three-quarters of the States. Perhaps the States believe that the national debt is not a serious and growing crisis. Perhaps the States believe that a constitutional amendment is not necessary to address the crisis. Or perhaps the States believe that this amendment, Senate Joint Resolution 6, is not the appropriate measure for this purpose. If the States believe any or all of those things, they would decline to ratify this amendment. And we should not be afraid to pass it. That decision should be theirs, not ours.

I want to thank you, Mr. Chairman. It is a privilege to be before the Committee, and especially arguing for a constitutional amendment to require us to balance the budget.

Senator Cornyn. Thank you, Senator Hatch. I neglected to mention, of course, your long and distinguished service as the former Chairman of this Committee, so thank you for your testimony.

Senator Durbin?

STATEMENT OF THE HONORABLE RICHARD J. DURBIN, A UNITED STATES SENATOR FROM THE STATE OF ILLINOIS

Senator Durbin. Thanks a lot, Senator Cornyn, and my colleague Senator Hatch, and my other colleagues who have joined us here today.

There are some great traditions in the Senate. One of them involves a day in February where we gather--some gather on the floor, and someone reads George Washington's farewell address. It is just a tradition that year after year we abide by. And, similarly, we have a tradition year after year of a proposal of a constitutional balanced budget amendment. As night follows day, we are going to have proposals, usually from the other side of the aisle, that we need a constitutional amendment so that we can deal with our budget crisis and deal with our deficit.

It is interesting to me that we are taking the time of the Senate Judiciary Committee for the majority party to suggest a constitutional amendment instead of the majority party taking the time of the Budget Committee to propose a balanced budget. You know why? This is easier. It is so much easier to say we are just going to change the Constitution and then things will happen.

The reality is your party is in control in the House and in the Senate. And if you believe that a balanced budget is the best thing for America, where is it? I have not seen one produced by your party. You know how the process goes. The President sends us a budget to start the budget conversation each year, but we can ignore it if we wish, pass our own budget resolution, pass our own appropriations bills, challenge the President, sign them or do not sign them. That would be your way of demonstrating your real commitment to balancing the budget. But instead of doing the hard work and really politically unpopular work of proposing a balanced budget, you want to propose a balanced budget constitutional amendment.

Now, we know the Constitution is our founding document of our Nation, and we have all taken an oath to uphold it. I take that oath seriously, and I am sure you do, too. Senators should do the jobs assigned to them by the Constitution. We should take great care when proposing changes to this document. Senator Hatch has stepped away. I can recall a time in the Senate Judiciary Committee years ago when my office was contacted because the Judiciary Committee under Chairman Hatch proposed two constitutional amendments be considered by the Committee on the same day. And I objected. And it was brought up at the hearing that someone had objected to the two constitutional amendments. And I said I would object. The reason? I do not believe we should amend the Constitution more than once a day. And I think historically the fact that we have only done this 17 times is a reminder that we ought to take care when we propose amendments to this document.

I do not want to take a paint roller to a Rembrandt. And let us be careful when we come up with politically popular rhetoric that it really can stand the test that this Constitution has stood. The Constitution gives us, Congress, the power of the purse. Putting our Nation's fiscal house in order requires hard decisions, and Article I of the Constitution assigns the job of making those decisions to us.

These decisions can be politically difficult. I know this. I do not know why, but I accepted Harry Reid's invitation to serve on the Simpson-Bowles Commission. Well, it was fascinating. Those two co-Chairs are fascinating people to start with. But here we were, Democrats and Republicans, sitting together day after weary day going through the budget, trying to figure out how in the world we would deal with the very real challenge of our budget deficit. And I insisted, we all insisted, to put everything on the table. Everything. That meant expenditures and revenues, and that meant the Tax Code as well, because we all know the Tax Code ends up adding to the deficit, and many times people just do not want to talk about it.

Well, when it came time for the final vote on the Simpson-Bowles Commission report, though I did not agree with all of it, I thought it was sure moving in the right direction. I voted for it. Some of the highest-flying deficit hawks on your side of the aisle, with the notable exception of Tom Coburn, did not want to vote for it. They walked away from it. Why? It hinted at the possibility of revenues. Many of you--and I do not ask you to name names here--have taken a blood oath to Grover Norquist that you will never, ever, ever vote for an increase in taxes. And he has got this blood oath that you have signed up on his wall, and he points to it when "60 Minutes" comes around and says, "I got him. I own him." And that makes it difficult to have an open and honest conversation about how to deal with this deficit.

So why doesn't the Republican majority produce a balanced budget? Why don't your Budget Committees in the House and the Senate, which you have a majority on, come forward with it? Because they are too painful.

How many people want to return to those thrilling days of yesteryear with sequestration? I sure do not. It was a taste of what comes if you follow the logic of this constitutional amendment. You end up making blind cuts. You end up hurting our national defense and innocent people, and that is something we ought to spare ourselves and this Nation from.

Let me just close by saying this: I know you do not want me to bring this up, but to think that you are suggesting we should turn to the Constitution to save us from ourselves and to give us the courage we do not have to deal with the budget, what makes you think the Constitution will make any difference? Article II, Section 2 of that Constitution is explicit. The President shall nominate a person to fill the vacancy on the U.S. Supreme Court. Shall. And this President has. And it goes on to say the Senate shall advise and consent to that nomination. And yet we are not going to do it.

So the clear language of the Constitution obviously is not enough to lead the Republican majority in the Senate today to do what we have done for every single Presidential nominee to the Supreme Court in our history. So if you can cavalierly ignore that, why wouldn't you just ignore this?

I am sure we are going to have some good speeches about balancing the budget. If you serve on the Budget Committee of the Senate, I hope you can produce one. I would like to see it.

Thank you.

Senator Cornyn. Thank you, Senator Durbin. I will resist the temptation to respond to your provocative comments. We will try to get the witnesses to weigh in on some of the things that you have raised here, but thank you for your testimony.

Senator Cornyn. May we ask the next panel to step forward?

Will the witnesses please stand and be sworn? Do you affirm that the testimony you are about to give before the Committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. Holtz-Eakin. I do.

Mr. Greenstein. I do.

Mr. Moore. I do.

Mr. Morrison. I do.

Mr. Shapiro. I do.

Senator Cornyn. Thank you very much. Please have a seat.

Our first witness is Dr. Holtz-Eakin, who is president of the American Action Forum. He received his bachelor's from Denison University and his Ph.D. from Princeton. From 2001 to 2002, he was the Chief Economist for the President's Council of Economic Advisers. From 2003 to 2005, he was Director of the nonpartisan Congressional Budget Office.

Mr. Bob Greenstein is founder and president of the Center on Budget and Policy Priorities, a policy institute in Washington, D.C., that works at the Federal and State levels on budget and tax policy and on programs and policies affecting people with low or modest incomes. I have a longer one, but I will give you the short version, Mr.

Greenstein.

Mr. Stephen Moore is a senior economic contributor at FreedomWorks and distinguished visiting fellow of the Project for Economic Growth at the Heritage Foundation. Moore received his B.A. from the University of Illinois at Urbana-Champaign and an M.A. in economics from George Mason University. He was a member of the Wall Street Journal editorial board and covered Washington policy debates and State issues as a senior economics correspondent for the paper. He is the founder of the Club for Growth and the Free Enterprise Fund and the author of five books, most recently "The Wealth of States."

Alan B. Morrison is the Lerner Family Associate Dean for Public Interest & Public Service Law at the George Washington University Law School. For most of his career, Dean Morrison worked for the Public Citizen Litigation Group, which he co-founded with Ralph Nader in 1972 and directed for 25 years. He is a graduate of Yale College and Harvard Law School, served as a commissioned officer in the United States Navy, and was an Assistant U.S. Attorney in New York.

Mr. Ilya Shapiro is a senior fellow in constitutional studies at the Cato Institute and editor-in-chief of the Cato Supreme Court Review. He clerked for Judge E. Grady Jolly at the Fifth Circuit Court of Appeals and holds an

A.B. from Princeton University and a Master's of Science from the London School of Economics and a J.D. from the University of Chicago Law School.

Dr. Holtz-Eakin, will you please begin with your testimony? And we will go down the line, and then we will start with some questions.

STATEMENT OF DOUGLAS HOLTZ-EAKIN, PH.D.,

PRESIDENT, AMERICAN ACTION FORUM, WASHINGTON, D.C.

Mr. Holtz-Eakin. Chairman Cornyn, Ranking Member Durbin, and members of the Committee, thank you for the privilege of being here today. My written testimony makes four very simple points:

Point number one is that the Federal Government has a very serious fiscal problem.

Point number two is that fiscal problem emanates from business as usual, including legislative efforts to constrain itself, such as the Budget Control Act and others.

Point number three is that fiscal rules, binding constraints placed on the Congress of the United States have worked elsewhere, in the Netherlands, in sweden, and there is literature on their efficacy in controlling deficits and debt.

And then the fourth point is that a balanced budget amendment has the characteristics of a good fiscal rule. It is transparent, it is easily monitored. There is a straight line between actions of the Congress and violations or adherence to the rule.

I just want to say a little bit about each of those, and then I look forward to taking your questions.

Point number one has already been made, which is we have a very serious budgetary problem. The CBO's long-term budget outlook has for a decade and a half now pointed to an unsustainable fiscal picture in which we get an ever rising ratio of debt to GDP. That picture was repeated in the most recent 10-year CBO budget outlook, which shows that within this budget window, 10 years, we will once again be running trillion-dollar deficits. Those deficits will be almost 5 percent of GDP, well above the safety line. They will be contributing to an ever raising debt-to-GDP ratio, and as you pointed out, it will lead for interest costs to be one of the leading components of spending by the Federal Government. Indeed, of the trillion-dollar deficit, nearly 80 percent will be interest on previous borrowing. So we are going to be borrowing to pay off borrowing.

The fact that it is now evident within the 10-year budget window means that this problem is urgent. People have asked me a lot what has changed since I was the CBO Director, and I say, "Well, the only thing that has changed is the long-term budget outlook is no longer long term, it is now, and it needs to be taken seriously." And those ever increasing deficits are not driven by a paucity of revenues. Revenues rise relative to historic norms. They are driven by the large increases in spending, particularly mandatory spending programs--Social Security, Medicare, Medicaid, the Affordable Care Act, and the like.

The second point is that this is a problem of business as usual. We have had four balanced budgets since 1969. This is not something that is a rare occurrence. It is the norm. It is the case that we do not actually even have a budget policy for the Federal Government. There is no single document that lines up spending, revenues, and borrowing in a systemic fashion. The President submits a budget proposal. The House may or may not pass a budget resolution. The Senate may or may not pass a budget resolution. They may or may not agree on a congressional budget resolution. We do not have a budget plan. We have budget outcomes, generally bad, and we need to change the business of usual, and that has included periodic, genuine sincere attempts to deal with this problem, whether it is Gramm-Rudman-Hollings or PAYGO rules or caps and sequesters under the Budget Control Act. Despite all of those efforts, we have ended up in the position we find ourselves with an unsustainable outlook that happens fast.

Fiscal rules have the chance to improve that kind of performance. It has worked elsewhere to have something that binds the legislature, binds the Congress, something that you cannot vote to waive, as has already happened with the Budget Control Act, where the caps and the sequesters looked bad, so the Congress voted to change them. You need to look at something that forces the coordination of taxes and spending to get outcomes that comply with the fiscal rule, and that is the virtue of them. They are also permanent, which means Congress cannot simply kick cans down the road and deal with it later. You have to come to terms with the issue, do the coordination, and deal with the problem.

And then, lastly, a balanced budget amendment has the characteristics of a good fiscal rule. This is something that ultimately will have to be supported by the American citizenry, the voters. It has to be simple enough for them to understand. There are other fiscal rules that I might like, a cap on the ratio of debt to GDP or a cap on spending as a fraction of GDP or something that I am afraid simply will be too complicated to survive political scrutiny at the retail level. So this is clear in that way.

There is a straight line between what Congress decides--spending, taxes, and the outcomes that are in compliance or violation of the rule--and for those reasons, I think it has a lot to commend itself.

And then to close, the most recent versions of balanced budget amendments have come to terms with some of the concerns people typically raise about extraordinary situations, situations of war, extreme economic duress, and I think those fears that would unnecessarily bind the Congress are overstated and that this is something that deserves serious consideration. Thank you.

[The prepared statement of Mr. Holtz-Eakin follows:]

Senator Cornyn. Thank you, sir.

Mr. Greenstein.

STATEMENT OF ROBERT GREENSTEIN, PRESIDENT, CENTER ON BUDGET AND POLICY PRIORITIES, WASHINGTON, D.C.

Mr. Greenstein. Thank you. I agree that we need to address our fiscal challenges, but a constitutional balanced budget amendment would not be a wise way to do so because it would likely cause serious economic damage.

It requires balancing the budget every year regardless of the state of the economy, unless a super majority overrides that. And that is something large numbers of mainstream economists have long counseled against because it would require the biggest budget cuts or tax increases when the economy is weakest and thereby risk tipping a faltering economy into recession and making recessions longer.

When the economy weakens, consumers and businesses spend less, causing further job loss. But the drop in tax collections and increases in unemployment insurance that occur automatically cushion the blow by keeping purchases of goods and services from falling more. That is why economists use the term "automatic stabilizers" to describe the automatic declines in revenues and increases in unemployment insurance that occur when the economy goes down.

A constitutional BBA effectively suspends the automatic stabilizers. When the economy weakens, Federal expenditures would have to be cut or taxes raised dollar for dollar to offset the effects of the automatic stabilizers, which is exactly the opposite policy from what sound economics call for.

In 1992, then-CBO Director Robert Reischauer warned Congress that a constitutional BBA would undermine the automatic stabilizers and risk harming the economy. Later in the 1990s, more than 1,000 economists, including 11 Nobel Laureates, issued a joint statement calling it "unwise" and warning it would aggravate recessions. In 2011, then-CBO Director Douglas Elmendorf warned that a BBA would make the economy less stable and risk exacerbating the swings in business cycles. And late in 2011, Macroeconomic Advisers, a leading forecasting firms used by large corporations and White Houses of both parties, issued an analysis of what the effect would be in 2012 if a constitutional BBA were in effect. Macroeconomic Advisers estimated that it would throw an additional 15 million people out of work, double the unemployment rate to 18 percent, and cause the U.S. economy to shrink by a sixth.

Now, proponents of an amendment often respond by noting that the amendment would allow the balanced budget stricture to be waived by a three-fifths or two-thirds super majority in a recession. But as you know, it is difficult to get three-fifths for anything, and it can take months after a recession starts until we actually get the data showing we are in a recession the data that might be necessary to have a chance at convincing a super majority to waive the stricture. Beyond that, a minority in either the House or the Senate could hold a wavier vote hostage for other policies they cared about, all the meantime we would be in recession and millions of American jobs could be lost unnecessarily.

Nor is that the only problem. Consider the savings and loan crisis of the 1980s or the financial meltdown of 2008. A constitutional BBA would have hindered swift Federal action to rescue the savings and loan industry or to pass TARP because they could not have been passed until they were contemporaneously offset to prevent a deficit from emerging. This is why fiscal policy, important as it is, should not be written into the U.S. Constitution.

A BBA could also disrupt Social Security. Today the Social Security trust fund has $2.8 trillion in Treasury securities which it will draw upon to help pay benefits starting in 2020. A BBA would effectively make it unconstitutional to do that unless every dollar taken from the trust fund to pay promised benefits were offset by a budget cut or tax increase elsewhere in the Federal budget. A similar effect would occur on military and civil service retirement.

Finally, two prominent versions, S.J. Res. 6 and S.J.

Res 2, would also prohibit Federal expenditures in any year from exceeding 18 percent of GDP in the last completed calendar year, which is the equivalent of limiting expenditures to 16.8 percent of GDP in the current fiscal year. That is far below where we were, for example, when Ronald Reagan was President.

Assume that a balanced budget amendment with that requirement took effect in 2023, about the first year it could take effect. Here is what would have to occur: If all programs were cut the same percentage, Social Security would be cut $330 billion in 2023 alone, veterans programs over $50 billion, defense spending over $150 billion. If one spared Social Security, the average cut to all other programs, including Medicare and defense, would have to be 34 percent. And, meanwhile, particularly under S.J. Res. 6, no contribution whatsoever to budget balance could come from curbing special interest tax breaks and tax loopholes unless I think two-thirds of both Houses agreed to that.

So the bottom line is yes, we need to begin action on our long-term fiscal trajectory, but a constitutional balanced budget amendment is not the right way to do it because it would likely exact a heavy toll on American businesses and workers. We need to be careful not to destroy the village in order to save it.

Thank you.

[The prepared statement of Mr. Greenstein follows:]

Senator Cornyn. Thank you, Mr. Greenstein.
Mr. Moore.

STATEMENT OF STEPHEN MOORE, SENIOR ECONOMIC CONTRIBUTOR, FREEDOMWORKS, WASHINGTON, D.C.

Mr. Moore. Senators, it is a great honor and privilege to testify today on the need for a balanced budget amendment. I once believed, as Senator Durbin did, that we do not really need a balanced budget amendment, that we will be able to balance the budget without one. And I wish that were the case. But I will tell you a story.

I came into this town in the early 1980s. I arrived here in 1982 and have been working on budget issues for over 30 years now, and I have come to the reluctant conclusion that we do need a balanced budget amendment. And I have come to that conclusion by looking over what has happened in the last 30 years under Republican Presidents and Democratic Presidents, under Republican Congresses and Democratic Congresses. We borrow and borrow and borrow.

So just a couple of statistics to give you a sense of how much we have fallen and why we need a new fiscal Constitution.

When I first came to Washington, the United States budget was less than $1 trillion. I remember when Ronald Reagan introduced the first $1 trillion budget in 1987. I worked for President Reagan at that time. We were very embarrassed by that. And at that time, the national debt was about $2 trillion.

I look over at where we are today. Now we have a Federal budget of not $1 trillion but $4 trillion. That is roughly--that is twice, even adjusted for inflation, of what it was 30 years ago, and the national debt has gone from $2 trillion to $19 trillion. I would say we are not performing.

Now, Senator Schumer asked: Why can't we balance the budget without an amendment? It is a good question. Why can't we do this without an amendment? And the answer is: Because you will not. You will not do it without an amendment, and you have proved that you will not. And I would say that, you know, neither Republicans nor Democrats are angels. None of you--I am friends with several of you, but you are not angels. You need this restraint. It would be like saying, well, we do not need a balanced budget amendment, it would be like if I were an alcoholic and you put a glass of gin and tonic in front of me and said, "Just have the willpower not to drink that." No. I am going to reach for it and drink it, just as you will borrow if you have the authority to do so. You need to take the bottle of gin away from me, right? And we need to take your authority to borrow away from you as good fiscal practice.

Now, another point I want to make that I think is really important is this issue about--I want to really address Mr. Greenstein's point about deficits being stimulatory. Now, it is absolutely true, there are hundreds and hundreds of economists who believe that to be true, and they believed it, and, in fact, they implemented that. We have had an experiment in Keynesian deficits now over the last 7 or 8 years. We have borrowed in 7 years $8 trillion. So this is the grandest fiscal Keynesian experiment in the history of this country. And the question is: How did it work out?

Now, if you have my testimony, if you look at Figure 4--the figure on page 4, I think you will find this instructive. Not only did the fiscal stimulus and all of the borrowing not work according to me, it did not work according to President Obama and his own economists. So what you are looking at here, if you have the chart in front of you, is their estimates--again, these are not my estimates; these are President Obama's estimates--of what the unemployment rate would have been if we had done nothing in 2009, if we had not passed the fiscal stimulus bill, versus what it actually turned out to be. And what Obama's numbers show very clearly is we would have had a lower unemployment rate over this whole period if we had done nothing, if we had not borrowed a single penny. The fiscal stimulus plan was a failure, a grand failure.

The other evidence of this is just look at the recovery that we have had. We have had a grand Keynesian experiment in deficits, and we have had the worst recovery from a recession, Senator, since the Great Depression. By the Joint Economic Committee estimates, we are something like $3 trillion below where we would be if we had had a Reagan-style expansion.

So this has been a recovery--it is one of the reasons that voters are so angry out there right now. Their incomes are not rising, and they have lost jobs as a result of the recovery.

Last point. The thing that makes me most nervous about these deficits right now and this gigantic debt is what--and I think you mentioned this, Senator Cornyn, in your remarks. What happens if these interest rates start to rise? Right now we have got a great--you know, we are riding on a great situation where interest rates are as low as they have been in 50 years. I just looked at what would happen if those interest rates migrated back not to 1970 styles when we had, you know, 10 percent, 12 percent interest rates. What if they just went back to their historical average? That would mean about a 400 basis point increase in interest rates, and if that happens, our debt goes from 100 to 200 to 300, almost 400 percent of our GDP, and then we are in a debt crisis, and we need a fiscal Constitution with a balanced budget amendment to prevent that from happening.

[The prepared statement of Mr. Moore follows:]

Senator Cornyn. Thank you, Mr. Moore.

Dean Morrison.

STATEMENT OF ALAN B. MORRISON, PROFESSOR, LERNER FAMILY ASSOCIATE DEAN FOR PUBLIC INTEREST & PUBLIC SERVICE LAW, THE GEORGE WASHINGTON UNIVERSITY LAW SCHOOL, WASHINGTON, D.C.

Mr. Morrison. Thank you, Senator. It is a pleasure to be back again testifying for the third time on this same issue, and I am going to make the same three points I made the last two times I appeared here.

Point number one, is the amendment enforceable? And if so, by what means? And I do not mean the parts about how many votes you have to get to raise taxes or to increase the debt ceiling, but what is going to happen when the inevitable happens and the appropriations bills are enacted and, while they appear to add up on paper, everybody knows that all the addition is made up of wishful thinking and we suddenly realize that the budget is not going to be in balance? What is going to happen then? Who is going to fix it? Surely the President is not going to be allowed to fix it on his own. The Congress, which caused the problem, cannot very well fix it. Is the judiciary going to be involved? And that is the question I have asked for 20 years now, and I cannot get an answer.

It appears perhaps in this bill that because of the limitation on the ability of the courts to raise taxes, the bill implies that the courts will be involved. If that is so, the Committee ought to say so and come forthright out and say that if we mess up and do not have a balanced budget, we are going to ask the Federal courts to fix it up. That is point one.

Point two, who is going to be able to go to court to sue to enforce this? Senator Lee has wisely put in a standing provision in his bill under which a member of either House, with a third of the members of the House could petition the court and have standing to sue. Unless there is a provision in the constitutional amendment, not in any legislation enforcing it, that gives somebody standing to sue to enforce this amendment, there will be no one with standing. And so all the wishful thinking about judicial review will not take place.

I have no views on who should have standing or whether anyone should have standing, but it is absolutely essential to put it in S.J. Res. 6 as well as in S.J. Res. 2, as Senator Lee has done so.

The third point I want to make is if we go to court, it would be a complete disaster in the court system, and let me explain why.

First, in order to have a litigation within the fiscal year and to make anything meaningful, the remedy would have to occur within the fiscal year. The lawsuit would have to start almost immediately. Of course, that would be contrary to all known past practices that the Congress would have enacted all of its appropriation bills by October 1st; and, second, they would not make any changes along the way. There would be no supplementals. But leaving those things aside and engaging in wishful thinking, the first thing that would have to happen is the budget would obviously not be facially out of balance. It would be out of balance because of wishful thinking. Somebody would have to go in and figure out where all this wishful thinking came in and figure out where the actual imbalance occurred. At that point someone could bring a lawsuit, assuming that they had the standing, and they would go into Federal court claiming that the budget was not actually going to be in balance. At that point this would not be simply a question of law. There would be serious disputes of fact because people would say, no, this is an accurate budget estimate, and so there would be lots of discovery, lots of witnesses, and eventually there would be a trial.

All of this, of course, assumes that Congress is not going to make any changes in the budget along the way; and, second, that the conditions in the world are not going to change, we are not going to have a recession, we are not going to have more unemployment, we are not going to have an additional war, everybody is going to cooperate to keep all the numbers the same.

In any event, there would be discovery; there would be a trial; there would be briefs. A judge would write an opinion, and then the case would go up to the Supreme Court. The Supreme Court would have to decide it, all by the end of June. At that point, assuming that the budget was found to be in balance, what would happen? We would have a Federal judge who would have to decide how to bring it back into balance. On what criteria would the judge decide? Could he raise taxes? Probably not. Could he cut defense? Yes. Could he cut interest on the debt? Who knows? There is no way of knowing, and more importantly, do we want Federal judges to make those kinds of decisions? That is what the Congress is for, not for Federal judges.

Finally, if the judge made those decisions, implementing them would be not over a total fiscal year but over a month or two. You would have to compress, let us say, a 10-percent deficit into 2 months, which would be in effect cutting our three-quarters of the spending in the last 2 months of the fiscal year. Are you going to fire people? Are you going to stop building missiles? Are you going to tell the FBI to stop investigating? No one has any idea how that would work, and surely you could not carry it over to the next fiscal year because you would be violating Section 1.

Thank you very much, Senator.

[The prepared statement of Mr. Morrison follows:]

Senator Cornyn. Thank you.

Mr. Shapiro.

STATEMENT OF ILYA SHAPIRO, SENIOR FELLOW IN CONSTITUTIONAL STUDIES, AND EDITOR-IN-CHIEF OF THE CATO SUPREME COURT REVIEW, CATO INSTITUTE, WASHINGTON, D.C.

Mr. Shapiro. Senator Cornyn and distinguished members of the Committee, thanks for this opportunity to discuss structural issues attending a balanced budget amendment, which I liken to Congress tying itself to the mast--unpleasant, but sometimes necessary. And the reason why it is necessary is because, as Steve alluded, Congress is not composed of angels. In fact, I feel I am so tied to this vision of Madison Federalist 51 that my license plate, as Senator Lee knows, in my car is FED 51. I am not sort of FBI agent, as some people think when I drive down the street. And because men are not angels who are in the Government, we need to have all sorts of structural provisions to protect people from the Government once we empower it to secure our liberties.

I mean, really, when we are talking about constitutional amendments, all we really need is to add at the end of every provision, "And we mean it." If we actually enforce the Constitution as written, if we did not have the unconstitutional parts of what the Government is involved in, then there would be no problem with balanced budgets or much of anything else with the Government.

Unfortunately, we do not live in that world.

Now, perhaps the greatest concern with BBAs from a constitutional design perspective is enforcement, as Alan said. Here the States' experience is instructive. While the political mark set by these provisions has, arguably, led States to keep their fiscal houses in better order than the Federal Government, in reality compliance has been unreliable.

For example, routine discovery of inaccurate or manipulated projections creates pressure to evade legal limits, and such pressure is often accommodated by State judges who interpret key terms used in the relevant provisions in novel ways that allow budgets to bypass constitutional limits. Judicial twistification have thus enabled States to engage in as much borrowing as markets will bear. And there is every reason to believe that the Federal Government would face similar problems. Indeed, the power to coin money and the Federal Reserve banking system creates an additional risk, one foretold by officials having floated the minting of a trillion-dollar platinum coin to repay the debt. Unlike in the States, the Feds can engage in monetary policy manipulations.

These tactics underscore that a BBA does not easily call to mind an enforcement mechanism. Still, even beyond judicial review, which is necessary, I think, there are examples of constitutional provisions enforced by Congress or the President against themselves. For example, the Emoluments Clause--there are actually two Emoluments Clauses in the Constitution; they both work in this example. The one about gifts, Attorney General opinions have interpreted and Congress eventually enacted the Foreign Gifts and Decorations Act, without any further litigation. Courts simply need not be involved for laws to be effective.

A further concern is that a BBA would dictate fiscal policy by requiring Congress or the President to choose among various programs to cut. One question would be whether any programs would be beyond the President's impoundment authority. But these concerns are no different from those every family faces each month. A BBA would merely require the political branches to acknowledge reality: The United States does not have infinite funds. A BBA's very purpose is to require Government to prioritize, and so forcing hard choices is a feature, not a bug.

Turning to existing proposals, it is important first to emphasize that any BBA would favor more prudent fiscal policy because it signals that the Government should not behave as if its resources are unlimited. Accordingly, all proposed BBAs would be an improvement, which is why I take an "all of the above" sort of position. From that perspective, Senator Hatch's proposal is very good. It is not perfect, as I detail in my written opinion, in my written testimony, but it is much better than the status quo, and it is supported by all 54 Republicans, as far as I know. So when you add in the 20 Democrats who supported Senator Udall's similar BBA 5 years ago, you are really getting somewhere.

Senator Lee's proposal has similar features, and as Alan mentioned, his Section 6 authorizing and restricting judicial review improves on Senator Hatch's, although such a provision could also be added by further implementing legislation.

Moving to the House, Representative Brat's BBA is consistent with past constitutional language. It expresses general principles rather than mechanisms for the three basic elements that BBAs need: the balance rule, the emergency valve, and the transition. And the concision of this proposal gives Congress maximum flexibility. Representative Amash's proposal is similarly concise.

I should add that in 2011, 261 House Members voted for a BBA proposed by Representative Goodlatte, and when you add in other House cosponsors for other bills, that brings us right about to where we need. So this is certainly possible in the House, not just the Senate.

I should also mention House Concurrent Resolution 26 which refers the Compact for America BBA to the States for ratification if proposed by an Article V convention. And I should disclose that I am a member of the CFA's council of scholars. This proposal has other unique features.

And, finally, despite the drafting issues inherent in passing a BBA, I have to underscore that concerns about judicial review need not be a barrier. Americans generally have a great deal of respect for the rule of law. People may disagree with some Supreme Court decisions, but they argue for exceptions or amendments or an overruling--not a complete flouting of the law. There is simply no reason for concern that a BBA will be unenforceable other than the extent to which any constitutional provision is ignored.

I will leave economics to the others, but there are no legal reasons by a BBA could not become a successful part of our Constitution.

Thanks for your time. I welcome your questions.

[The prepared statement of Mr. Shapiro follows:]

Senator Cornyn. Thank you very much.

I will start. We will do a 5-minute round of questions. Maybe we can do a couple rounds if it works out.

I just want to express my own sense of frustration at where we are. As you know, the debt has nearly doubled--I think you mentioned that, Mr. Moore--under the current administration, and if it actually would stimulate the economy and create economic growth, it would have worked. But as you pointed out, it has not.

But I worry that--I cannot think of many other options other than legislation, a balanced budget amendment that emanates from Congress, or an Article V convention of the States. Are there any other options available to us that any of the witnesses can offer? I do not think there are. Mr. Greenstein?

Mr. Greenstein. We did have a period, as a number of you will recall, where Congress did act. We had--in two cases bipartisan, in one case one party--major deficit reduction agreements in 1990, 1993, and 1997, and the combination of the three contributed to our actually having balanced budgets at the end of the 1990s. So Congress was able to do it in the 1990s.

Senator Cornyn. Theoretically, I agree with that. But I want to just ask Mr. Shapiro, I know that among the options that are available that were provided for in the

Constitution itself is a constitutional convention actually initiated by the States. Now, I have heard some people express a thought of horror that that would occur. But, of course, the ultimate break on that would be two-thirds--or, excuse me, three-quarters of the States required to ratify any constitutional convention. But I am just worried that as this problem gets bigger and bigger and bigger and people get more and more frustrated by the lack of action here, they could well take it out of our hands, couldn't they, Mr. Shapiro?

Mr. Shapiro. Well, yes, I think that is correct, and I think that would be a healthy development for States and the people to take back power from Washington in various ways.

I just want to correct you on one thing. It is an amendments convention, not a constitutional convention. We are not--unless the States want to, I suppose--rewriting the Constitution full stop, but certainly Article V provides for ways for the States to demand that Congress propose for ratification certain amendments, and there are different ways of doing that, different ways the rules and the delegates and the convention rules could be written.

In our history, none of the constitutional amendments have been passed through a State-initiated process, but that is because in many cases States did initiate these sorts of amendment processes. But once there was a critical mass, Congress decided that it needed to get ahead of this and so ended up proposing it itself.

I think the same thing would happen here with either the Compact for America or--by the way, I am "all of the above" on this well--with a convention of the States or BBA task force. I think they all run on kind of parallel and separate tracks. Eventually, I think, if enough States got behind it, Congress' hand would be forced.

Senator Cornyn. Well, I happen to agree with that. I think you might refer to that as the in terrorem effect of an Article V convention that would force the hand of Congress finally to act. But it seems to me that it is incumbent on those who disagree with the current legislative proposals, who disagree with Congress passing a joint resolution to amend the Constitution with a balanced budget amendment, and who disagree with an Article V convention to amend the Constitution, you are exactly correct. Then there ought to be--it ought to be incumbent upon them to make some counterproposal. And I just want to--some of the common responses that you hear, Dr. Holtz-Eakin, is: Why can't we just raise taxes on millionaires and billionaires? Why won't that fix our problem?

Mr. Holtz-Eakin. We do not have enough millionaires and billionaires. If you look at the end of the budget window, for example, the deficit is going to be $1 trillion.

The top 1 percent pay about a third of all Federal revenues, and so we would have to, you know, get them to fork out another $1 trillion. That is an extraordinary amount of money and would, you know, consume their incomes, and we would not be able to solve the problem. It is not a realistic numerical solution.

Senator Cornyn. And, Mr. Moore, you heard Senator Durbin talk about budgets and the importance of budgets. Of course, as you know, budgets tend to be a partisan exercise. We passed a budget last year, which enabled us to get reconciliation instructions by which we were able to get a repeal of Obamacare on the President's desk. We would not have been able to do that under the 60-vote rule. But isn't it true that budgets only deal with discretionary spending? And isn't that just a small fraction of what we need to get our arms around when it comes to Federal spending?

Mr. Moore. Yes, that is for sure. About two-thirds of the budget are the entitlement programs, and then there is another big component that is interest on the debt. But, you know, we had--you know, you all as Republicans, you know, we had a process in place. I was a big fan of the Budget Control Act. I am speaking now as an individual. Some of my colleagues may disagree with me on this, but you made substantial progress in cutting spending with the Budget Control Act, and it was, unfortunately, Republicans and Democrats that came together and undid that. And that is exactly why I think we need a balanced budget amendment.

I think, you know, Mr. Shapiro is right that you need--if you do not do something--I think you are exactly right. If you do not do something, the anger out there right now is that these States are going to start acting, because this is a difficult thing. We are asking you--it is like asking a cat to put a bell on itself, right? You do not want to take away your authority to borrow, but I think the American people do. And this may be the only way, you know, to get this done.

Senator Cornyn. I agree with your comments about the Budget Control Act. What we found out is that because we were only dealing with roughly a third of spending and it included defense spending, we found out that in a world of emerging and diverse threats, there were those of us who thought it was incumbent on us, part of our responsibility to make sure that our national security was provided for. Unfortunately, not having the votes to do that unilaterally, we were left with a negotiation, which gave us nondefense discretionary spending increases. So it is definitely a mixed bag.

Senator Durbin?

Senator Durbin. Thanks, Mr. Chairman.

Mr. Moore, I would listen to your testimony and there would be these lucid moments, and then I looked and I see you graduated from the University of Illinois, so that explains it.

There are a couple things I would like to correct--

Mr. Moore. We have a new football coach, you know.

[Laughter.]

Senator Durbin. I know very well.

There are two things I would like to note about your testimony when you talked about your despondency over 30 years of failure. There were 4 years of budget surplus under President Clinton, and that was a demonstration that, with an expanding economy, an expanding workforce--

Mr. Moore. Absolutely.

Senator Durbin. --new business creation, new homeownership, going to the point made by Mr. Greenstein, with that expanding economy we really saw ourselves finally after decades in a surplus situation. And for all of the comments that have been made about the Obama record, remember what he inherited? We were losing 800,000 jobs a month when he came in. And let me tell you what he inherited in terms of a deficit. The deficit left to him by the last fiscally conservative Republican President was 9.8 percent of GDP. That is what he inherited. That was the first fiscal year for President Obama. It is now during his term down to 2.5 percent of GDP. That is a dramatic downturn. At the same time, we have had 72 straight months of private sector job growth, and many other things that I could point to. But here is what--I would just like to really jump-ball the situation to you. When we sat down on the Simpson-Bowles Commission, we said if we are going to get this done, we have got to be honest about it. And being honest about it means putting everything on the table. Everything on the table.

And so, as I mentioned earlier, we put outlays and expenditures, revenues, mandatory, discretionary, and tax expenditures, put it all out there and said let us look at all of it, because you cannot just pick and choose. You cannot say, well, we are never going to talk about revenues or we are never going to talk about mandatory.

The question is: How can you coordinate these things that is the fairest for the American people and solves the problem we face? And that is one of the problems I have with this balanced budget amendment. Section 4, look at Section 4. Section 4--and I think Bob Greenstein has already alluded to it--says that when it comes to new taxes or increases in the statutory rate of any tax or the aggregate amount of revenue, you need an extraordinary majority for that to happen. So we are not starting with everything on the table equally.

For example, let us decide, okay, we are going to take care of military readiness by closing the carried interest loophole in the Tax Code. We can generate by eliminating that loophole revenue that will provide our military with the money they need for readiness. Cannot do it under this balanced budget proposal except with a two-thirds vote, because what are we doing? We are raising the taxes on some hedge fund managers by eliminating the carried interest loophole.

Can we have an honest conversation about budget deficits without putting everything on the table and treating everything equally? Jump ball.

Mr. Moore. Well, Senator, I was there in the mid- to late 1990s, that episode you talked about when President Clinton worked with the Republican Congress. I worked for John Kasich at that time, and as you know, you may--

Senator Durbin. He is very proud of that.

Mr. Moore. Right. He was the Budget Committee Chairman.

Senator Durbin. He has told us a few times.

Mr. Moore. And it was truly a bipartisan thing that we did. But you made the point that I want to accentuate. The main reason that we were able to balance the budget in those years was we grew the economy. You know, you said it. You are right. We grew this economy. We created a lot of new jobs. We put a lot of people back to work. And I still believe the best way to balance the budget is get this economy moving. And it has not been growing. This is the first 10-year period--Doug alluded to this. This is the first 10-year period where we have not had a single year of 3-percent growth.

Now, we can disagree about the Obama recovery. I think it has been feeble. I think we can do much, much, much better than the growth rate that we have had. And that, I would make the case, is a precondition. We have got to get growth up if we are going to get the budget balanced.

You could cut the budget to the bone, and if you do not get growth back up, you are not going to find the revenues that you are going to need, which is why I believe, if we were to pass the amendment, one of the things I think you all have to do is--I was there in 1986 when we passed the Tax Reform Act with 97 votes in the United States Senate. We have got to bring the rates down--

Senator Durbin. Okay. Let me jump in--

Mr. Moore. --you know, broaden the base, and you are going to get growth.

Senator Durbin. Let me jump in. I think the one thing liberals, conservatives, Democrats, Republicans I hope can all agree on is that one investment by our Government works: infrastructure. When we invest in infrastructure, roads and bridges and waterways and airports and ports and all the rest of that, we are creating the basic grid to grow the economy. I paid $1.51 a gallon for gasoline in Springfield, Illinois, 2 weeks ago. A nickel a gallon Federal tax dedicated to infrastructure construction would be a tax which many folks here have sworn they will never, ever vote for, but could be part--I think, I will argue, would be part of economic growth investment by this Government in this Nation that would help the private sector.

The same thing with education, the same thing with research. These investments, I think, grow the economy. And I think that was Mr. Greenstein's point earlier. There comes a point where you have got to invest in things that do grow the economy--education, training, research, innovation, infrastructure. That ought to be a basic that we agree on. And I lose it when we get into this conversation. I am sorry I do not see it.

Senator Cornyn. Coming from a State that is the major producer of oil and gas and cheap gasoline, you are welcome.

Senator Lee?

Senator Lee. Thank you very much, Mr. Chairman. Thanks to all of you for being here. It is a pleasure to have you back here. We had a few of you here a few years ago, and it is good to have not a rerun but a sequel to this discussion, and I look forward to getting into more in depth on some of the issues.

I want to start with you, Mr. Moore. You talked about our national debt, the fact that it is unsustainable, the fact that we have got these historically aberrational Treasury yield rates. Our interest rate on our debt is at basically an all-time low. And that is really what is enabling us to keep going, isn't it?

Mr. Moore. That is right.

Senator Lee. What is our annual interest payment on our national debt currently? About $235 billion, roughly? Okay. Doug says, Dr. Holtz-Eakin says it is roughly in that range.

Mr. Holtz-Eakin. A little higher.

Senator Lee. A little higher, okay.

If we see our Treasury yield rates returning to their historical average, even assuming, as you pointed out, that it does not go up to what we saw in the 1970s when we were looking at, you know, 10 or 12 percent or something like that, just the historical average, what would that do to our interest payment within 2 or 3 years of that occurring?

Mr. Moore. So let me give you just a rule of thumb, and this is not precisely right but it is pretty close, and Doug can correct me if I am wrong. Roughly every 1 percentage point increase in interest rates raises the national debt over 10 years by about $1 trillion. So think about this. I mean, think about how hard you all labored to try to--you know, when you guys talked about the Simpson-Bowles Commission and so on, to find ways to cut $1 trillion out of the budget. That is a tough thing to do. A 1 percentage point increase in the interest rate would erase all the progress that you would make from all of these reforms that we have been talking about. So if you are talking about a three--and, by the way, it is not linear. As the rates go up, you know, it is going to go up--so you are talking about $4 or $5 trillion increases in the national debt over the next 10 years if we have, let us say, a 3 percentage point increase in the debt--I mean in interest rates.

Now, look, I do not know what is going to happen to interest rates. All I can tell you is these are the lowest that we have had, and I do not think that they are sustainable. I do not think we are going to see--you know, I do not think we are going to see 2-percent interest rates on 10-year Treasury bills 5 or 10 years from now. Do you? I mean, I cannot imagine that.

Senator Lee. Right, it does not seem likely. And it certainly does not seem implausible to me that we could see 2 or 3 or 4 percent increase over the next 5 years. I am not saying I am certain that that is going to happen, but that would have a significant impact.

By the way, Dr. Holtz-Eakin, what is the annual interest payment right now?

Mr. Holtz-Eakin. I do not know the number. It is a little above 250, I think.

Senator Lee. Okay. A little above 250. And it is interesting. As we look back, this is roughly--it is in the same general range as where we have seen the annual interest payment for about 20 years. I mean, it is about the same as our interest payment about 20 years ago, isn't it?

Mr. Holtz-Eakin. The number is 255, as it turns out.

Senator Lee. 255, okay.

Mr. Holtz-Eakin. I will point out that the CBO projections assume some normalization of interest rates so that, as I mentioned, at the end of the 10-year budget window, if we have a $1 trillion deficit, you have got about $800 billion in interest payments. So we are already counting on going up some. The question is: Would you get some change in world financial market conditions that caused a marked increase? In which case that is outside the control of this Congress for sure and probably the Federal Reserve, and then you have a very unstable budgetary situation.

Senator Lee. Okay. And at that point it becomes much, much more difficult to deal with it.

Mr. Holtz-Eakin. Yes.

Senator Lee. Professor Morrison, I would like to go back and follow up on a line of questioning, the line of discussion you and I had 5 years ago. I asked at the time whether it is not entirely plausible to assume that just as in other instances where the Constitution imposes a super majority threshold--for instance, where it is necessary to override a Presidential veto, for the Senate to ratify a treaty, where it is necessary for Congress to propose a constitutional amendment--we have these super majority thresholds of two-thirds.

Really, the purpose of most of the balanced budget amendments that we are talking about is to impose some sort of super majority threshold. That is the biggest single effect. Whether we are talking about an amendment proposal that does confer standing on Members of Congress, as something that I proposed does, or something without it, isn't it still safe to say that it is not entirely unreasonable to expect that Congress would at least follow the super majority threshold standard as it does in other areas?

Mr. Morrison. I agree with you, Senator. It is entirely correct that the Congress would follow it. Those are all clear. There is no debate about two-thirds. But the most important thing about all of those is that they are all in one direction, that is, all of them are against spending. They are all making it more difficult to raise revenue, to increase the debt. If this amendment wanted to strike out the first section that says the budget shall be in balance as a requirement of law and put in the rest of it there, that would not present an enforcement problem. It would present a very difficult problem because it would be all in one direction, and people would say this is about preventing the programs that are designed to help the needy and others and not to prevent anything else from happening. But that would be--those are all enforceable because they are playing it and nobody can contest them, and those rules are followed.

But the requirement in Section 1 that receipts and expenditures be in balance in a year is not self-enforcing, and that is the problem with that provision in the amendment. But, of course, that is the heart of the amendment. That is what is being sold to the American people: We are going to balance the budget. It does not say we are going to make it just more difficult to raise taxes and raise the debt. You could pass a rule, I suppose, tomorrow, just like the filibuster rule, that would say from now on in the Senate, in order to raise the debt we are going to require two-thirds. People would scream and shout because they think it is unwise. But you could do that. You do not require a constitutional amendment to do that.

Senator Lee. Right. Of course, a rule can be undone much more easily than a constitutional amendment.

Mr. Morrison. Yes. Yes.

Senator Lee. It does not have quite the same imprimatur of legitimacy.

Mr. Morrison. Especially if it proves to be unwise, unworkable.

Senator Lee. I see my time has expired. Thank you, Mr. Chairman.

Senator Cornyn. Thank you.

Senator Whitehouse is next.

Senator Whitehouse. Thank you, Chairman. This is an interesting reprise in the Judiciary Committee of conversations that we have regularly in the Budget Committee. It is nice to see Dr. Holtz-Eakin and Mr. Greenstein and Professor Morrison all back. They are regular experts who testify before us frequently. And the fact that we always butt up against when we start to try to deal with this issue in the Budget Committee is that we hear from colleagues these very serious, almost draconian concerns about what will happen if the budget stays unbalanced. The very future of the Republic, they say, is at stake. And then they will not touch the carried interest exception that lets hedge fund managers pay lower tax rates than truck drivers and contribute that towards the problem. They will not touch the subsidies that big oil receives, corporations that are the wealthiest and most prosperous in the history of humankind and are the very last entities on Earth that need subsidies but continue to claim them, they will not touch those and dedicate them towards deficit reduction. Even little things like having private jets be depreciated at the same rate that the airlines have to depreciate their jets so no added tax benefit for private jet owner, oh, no, no, cannot do any of that, none of it.

And the problem is, as Dr. Holtz-Eakin has testified before and you mentioned today about these--"genuine and sincere attempts," I think was your phrase--genuine and sincere attempts to solve this problem, the genuine and sincere attempts to solve this problem very often--in fact, in my recollection all of them--have a revenue component. We have a tax system in which a huge amount of money goes out to special interests out the back door of the Tax Code. If you are a regular human being, about the only way we can help you is to help you with a program that helps you. That tends to be either on the mandatory spending or appropriations spending side. If you are a business, particularly a big industry, you can bake into the Tax Code special deals that benefit you, and they live on and on and on and on.

This amendment by favoring those loopholes in the Tax Code--I think it is over--what is the number that goes out the back door of the Tax Code right now, Dr. Holtz-Eakin? It is over $1 trillion, right?

Mr. Holtz-Eakin. $1.2 trillion.

Senator Whitehouse. $1.2 trillion. $1.2 trillion goes out the back door of the Tax Code. And you cannot touch a penny of that? That is preposterous. That is ridiculous. And when you bake into a constitutional amendment a special protection for that where any act of the legislature could cut off the spending for ordinary people but it takes a double two-thirds majority in both Houses to go after the tax loopholes that big businesses enjoy, this is not a balanced budget amendment. This is a "bake industry loopholes permanently into the Tax Code" amendment. That is what it is.

And I think we are ready to do something around here, but the position cannot be from the other side of the aisle every tax loophole is sacred, every tax loophole is untouchable. That simply cannot be the position if we are going to go forward.

I think that the deficit as a percentage of GDP under this President started at nearly 10 percent, hugely high, because of the massive Wall Street crash meltdown that took place. And we have whittled away, whittled away, whittled away so that that is now at 2.5. And a lot of spending cuts took place in that. A lot of sequester stuff happened.

I think we have showed on our side that we are willing to try to come to an agreement of some kind. But there are people here who do not want an agreement. What they want is leverage to cut spending, period.

I will close by describing something that Kent Conrad used to talk about when he and Judd Gregg were Chair and Co-Chair of the Budget Committee, and that is the Helmsley Building in New York. The Helmsley Building in New York is so big that it reports its income to the IRS as a zip code. So you can look at the Helmsley Building's zip code, and you can know that in that big luxury apartment building, here is what everybody pays in taxes. And it was always about 13, 14 percent for the occupants.

Then you look at what a doorman or a security guard is paid in New York, and you go over to the Bureau of Labor Statistics, and you look at what somebody at that wage level pays. And what you see is that the guy standing in the rain holding an umbrella over the luxury apartment occupant getting out of his limo is paying twice the tax rate of the guy getting out of the limo. And this would bake that in. This would bake that in.

Mr. Moore said people are mad. Yeah, they are mad. They are mad because they know perfectly well that people at the highest income levels are paying ridiculously low tax rates because of tax loopholes that are baked into the Tax

Code.

I have gone over my time. The Chairman is very kindly reminding me of that, and I will conclude my remarks with that. But, really, we are open for business on this side if there is any effort on the other side to look at closing loopholes.

Senator Perdue. [Presiding.] Thank you. As a fellow member of the Budget Committee, the hardest thing I--

Senator Whitehouse. He has heard me give this speech so often that his lips are moving as I do it.

Senator Perdue. I am sorry to interrupt. I apologize. I hope we will have an opportunity for a second round with some questions.

Senator Flake?

Senator Flake. Thank you, Mr. Chairman. Thank you for the testimony. This is very enlightening.

If you want to know what keeps me up at night more than anything, more than any terrorist threat out there--those are real. We have to be worried about things like that. But it is the worry that we wake up one morning, and the financial markets have already decided that they do not want to buy our debt anymore. And once that happens, it seems that we have kind of gone over that cliff, and then anything we do just does not work, and we are Japan and we lose a decade or two or a generation to try to get back what we had. And so I hope that we can move before that happens, and if we cannot do it ourselves, that something restraints us from doing that. Is that an idle fear, Mr. Moore? Is that a significant or a real concern that we just reach a point at which our debt-to-GDP is somewhere--we have already hit the point where it usually takes countries down. But I guess we are the best house in a bad neighborhood thing. So is that something we should be concerned about? And what would happen if the financial markets said, "We are not going to buy your debt, or we will require a premium," which would, as has been noted, quickly consumer all of our discretionary budget just to pay interest on the debt? Is that something we should be concerned about?

Mr. Moore. Well, Senator, I hope it is an idle fear because I would hate to see that come to fruition, and that is what keeps me up at night, too. And, you know, I would advise--if this were a company, U.S. Inc., you know, what you do is you protect against your downside risks, right? We have got this enormous debt out there, and, yeah, things--interest rates are low, everything is going wonderfully, so we do not do anything about it. Well, we ought to take this opportunity now to bring that debt and deficit down as quickly as possible. It is just a way to, you know, reduce the risk of what you are talking about. Because, you know, God forbid that it happens, but it could happen. We saw it happen 8 years ago, and it was not a pretty picture.

Now, you know, it is true the deficit has fallen as a share of GDP, but if you look at page 5 in my testimony, these are just right out of the Congressional Budget Office. Guess what? They are going up again. They are going up again. So any progress that has been talked about here is reversed starting next year, and we are back to $1 trillion deficits again.

Senator Flake. Mr. Holtz-Eakin, is that a concern we ought to be worried about?

Mr. Holtz-Eakin. Yes, no question. If you look at, again, the CBO trajectory, we see an unsustainably large increase in the ratio of debt to GDP. We know that historically sovereign debt crises are triggered by something. But it is not easy to figure out what, and it is often not directly associated with that country. There is bad news elsewhere on the globe. People take a close look at a Greece or a Portugal or a United States some point in the future, and they get panicky, and they start running. It is very difficult to predict the trigger. And the notion that somehow it could be anticipated and action could be taken then to run an office I think is overoptimistic.

It is also true that we literally do not know when it will get so bad that financial markets in looking forward--and the past does not matter; it is about the future--are going to say, "No thanks." We know that we are literally the best-looking horse in the glue factory. That has helped us. We know that we have got basically a reserve currency and we have not yet given away that advantage and ability to borrow and get a little more rope for that. But there will be a point--and I guess my only caution is I do not want to run the experiment and find out when the United States finally loses that. It makes sense to start now and to begin to address this problem.

Senator Flake. In your testimony you mentioned that some other countries have similar restraints in their constitution. Can you talk a little more about that, when that came about? It is longstanding or something more recent?

Mr. Holtz-Eakin. I am citing the work that was done by the Pew-Peterson Budget Reform Commission. I commend the entire volume, a very serious effort. This is the Netherlands and Sweden. Sweden actually, in the aftermath of a bad recession and some really poor performance, took on these limits that tie the hands of the legislature. That is the key feature. And I think the thing I would emphasize is that those are countries that sort of traditionally thought they were immune, and they had a way of doing business, and they found themselves unable to continue.

What worries me about the discussion even today is it is a discussion that says, well, we can do what we did in the 1990s. No, you cannot. In the 1990s the budget got balanced because we saw the fall of the Soviet Union. We saw an unsustainable dot-com bubble that poured revenue in over the transom in the Federal Government. We were experiencing very high productivity growth, and the Baby Boom was a decade and a half away from retiring. None of that is true now. It is a more dangerous world. We do not have any productivity growth. We are not praying for more bubbles, I hope. And the Baby Boom is retiring. So that playbook, business as usual about serious politics, will not work. And so I am concerned about reliance on it.

Senator Flake. Thank you, Mr. Chair.

Senator Perdue. Senator Klobuchar.

Senator Klobuchar. Thank you very much, Mr. Chairman. Thank you. Just as Sheldon was remembering his times with the Budget Committee, I still serve on the Joint Economic Committee as the Ranking Democrat Senator on there, and I have seen many of you in those hearings as well, and I thank you.

I was thinking back to the bipartisan national commission, the group that we had on fiscal responsibility. I was involved in working really hard to set that up, and then we also, of course, had the work of our Gang of Eight and Gang of Six, or I do not remember how many gang members there were. But one of the things that I did support one version of--I think it was Senator Udall's way back--the amendment, and I did a more--you know, I was hoping it would pass, but it was also to make this point, and I think what we know is it would take a long time to get this done as an amendment. And we also know that we have other ways we can do this with some restraint that maybe are not as draconian, as you would say, I think, Mr. Greenstein, on certain populations in our country.

And so I was wondering what you thought of those--maybe you could each talk about what you thought of those recommendations of the bipartisan group. Some of them, you know, we have done some things with the Budget Control Act that we passed, but what do you think we could be doing immediately practically that could help? And, obviously, one of them--and I still remember--maybe Senator Durbin brought this up, but in all of those reports, the Rivlin one, the other ones, they were always a mixture of cuts and changes with taxes in order to get to the goal. And sometimes they were, I think, 3:1, 4:1, you know, depending, or 2:1, I think. Maybe you guys will remember. But it was some combination. I think one was 50:50, if I remember, and another one was a little more on the cuts. But what we have done is a lot more on the cuts as opposed to the tax changes in order to make some reduction in the deficit.

So maybe you could talk about that ratio, and then just what you think we could be doing right now to help fiscally. Maybe we can go down the row there.

Mr. Holtz-Eakin. I will just say a couple things briefly.

First, one of the things I want to emphasize about even the constitutional balanced budget amendment is this notion of draconian changes and recessions, the Macroeconomic Advisers, that does not make any sense. It is going to take years for the States to ratify any such amendment. Many amendments have phase-ins that say 5 years. So we are going to be watching a situation where at an endpoint it is going to have to be balanced, and you are going to be having a glide path to this. And I do not know what the politics inside that will be. It might genuinely force tax reform and alleviate some of Mr. Whitehouse's concerns. But certainly it is not going to be an overnight balance from the position we are in now.

Senator Klobuchar. I understand. So ideas, though, coming out--

Mr. Holtz-Eakin. So the ideas past that, I think the key has to be to involve the White House and the Congress simultaneously. That is what was missing in all these commissions and in the--

Senator Klobuchar. In the commissions and gangs.

Mr. Holtz-Eakin. In the gangs, you know, the super committee--

Senator Klobuchar. They tend to be all-male gangs, just so you know. They are kind of male things.

Mr. Holtz-Eakin. Well, if it was more female--

Senator Klobuchar. Women were not on the immigration one.

Mr. Holtz-Eakin. --then it would not be called "gangs," probably.

Senator Klobuchar. Maybe it would have worked if they had a woman on one of them, but go ahead.

Mr. Holtz-Eakin. But the key to those is the route to revenue is through tax reform. It is not just jacking up rates. There has to be a serious focus on mandatory spending and entitlement reform. You cannot get there without it. Again, the flaw with the BCA is it is focused on this tiny part of the budget, and it is never going to make a real serious dent as a result.

So, you know, the mixture is going to be a matter of the politics of the moment. I would not even pretend to dictate that. But I think you have to just always be thinking entitlement reform, tax reform, what gets us there? And that does not happen without White House leadership. That is what is missing.

Senator Klobuchar. Okay. Thank you.

Mr. Greenstein?

Mr. Greenstein. I thought the best of those various packages was the Gang of Six. I think it is worth noting that both the Gang of Six package and the Bowles-Simpson package had well over $1 trillion more in revenue increases over 10 years than Congress enacted at the end of 2012 in the agreement.

I would strongly disagree with Doug. I think a balanced budget requirement, particularly if revenues are off the table, inevitably will be highly draconian. We have an aging population. We are going to have increases in retirement programs. We have the Baby Boomers that in future decades will move from young old age to old old age where health care costs are higher, and if you are balancing the budget with no new revenues, the effects are devastating. I have the figures in my testimony.

Senator Klobuchar. Right.

Mr. Greenstein. And, finally, I want to correct the record on an exchange between Senator Flake and Doug about 5 minutes ago. The fiscal rules in Netherlands and Sweden are not constitutional. They are statutory. The way it works, for example, in the Netherlands is each new coalition government sets its budget plan, and then it does the budget rules to lock it in. I am in favor of that kind of thing. That is very different than constitutionalizing rigid fiscal rules.

Mr. Holtz-Eakin. Bob is right and I stand corrected, but my point is--

Senator Klobuchar. I am only allowing this to go forward because I am from Minnesota with our Scandinavian roots, and I want to get the facts out.

[Laughter.]

Mr. Holtz-Eakin. The point is we have tried the legislative route here, and it has been unsuccessful. And so I think you do have to ratchet it up a little.

Senator Klobuchar. But your point was that there was not as much participation, from your view, as you would like from the White House, and you could see that if you want to do something more immediately, you could use some kind of a group, but they would be working with the President more.

Mr. Holtz-Eakin. The interim step is to have a budget resolution that is signed off by the President--

Senator Klobuchar. Right.

Mr. Holtz-Eakin. --and force everyone to be engaged.

Senator Klobuchar. And would you acknowledge that it should be a mix of revenue and cuts?

Mr. Holtz-Eakin. I want to get there, and, you know, writing down rules with that type--I do not know.

Mr. Moore. Bob Greenstein--do you want me to answer?

Senator Cornyn. [Presiding.] Go ahead, Mr. Moore.

Senator Klobuchar. Okay, one last, because then I am out of time. I am going to be in trouble.

Mr. Moore. Do you want me to--

Senator Cornyn. Go ahead.

Mr. Moore. I agree with Bob, I mean, I wish we had done this 15, 20 years ago before the Baby Boomers, you know, were retiring. We knew they were coming, and so I wish we could turn back the clock and have done this. But we are where we are, and now it is tougher. Bob is right about that. Shame on us for not doing this 20 years ago.

I am all in favor of getting rid of tax loopholes. I mean, my goodness, we are paying people to put solar panels on their roofs right now, and some of the credits, you know, the Senator mentioned the credits for the oil and gas industry, you know, the wind and solar stuff, it is just so out of control, we ought to get rid of all those loopholes. I completely agree, get rid of them. And if we can bring the rates down a little bit, you know, John F. Kennedy and Ronald Reagan taught us if you cut those rates, you get more growth.

And then just one other idea I would just throw out there, I kind of like this idea, Senators, of the penny plan. I do not know if you have heard of this, but just cut one penny out of every program for each year, and everybody is going to take a hit. Everybody. You know, no matter what the program--

Senator Klobuchar. I thought you were going to say get rid of pennies, which is a--

Mr. Moore. Not Tim Penny.

Senator Klobuchar. No, no, no, the--

Mr. Moore. I know Tim Penny very well, but this is the penny plan of cutting--

Senator Klobuchar. Save money by getting rid of pennies.

Mr. Moore. By the way, I love Tim Penny, by the way. He was a great, great American.

Senator Klobuchar. He really is.

Mr. Moore. And, anyway, if you do that for 4 or 5 years, you get to a balanced budget.

Senator Klobuchar. Yes. Okay. Thank you.

Senator Cornyn. Senator Perdue.

Senator Klobuchar. Thank you. We were just--thank you. I appreciate it, Senator.

Senator Perdue. I would like to have another conversation offline about the penny plan because I do not see the math in that yet.

Mr. Moore. Okay. I will prove it to you, Senator.

Senator Perdue. I would love to see that, honestly. I respect what you all guys are doing, because I got to tell you, if you want to know what is going on in the

Presidential election, it starts right here in this conversation. Whether you believe in a balanced budget law or not, you have got to have an agreement. This is not a partisan conversation. It should not be. This is the crisis of our time. It is our crisis. It is here, and it affects the other crisis, and that is, the global security crisis. We are at a point right now where I believe our intransigence on the financial side is causing us great stress in terms of defending our country and leading in the world relative to the threats that are facing global security today.

I am on the Foreign Relations Committee and the Budget Committee, and these two things are no longer separate. These two crises are interlocked in a way that they have never been. There has always been defense hawks and budget hawks. We do not have that luxury anymore. It is all tied together.

Then you have got the idea of the entitlements, the Social Security and the Medicare. We do not solve this crisis without coming to grips with those. And it does not have to be draconian. You want to see draconian? Do nothing. Do nothing. Now you have got draconian. That draconian, I want to--and I am leading to a question about the dollar and reserve currency. I want to get there. But I want to call out some things I have heard today. This is what drives people back home absolutely crazy. We talk about percentage of GDP. We talk about one side wants spending cuts, the other side wants revenue.

Well, here is the reality in my mind. Last year, we collected almost $3.4 trillion in revenue. That is an all-time record. The year before it was an all-time record. But here is the problem. In the year 2000, we spent $2.4 trillion running the Federal Government. Last year, we spent almost $3.8 trillion. That is constant dollars.

Now, you say, well, percentage of GDP. Well, wait a minute. The Federal Government never talks about fixed expenses and variable expenses. That is another conversation I would like to have offline. In business, you have to talk about that. If you give up your leverage of growth, then you will be out of business very, very quickly because your competitor is getting leverage on that growth. We do not do that.

The next thing, in the last 100 years we have had three political super majorities. The first gave us the New Deal, the second the Great Society, and the third Obamacare and Dodd-Frank. Now, I am a business guy. I am just--I look at it very simply. I can put at the feet of those three super majorities a lot of the responsibility for this financial catastrophe right now. And the irony is I think we have proven that some of these sweeping Federal programs have failed. The poverty rate today is exactly the same as it was in 1965 when it the great War on Poverty was started. You can shake your head, but the numbers are there. So, you know, the reality is that these Federal programs do not-- trillions of dollars. The bottom line is there are four words that I do not hear in Washington ever: "We cannot afford it."

So then the question is: If you cannot afford it, then you have got to get in and start allocating to priorities. And we do not do that here. Both sides are guilty. No there are no innocent parties. In 2000, we had $6 trillion of debt. In 2008, we had $10 trillion. Now we have got $19 trillion. In the next 10 years--you just showed it, Mr. Moore--we are going to add another $9 trillion to $19 trillion. If nothing is done today, current law says that we will borrow another $9 trillion. In the last 7 years, 35 percent of what we spent as a Federal Government has been borrowed. The reality of that is up to now, the last 7 years, every dollar we spent on discretionary, every dollar we spent on the military, every dollar we spent on entitlements--or, I am sorry, non-military discretionary, every dime on foreign aid is borrowed, technically.

Now, that brings us to a whole new level of conversation. Somebody said it. Without a balanced budget law--and, by the way, 44 States--and if you want to see where Government works, go to your local State. In most cases, all but maybe four or five, financially it is working. The understand how to control their spending and understand their own local economy.

I would argue this, and I am leading to a question: The budget system is broken. It has only worked four times in the last 40 years. Dr. Holtz-Eakin, you have testified to that. Mr. Moore, you guys have said that for years. The question I have, Mr. Moore, I would love to have you start and just help me with this: Great Britain sat here a hundred years ago, and they were in a very similar situation, and they ignored it and they ignored it and they ignored it. And they lost the pound as a reserve currency, and we saw what happened to their ability to borrow after that. I would like you to address the danger. Is that a real danger now? Is this something we need to be concerned with? I would argue that this crisis is already here. The tipping point was when--I do not know when it was, but if interest rates right now--and you have all talked about it. If they go back to their 30-year average of somewhere around 5 percent of a trillion, that would be $1 trillion of interest on a $20 trillion debt. That is just not manageable. That is twice what we spend on our military.

So the question I have is: Have we not already gotten to the point where we are threatening the dollar as a reserve currency?

Mr. Moore. Well, I hope not. You know, I think we greatly benefit as a Nation from being the world reserve currency, and I do not think it is an immediate danger. What worries me is that if people lose confidence in our finances, what are they going to do when you issue more debt? They are going to--we got into this before. They are going to charge you higher interest rates to borrow. And it is extraordinary--you know, we talked about this issue of financial crises, and I remember the 2008 crisis. It happened overnight, almost literally overnight. I mean, I remember one week I am talking to people who worked at Bear Stearns. I said, "I hear you got a margin call. You might"--"Oh, no, no, no." And the next weekend they are of business. I mean, that was a multi-billion-dollar company.

So these things can happen in a flash, and nobody is prepared for them. And I go back to what I said before. The fiscally prudent thing to do is to lower the risk of that happening. And now is--why not start now?

Senator Perdue. So, Dr. Holtz-Eakin, talk to me about--I have heard testimony today relative to the impact that a balanced budget law--and, by the way, that math is not--there is no way that you can institute a balanced budget next year.

Mr. Holtz-Eakin. Right.

Senator Perdue. I mean, it is just not going to happen. Last year, we fought and fought and fought and put a budget out that balanced in theory in 9 years, but we waived it late in the year, and we ended up with an omnibus. So what we are trying to do now is to redo that process that is broken.

The question I have for you is what was said earlier today in testimony that somehow this balanced budget requirement would impact the normal ebbs and flows of the economy. Would you address that?

Mr. Holtz-Eakin. Yes. So the theory is that the Congress and Washington in general can somehow manage the economy by cutting taxes and raising spending during downturns and raising taxes and cutting spending during recoveries. I will point out that the latter never happens, so the sort of theory is not something we should ever pretend we are implementing.

The second point about that is it is not like it is working. There is a terrible track record of doing this in a timely fashion, and the idea that somehow it is going to take time to get the super majority and move, it is always too late historically, anyway. Discretionary fiscal policy does not work. A better way to think about it is the way we came to a consensus as a profession in the 1980s where fiscal policy was set for long-term growth purposes, and the number one growth threat right now is, in fact, the debt. So, you know, this would be setting fiscal policy on a trajectory that promotes long-term growth. And then you let monetary policy take care of any near-term recessionary tendencies. By and large, the Federal Reserve and the fiscal policy did very well in the 1980s and 1990s, and then that consensus broke down and you saw 2001, post-9/11, the Bush administration; you saw 2002, 2003, 2005, 2008, the Bush administration checks; 2009, the Recovery Act. Again and again and again on a bipartisan basis, we gave up the sort of compact to set fiscal policy for long-term growth, let the monetary policy take care of short-term fluctuations. What have we gotten for that? Bad growth.

Senator Perdue. I want to thank all of you again, regardless of your perspective. I think, please, stay engaged with us. I think there is a growing sense in this Congress that in a bipartisan way this is our crisis right now, and we have got to move on it, and we need people like you to help us. Thank you for your testimony.

Senator Cornyn. We will turn to Senator Blumenthal in just a minute. I want to correct myself when I said earlier our choices are legislation, balanced budget amendment, or an Article V convention. Actually, back when these negotiations Senator Durbin was a part of, the Gang of Six and Eight, there was a book that was touted that all of us should read so we could understand the potential for a financial meltdown, which is, "This Time Is Different." You are familiar with Reinhart and Rogoff, and even a recovering lawyer like me tried to read it and wade myself through all the details. But the point is that at some point not only could the public take this away from us by the States convening, in essence, an convention for the purpose of amending the Constitution, even if Congress did not act, the truth is the market could take this away from us, too, and then we would be dealing with a huge crisis that would be very difficult for us to manage. So that is, I guess, the fourth option--none of them particularly appetizing.

Senator Blumenthal?

Senator Blumenthal. Thanks, Mr. Chairman.

There is a large body of opinion in many of our colleagues who are concerned about the future of Social Security. Are any of you? If you are, just raise your hand. Everybody is raising his hand.

My question is: Does the Hatch budget amendment, this balanced budget amendment, or, for that matter, any of the balanced budget amendments provide a solution to the issues that concern you about the future of Social Security? There is a reason that people are concerned, which is the potential insolvency of the program. And I actually introduced a bill called the Social Security 2100 Act that would keep the trust funds solvent for the remainder of the 21st century, financed primarily by higher taxes on people making more than $400,000 a year. Without going into all the details of that proposal or the other proposals that may be out there, I do not understand the balanced budget amendment as offering any solution whatsoever to the Social Security challenges that are believed by many to exist. Yes sir?

Mr. Greenstein. S.J. Res. 2 and S.J. Res. 6 I think would make the Social Security situation dramatically worse. Here is why.

Under both of those, it would take a super majority of both the House and the Senate to raise payroll taxes, including your proposal to do something at the very high income level in terms of a Social Security payroll tax. It would effectively mean that all of the closing of solvency had to be done on the benefit side. But that is not the biggest problem.

The biggest problem is that by requiring that total Federal expenditures, including Social Security, be limited to 16.8 percent of GDP in the current fiscal year, which both of those do--it was 21.6 percent under Ronald Reagan when the Boomers were not retired yet. This is 16.8. You could not get there from here without deep cuts in Social Security benefits. And I have numbers in my testimony that show that.

Senator Blumenthal. Yes?

Mr. Holtz-Eakin. What I would emphasize is that it is not about Social Security and its future, which is important; it is the fact that whatever solution you may have for Social Security, whether it is higher taxes or reduced benefits or some combination of both, has to add up with the remainder of the activities of the Federal Government in a coherent way. You cannot go off and pretend Social Security is divorced from the financial future of the Federal Government. It is not. And so if you have to raise taxes on Social Security, you might have to lower them somewhere else. If you want to raise benefits, you might have to lower spending somewhere else.

The balanced budget amendment is not about the specific policies of individual objectives. It is about having a coherent and rational plan that stands the test of time.

Mr. Moore. I would simply add to that that, you know, as I look at the future of paying off these Social Security--you know, allowing young people to have a Social Security system when they retire, the single best thing you can do right now is lower the debt now so that, you know, we can repay those bonds and we can repay them so that people get their benefits. So I think a balanced budget amendment is very consistent with keeping the Social Security system--

Senator Blumenthal. Now, what I have heard is it is consistent, it affects Social Security, but does it raise revenue that is essential for the trust funds? I may be oversimplistic in my analysis, but my view is the trust funds were really supposed to be independent. I recognize that that independence has been compromised from time to time, possibly meriting criticism, and it has been criticized intensely, as you know. But shouldn't there be an integrity to the Social Security trust funds? And revenue raised that is held sacrosanctly so that the balanced budget amendment provides no solution to those challenges, it does not raise more money to make the Social Security trust funds impervious to the solvency that could threaten it.

Mr. Greenstein. Again, it makes it almost impossible to raise revenue for Social Security, and worse than that, here is another point. Social Security right now has $2.8 trillion in the trust funds. Under the current plan or current path, starting in 2020, Social Security begins to draw down the trust funds to help pay benefits.

Under the constitutional balanced budget amendment that is before you, it would effectively become unconstitutional for Social Security to draw money from its own trust funds to pay benefits unless every dollar withdrawn from the trust fund was matched with a dollar cut in other programs elsewhere in the budget.

Senator Blumenthal. So just to take a hypothetical, to take your example, if the Congress said we are going to lower taxes for corporations so you cannot raise revenue for the Social Security trust fund, the trust funds would be allowed to crater.

Mr. Holtz-Eakin. Two points. The first is that, as a general matter, I am one of those who will argue vociferously, but I will spare you the "vociferous" part, that the trust funds are an accounting fiction. There are no real economic resources in them. Every time the payroll taxes come in, they go into the Treasury, and they are used to pay the general bills of the Federal Government. So let us not pretend about some sort of sacrosanct pile of resources that does not exist.

The second point is simply that, exactly, if the Congress decided as a policy matter the most pressing thing was to cut corporate taxes, it does not have free money somewhere else, and those are the tradeoffs that a Congress would be forced to make, which it does not now make and which has led us to the position we are in. And the virtue of the balanced budget amendment is it gives you a way to say no to some things. You have got to say, look, it is not just good, it has got to be really good, because there is no money. And when something is worth it, the tradeoffs come from elsewhere in the budget.

Senator Blumenthal. And just to complete the circle--and I apologize, Mr. Chairman, for taking--I hope it will not be any more. Under the proposal that I have made--and there are others like it--where the existing difference between about $118,000, the present cap, and $400,000 would continue to be in effect without an increase in the payroll tax or a payroll tax, but then after $400,000, for those people who make $400,000 a year, there would be a payroll tax on that amount. There would have to be some lowering of taxes elsewhere. And so, really, a solution to Social Security based on adding revenue and to keep the program intact and to maintain that source of insurance--it is an insurance program--for our senior citizens would require tax cuts somewhere else.

Mr. Holtz-Eakin. You could transfer tax revenue from elsewhere in the--transfer general revenue into the trust fund. We suspended part of the payroll tax during the economic recovery. So the notion that somehow there is a unique dedicated source is not true in history, and you have a lot of options to fund the program. Ultimately, the decision that is made is: What kind of benefits will be provided and to whom? And once that decision is made, you have got to finance it somehow, by reducing spending elsewhere, moving tax revenue into backing those benefits, whatever it may be. It does not have to be an increase in the payroll tax.

Mr. Greenstein. Under the balanced budget amendment, Doug, you could not move revenue from elsewhere in the budget without making corresponding cuts in the rest of the budget. So, yes, you could do it and decimate Medicare. I mean, the bottom line is--

Mr. Holtz-Eakin. You have to make decisions, yes.

Mr. Greenstein. --the numbers do not add up--

Mr. Holtz-Eakin. God forbid.

Mr. Greenstein. --if you are limiting Federal spending to 16.8 percent of GDP when the Baby Boomers are retired, when it averaged 21.6 percent of GDP when Ronald Reagan was President.

Senator Blumenthal. Well, let me just say I am troubled because I may be, naively, a victim of the fiction, as you have termed it, but a lot of senior citizens trust that the trust funds are, in fact, sacrosanct, and that is why they believe we have an obligation to make sure that they are solvent, that the guarantee of that insurance program--it is not a handout. It is an insurance program. People pay into it, and then they enjoy its benefits. But you are saying it is just like another department of Government, the Department of Energy or the Department of Education, yearly appropriations, we decide it is a good thing to do or a bad thing to do, but not really different from any other Government appropriation or expenditure.

Mr. Holtz-Eakin. It is mandatory spending. It is not an appropriation. It is like Medicare, which is financed a lot by general revenues. Social Security has been financed at times by general revenue. It is like the child tax credits. They are an income tax credit. So on both the spending and the tax side, there are lots of things that look like this, and it is not unique.

Mr. Moore. Do not forget, Senator, that in the trust fund, what the trust fund knows, as you know, is Government bonds. Right? That is what it is holding. And the point I am making is that seniors--I am worried. I am 55 years old. I am worried is it going to be there for me 20, 25 years from now. One of the best ways--there are two really good things we could do. One is increase the rate of economic growth. If we could get 1 percent more growth, you are going to get a lot more revenues in the system.

But the other thing you can do is reduce all the other debt so there is not as many, you know, bonds out there that the Government has to redeem so that it has the money so when, you know, I am ready to retire, the money is there for me. I view this as benefiting the Social Security system, not hurting it.

Mr. Shapiro. If I can add, as the youngest member of the panel, I think, I am concerned--I raised my hand. I am concerned about Social Security. But I do not have any doubt that it will not be there when I retire, and certainly my 2-month-old son will not see any of it. And so I would be perfectly happy to have some sort of deal where Steve, he gets his Social Security, Senator, you can have yours, but we make--

Senator Blumenthal. What about the Chairman?

Mr. Shapiro. Sure, as long as I do not have to pay in any more going forward, I will relinquish my right to get it in the end. I think a lot of people in my generation would be happy to take that deal, and we will make our own investment decisions.

Mr. Greenstein. I think we should just be clear that U.S. Treasury securities are viewed by investors around the world as the gold standard and the safest place to put your money. We somehow have this double standard in these discussions that U.S. Treasury bonds that investors all over the world hold are sacrosanct, but the U.S. Treasury bonds the Social Security trust fund holds are IOUs of dubious worth. In fact, legally, the special bonds--they are special Treasuries that are in the trust fund--they have even more protection than the Treasuries investors all over the world have. The notion that these bonds will not be honored, if the bonds in the trust fund were not honored, the entire world financial system would collapse quickly because all U.S. Treasury securities would not be--

Mr. Holtz-Eakin. I object. That is a non sequitur. No one is--

Mr. Greenstein. Not a non sequitur at all.

Mr. Holtz-Eakin. No. The only issue is how fast are they drawn down, which is determined by the schedule of benefits that is enacted by the Congress, which is entirely within the Congress to have discretion over. No bond will not be honored. The question is simply how fast do they come out.

Mr. Greenstein. Well, I do think--I think the implications, at least from what some of the other panelists said, was that the bonds would not be honored. And even after all the bonds are drawn down--and this is not something we should do. But if we took no action at all, Social Security could permanently pay about 75 cents on the dollar on promised benefits, not zero. That is not the way it should be. I think everyone in both parties agrees that is not acceptable. There is not agreement yet on how to bridge the gap. But the notion that Social Security is about to totally collapse is entirely without foundation.

Senator Cornyn. Well, a casual observe might conclude that the Chairman has lost control of this hearing.

[Laughter.]

Senator Cornyn. But I actually the back-and-forth is actually helpful.

Senator Blumenthal. Thank you, Mr. Chairman.

Senator Cornyn. Let me sort of bring us back down to Earth. Dr. Holtz-Eakin, raising taxes is not the only way to help sustain and to bolster Social Security, correct? I mean, there are other options available to Congress like age at which you--

Mr. Holtz-Eakin. Absolutely.

Senator Cornyn. --get access to the benefits, chained CPI--

Mr. Holtz-Eakin. Indexing initial award, indexing the benefit in retirement. There is a large array of things that can be done on that side.

Senator Cornyn. And I guess the panel has done a great job of talking about the economic and the legal aspects of this, but I just would be remiss if I did not mention the moral imperative here. The idea that the present generations can continue to rack up debt and pass it on to the next generation and beyond, assuming we get that far before a huge financial crisis, is just immoral.

Mr. Holtz-Eakin. Right.

Senator Cornyn. There is just no two ways about it.

So I see from an economic, legal, and a moral perspective that the need to do something is pretty obvious, and each of you has presented different points of view about that. But just so people understand, Mr. Moore, could you just describe what would happen if there was a loss of confidence in the U.S. Government's ability to repay its debt? What would that look like? And how would you anticipate that the U.S. Government could and would respond?

Mr. Moore. Well, we can see that has happened in other countries. And, by the way, I am not apocalyptic. I do not think that is going to happen.

Senator Cornyn. No, I am not--

Mr. Moore. But, you know, look at what has happened in Greece. You know, look at what Greece has to--the rates of interest they have to pay to borrow. You know, they are in the double digits. In another country--look at Puerto Rico, for goodness' sakes. I mean, they have racked up so much debt that that country is running to Washington to get a bailout. They cannot pay their debts.

So I am not apocalyptic. Look, I think we are going to grow this economy. I think we are going to--and I think one way to grow the economy is through the balanced budget amendment. And we have to do tax reform; we have to do these other things. If we do them in combination, I think we are going to start bringing down the debt. It is a fiscally healthy thing to do. But I have seen firsthand what happens when countries get into a debt crisis, and it is not a pretty picture.

You know, by the way, the people who suffer the most in these crises are the people at the bottom.

Mr. Morrison. Senator, may I say a word?

Senator Cornyn. Professor?

Mr. Morrison. One of my fears about passing a balanced budget amendment by the Congress is that Congress will pass the balanced budget amendment and think that the problem is solved, and that is absolutely wrong. In the first place, it would be 7 years before it gets ratified, and everyone will be--

Senator Cornyn. Some amendments have taken much longer.

Mr. Morrison. Well, I do not know whether this one has got a 7-year limitation. I think most of them now do have a 7-year limitation. But everyone will be saying, "Oh, the balanced budget amendment will fix it." Somebody has got to do something right now. And so the balanced budget amendment is not going to solve the problem now, and so it is not a pick between one and the other. If you are going to do something, you have got to start doing something now, which means getting our fiscal house in order.

Similarly, with regard to the States, the States can call a convention. All that does is kick the can down the road to somebody else, and in the end somebody has got to write a plan, and the States are not going to do it, cannot do it, and certainly cannot do it any better than the Congress can do it.

Senator Cornyn. I agree. It will take some time to transition to the balanced budget amendment were that to be passed, and certainly Congress would have to take a lot of other actions to get us on a trajectory toward a balanced budget and then under the letter of the law sustain that balanced budget.

Mr. Greenstein, let me just ask you, obviously, you are not a fan of the BBA. I presume you are not interested in an Article V convention where the Constitution would be amended. What would the ideal prescription look like from your standpoint as a political resolution of this issue, I assume?

Mr. Greenstein. Just briefly, I would be very nervous about an Article V convention. There really--

Senator Cornyn. I will stipulate that you do not want that.

Mr. Greenstein. No, no, but I want to--

Senator Cornyn. But I am asking what your solution is.

Mr. Greenstein. I am just going to briefly say on Article V, I am in agreement with the last Justice Scalia who warned that once you convene such a convention, there really is no enforcement mechanism to keep it from rewriting anything in the Constitution.

Senator Cornyn. Well, I would never disagree with Justice Scalia, but in this case, the Constitution provides for three-quarters of the States to ratify anything. I think that is the break that James Madison and our forefathers created that would alleviate or at least mitigate that concern. But--

Mr. Greenstein. Senator, I do want to--

Senator Cornyn. I really want to hear--

Mr. Greenstein. --answer your question. I want to--

Senator Cornyn. --what your answer--what your solution is.

Mr. Greenstein. Yeah, I am a firm believer in the old adage that Rudy Penner, former CBO Director, once said, that the problem is not the process, the problem is the problem. I do not think one can skirt one's way around it by trying to impose something like a balanced budget amendment, which I think would cause more harm than good. I just think there is no alternative to getting to the point where the two parties come together and they work out an agreement. It happened in 1990. It happened in 1997. I know we are in a particular period with a lot of polarization now, which I deeply regret. I still have confidence that at some point we are going to get back to more of the spirit of bipartisanship that marked this place most of the time since

I came to Washington in 1972. Early years when I was here, a single Member of the Senate I worked most closely with was Robert Dole, whom I revere to this day. I think he is a great man. And we have to get back to the point where the two parties can work together and make choices and work this out.

It has happened for most of our history. It has been absent in recent years. I think that is the solution, not a constitutional amendment.

Senator Cornyn. Well, there was some testimony earlier on about the impact of a movement toward a constitutional amendment, whether it is a stand-alone balanced budget amendment or an Article V convention, that that would have an impact on Members of Congress and the White House and perhaps encourage us to reach the sort of resolution that you prescribe. Do you see that as being one way to encourage Congress to do it?

Mr. Greenstein. Probably not. I think it just needs some broader--

Senator Cornyn. So you think we can just do it because we resolve to do it?

Mr. Greenstein. I think it needs some broader change in the political atmosphere, which probably includes--and now I am getting beyond, but it probably includes things like less gerrymandering. So in the Senate, you all have to run on a statewide basis. It is a problem that in the House in both parties so many Members are more concerned about the wings than the middle. It makes bipartisan policymaking harder.

I think changes in that area and how the districts are done and in campaign finance have contributed to the polarization.

Senator Cornyn. What would those people who are elected from those districts, what would they vote on which you would offer here as a solution to our problem? I am just asking policy--

Mr. Greenstein. They would vote on agreements that were negotiated by both parties in the way that the 1983 Social Security agreement with Tip O'Neill and Ronald Reagan was negotiated, the 1990 budget agreement, the 1997 budget agreement. That is the sort of thing that we need.

Senator Cornyn. You will concede--

Mr. Greenstein. It is the kind of thing the Gang of Six was an attempt at. It did not succeed.

Senator Cornyn. Well, we have a lot of happy talk about grand bargains but no result, and we got left with the super committee, and the default in the super committee, which was not able to reach resolution, was which I will agree with Mr. Moore was extremely effective on controlling discretionary spending. But as we have also discussed, it leaves the 70 percent of other spending on autopilot, and it is killing us, and it is covering us with debt almost double since this President has been in office. I am not suggesting he is the only one responsible. He is not. But it does point out the problem, and I think we need to look at all the patient tools that are available to us, and that is the purpose of this hearing.

So let me just conclude by saying thanks to each of you for making a contribution. We have tried to give everybody an opportunity to express themselves. I think it is really important to elevate the visibility of this issue because if these are the choices available to us, the four that we have discussed, I think people are going to need to try to figure out where they come down, and to me this is one expedient way to force the political branches to deal with is, and if not, then the people, by ratifying their founding document, can make it happen, can force our hand.

Thank you very much. We will leave the record open for a week, and maybe other people who were not able to be present here today will have questions for you. So if you will look for those, if they come your way, we would appreciate you getting responses back to us in a timely manner.

Thank you very much. This hearing is adjourned.

[Whereupon, at 4:20 p.m., the Committee was adjourned.]

C O N T E N T S