# Hearing on the Debt Limit

HEARING

BEFORE THE

THE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

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Advisory of January 22, 2013 announcing the hearing

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Partner, Baker Hostetler, Washington, DC

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Mr. J.D. Foster
Norman B. Ture Senior Fellow in the Economics of Fiscal Policy, The Heritage Foundation, Washington, DC

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Mr. G. William Hoagland
Senior Vice President, The Bipartisan Policy Center, Washington, DC

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Mr. Simon Johnson Ph.D.
Ronald A. Kurtz Professor of Entrepreneurship, Massachusetts Institute of Technology Sloan School of Management, Boston, MA

Johnson Testimony [PDF]

**Hearing on the Debt Limit**

U.S. House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met, pursuant to call, at 1:34 p.m., in Room 1100, Longworth House Office Building, Hon. Sam Johnson presiding. Advisory

Mr. Johnson of Texas. We are expecting votes, so we are going to go ahead and get started. The chairman is on his way. He will be landing in a couple minutes. But we are going to get started.

Good afternoon. Welcome to today's hearing on the debt limit. The chairman has been delayed, but given the votes in this afternoon, he asked we go ahead and start the hearing so Members may have as much time as possible with our distinguished witnesses.

Before hearing from our witnesses, I will read Chairman Camp's prepared opening statement and then turn it over to Mr. Levin for his usual opening statement.

Good afternoon. Thank you for joining us today, all of you.

The topic of today's hearing is the debt limit, which has increased higher and faster under President Obama than any President in our Nation's history. Since the President first took office in 2009, there have been four increases in the statutory debt limit, totaling more than $5 trillion, a 55 percent increase.

As of December 31, 2012, our Nation reached the current debt limit of nearly $16.4 trillion, and the Treasury Department has been using extraordinary measures to avoid exceeding the debt limit. According to a letter from Secretary Geithner, those measures will be exhausted between mid-February and early March.

In the simplest of terms, the debt limit helps hold Washington accountable to hardworking taxpayers, who ultimately foot the bill for Washington's spending habits. Without a limit, Washington would be free to borrow as much as it wanted without even a review of the bills we have racked up and those that are still coming due.

Now, as I have said many times before, no one party is solely to blame. During 8 years of the previous Bush Presidency, deficits increased by $2.4 trillion. President Obama ran up twice that much during just his first term.

The debt is not just some number; it has a direct impact on American families. During the President's fiscal commission, we heard nonpartisan testimony that stated when the debt is this large in comparison to the economy, it costs the country the equivalent of about 1 million jobs. Think about that. If Washington got its debt and spending under control, 1 million more Americans would be working today.

As if that wasn't sobering enough, the staggering size of our debt and lack of a plan to deal with it also threaten to drive interest rates up. The Fitch Ratings agency recently warned that the failure to make progress on our structural debt would likely still result in a downgrade of the U.S. credit rating. A lower credit rating is sure to mean higher interest rates, which means families will face higher credit card payments, higher car payments, higher student loan payments, and certainly higher mortgage payments.

In 2006, when speaking in opposition to increasing the debt limit, then-Senator Obama said, quote, "The fact that we are here today to debate raising America's debt limit is a sign of leadership failure," unquote. Those comments hold true today. That is why it is disappointing that the President has declined to engage in a meaningful dialogue to identify a responsible, balanced approach to reducing spending and, by extension, reducing the deficit, which the President promised to cut in half during his first term.

Of course, it is tough to cut the deficit when the Senate, which is controlled by the President's own party, will not or cannot even produce a budget. It has been 4 years since the Democrat-controlled Senate has passed a budget. That is a disgrace.

I fully expect Republicans and Democrats will disagree about what the budget should look like. Even when one party has a majority in both the Senate and the House, the two bodies often disagree. Disagreeing isn't the problem; the failure to resolve those differences is the problem. And how can we even start to find common ground if Senate Democrats won't tell us where they stand?

In the first place, having the House and Senate pass a budget is the first step toward getting our finances back in shape.

I want to thank the witnesses for agreeing to testify today and sharing your expertise on the debt, the debt limit, and what it means for the country. I thank you for your being here.

Mr. Johnson of Texas. And I would also like to welcome and thank our witnesses for appearing before us. Before we hear from them, I recognize now the ranking member, Mr. Levin, for his opening statement.

Mr. Levin. Thank you.

Welcome to all four of you.

Today's hearing appears to have been originally designed to give the veneer of credibility to the notion that it might be appropriate, thinkable, or manageable to default on our debt. It is none of these. The debt ceiling is about paying the bills of the United States of America, for spending that this institution authorized. Manipulating it today, next week, or in 3 or 4 months damages our economy and our credibility.

In the summer of 2011 -- and I urge we all try to remember it -- Republicans in this Congress pushed our Nation toward default. There were clear consequences -- clear consequences. Today, they are prolonging another debt-ceiling showdown instead of a long-term extension. This continues and increases the economic uncertainty.

Our Nation's economic wounds from 18 months ago are simply too fresh to ignore. August 2011 was the single worst month for job creation in the last 3 years. The Dow Jones plunged 2,000 points in July and August of 2011, including one of its worst single-day drops in history, tumbling 635 points on August 8th.

The Treasury was forced to spend $1.3 billion more in interest payments, according to GAO. The Bipartisan Policy Center estimates that the higher costs will be almost $19 billion over the next decade.

And, of course, who could forget that the U.S. credit rating was downgraded for the first time in our history? One Standard & Poor's senior director said shortly after the credit agency downgraded the U.S. credit rating that the stability and effectiveness of American political institutions were undermined by the fact, and I quote, "that people in the political arena were even talking about a potential default."

The Washington Post unequivocally stated in a story this week that, and I quote, "In 2011, the debt-ceiling dispute traumatized the economy," end of quote. A senior principal economist with IHS Global Insight was one of the many economists who have warned against a repeat. He wrote in a report last week, and again I quote, "If the political bickering over the debt-ceiling issue reaches a fever pitch, as it did in the summer of 2011, then consumer confidence will nosedive further into recession territory."

We are hearing today that instead of quickly enacting a clean increase to the debt ceiling, there may be some other options. Some of the witnesses seem to suggest that it might be possible to instruct Treasury to pay bondholders while delaying payments to others. Whose bills should be delayed or cut? The Social Security checks of 56 million seniors and people with disabilities? The salaries of more than 2 million American personnel, many of whom are currently in harm's way?

The idea is so troubling that it drew a strong rebuke from The Post Fact Checker last week. And he said, I quote, "By available evidence, it appears all but impossible for the Treasury Department to pick and choose among payments." It is reported, as I read, that our chairman, Chairman Camp, also cautioned his colleagues last week that such an approach is unworkable.

I also urge -- and I went back and checked it -- that it embellishes history to imply that threatening to default has historically been used as leverage for deficit reduction, such as with Gramm-Rudman, which I voted for. In the House in both cases, the debt-ceiling bill was deemed passed, and the Senate then used it as a vehicle, not as a threat, for deficit-reduction legislation.

Over the past 2 years, we have achieved $2.5 trillion in deficit reduction -- I repeat: $2.5 trillion in deficit reduction -- and set an important precedent for future further balanced deficit reduction that includes both spending cuts and new revenue. And I close firmly urging we should proceed with this effort, focusing further on economic growth and jobs, not damaging this effort by attempting to use the debt ceiling for political leverage.

Thank you, Mr. Chairman.

Mr. Johnson of Texas. Thank you, Mr. Levin.

Mr. Johnson of Texas. It is my pleasure to welcome the panel of witnesses before us today. We have four witnesses on today's panel.

We will first hear from Lee Casey, a partner at the law firm of BakerHostetler. Mr. Casey is a former official in the Department of Justice Office of Legal Policy and Office of Legal Counsel.

Second, we will welcome William Hoagland, senior vice president of the Bipartisan Policy Center. Mr. Hoagland is also the former director of budget and appropriations for the Senate majority leader, Bill Frist, and former staff director of the Senate Budget Committee.

Third on the panel is Dr. J.D. Foster, the Norman B. Ture senior fellow in the economics of fiscal policy at The Heritage Foundation.

Finally, we will hear from Dr. Simon Johnson, the Ronald A. Kurtz professor of entrepreneurship at the Massachusetts Institute of Technology's Sloan School of Management.

I appreciate all of you being here with us today. The committee has received your written statements. They will be made part of the formal hearing record. Each of you will be recognized for 5 minutes for your oral remarks.

Mr. Casey, we will begin with you. You are recognized for 5 minutes.

Mr. Casey. Thank you, Mr. Chairman and members of the committee. It is an honor and a privilege to appear here today to discuss the critical issue of the Federal debt ceiling.

Although there are many important policy questions raised by the current debate over the debt ceiling, I would like to address the more fundamental constitutional questions of whether there must be a congressionally mandated limit to Federal borrowing and the extent to which the President may ignore these restraints or simply raise that limit and borrow money on his own authority.

I believe that the answer is clear: Under the Constitution, Congress alone has the power to decide how, when, and why Federal spending should take place and the extent to which that spending may be supported by taxation and/or borrowing.

The debt limit is, of course, a statutory device that dates to the First World War. Although the debt limit in its current form is not constitutionally mandated, some type of congressionally controlled limit on executive branch borrowing is required, and whatever precise form that limitation takes, it is constitutionally protected. The President can neither ignore nor alter the debt limit without fundamentally subverting the Constitution's separation of powers and violating his oath of office.

There are two principal mechanisms by which the Federal Government may obtain resources in order to operate: through taxation and through borrowing. The Constitution makes both of these mechanisms the peculiar province of the legislative branch. Congress alone is granted the authority to lay and collect taxes, to pay Federal debts, and to borrow money on the credit of the United States. The executive branch then carries out these functions; that is, its role is to execute what Congress has enacted in these areas. The President has no independent authority to raise taxes or to borrow on the Nation's credit.

This was, of course, the purpose and intent of the Constitution's Framers. In a basic division of governmental power, they gave Congress the power of the purse, a grant they viewed as especially empowering the House of Representatives, where all revenue bills must originate.

Moreover, as James Madison explained in the Federalist No. 58, the Framers fully anticipated and intended that congressional power over Federal taxation, borrowing, and spending would be used as a political weapon. I quote, "This power over the purse may, in fact, be regarded as the most complete and effectual weapon with which any constitution can arm the immediate representatives of the people for obtaining a redress of every grievance and for carrying into effect every just and salutary measure."

It follows, of course, that the President cannot raise the debt ceiling on his own authority and is bound to respect this limitation on Federal spending, even if this requires him to make difficult decisions and take actions he would not otherwise support. Claims that section 4 of the 14th Amendment grants the President such power are mistaken. Section 4 forbids repudiation of Federal debts lawfully incurred. Permitting the President to raise the debt ceiling on his own authority under section 4 would upset the Constitution's basic separation of powers. And it is also plainly inconsistent with the 14th Amendment's language that, I quote, "the Congress shall have power to enforce by appropriate legislation the provisions of this article," unquote.

It is also important to understand that the public debt guaranteed by section 4 does not include ordinary Federal spending programs but extends only to debt instruments issued in exchange for money on the credit of the United States.

Thus, as a constitutional matter, Congress has the authority and obligation to regulate Federal borrowing. It can exercise this power in a number of different ways, including by voting on individual debt issues, as was the case before the First World War, or by establishing an overall limit on the amount of debt the Federal Government may incur without further congressional action.

The President is bound by such limits. He can neither ignore the debt ceiling, nor can he raise it on his own authority.

And I would be pleased to answer any questions the committee may have. And thank you.

Mr. Johnson of Texas. Thank you, Mr. Casey. I appreciate your comments.

Mr. Johnson of Texas. Mr. Hoagland, you are recognized for 5 minutes..

Mr. Hoagland. Thank you, Mr. Chairman, Mr. Levin, and members of the committee. It is a privilege for me to be here this afternoon.

Fundamentally, the debt-ceiling discussion emerges from the most basic tenet of our legislative sovereignty, and that, of course, is the power of the purse.

I began my career here on Capitol Hill with the Congressional Budget Office in 1975. Later, as a Senate Budget Committee staff and in the Senate majority leader's office, I witnessed and participated in many budget standoffs. But one of the first and most memorable was the one that the ranking member mentioned, the 1985 Gramm-Rudman-Hollings. I believe Mr. Levin and Mr. Rangel were the only two who were here at that time in 1985. That legislation came about because of the need to raise the statutory debt limit over $2 trillion for the first time in the country's history.

The debt-limit bill has always been politically sensitive, but as the country's debt has continued to increase, the need to legislate an increase has become more frequent -- 78 times since 1940 -- and more difficult. Further, based on the actions that the 112th Congress took at the end of the 112th, I estimate that the debt held by the public will continue to rise, reaching 77 percent of GDP by 2022, and the debt subject to limit will exceed $27 trillion.

My statement addresses two issues: first, what we call the X date, the date at which extraordinary measures will run out and there will be insufficient cash to pay our Nation's bills; and, second, one of the foci of this hearing, what options are available to the Executive when that X date is reached.

On the first question, the cash flows of the past week, we have largely been, as we have anticipated, with no large fluctuations. And we at the BPC base our estimates of those cash flows on known cash flows and scheduled payments during this time period and on previous years' patterns of payments. And at this point, we are projecting the windows of the X date between February the 15th and March 1, the same as Treasury.

On the second issue, what actions might the Treasury take post-X-date, the President and Treasury officials will face two potential scenarios: First, the Treasury could prioritize payments, choosing to pay some and not others. In 1985, the Comptroller General issued a letter to the then-chairman of the Senate Finance Committee, Bob Packwood, concluding that the Secretary of the Treasury does have the authority to choose the order in which to pay obligations of the United States. I asked the GAO general counsel last week if this opinion has changed and have been told that GAO has not issued an opinion on this question since 1985. It stands.

Now, while prioritization may be legal, the actual implementation of it may not be practical. Treasury must make over 5 million payments on each business day. Treasury's computer systems are set up to confirm and process all payments as they come due. Implementing prioritization would be a dramatic overhaul and extremely difficult. Further, should Congress take to itself the responsibility of setting payment dates, possibly having to overturn the Prompt Payment Act or Title X of the Budget Act dealing with impoundment and other existing laws, one must be realistic as to how long such a legislative date would last.

The second scenario, should the Treasury deem prioritization to be implausible, the Secretary could instead announce that the government will make payments on daily obligations but in the order in which they come due on a delayed schedule. Assuming, as we do, that the X date is February the 15th, the Treasury enters that date with precisely enough cash to fund the $30 billion interest payment due that day, and all other interest payments are prioritized and paid on time.

In this situation, there would be $22 billion of noninterest payments owed on February the 15th, which include military pay, unemployment benefits. They would be delayed until February the 20th. Similarly, over $30 billion of payments due on February the 20th, which includes Social Security benefits, would have to be delayed until February the 25th. These delays would continue to cascade. Payments due March the 1st, which include Social Security benefits, military salaries, veterans benefits, among others, would be delayed until March the 15th, a half a month late. The government could face legal challenges under the Prompt Payment Act, not to mention the real impact on individuals and businesses across the country.

Finally, under normal conditions, Treasury issues new debt to the public in order to raise cash to pay off outstanding securities as they mature. However, in a situation where Treasury has begun to delay payments on noninterest obligations, there is a possibility that such auctions would be disrupted. Investors might demand a significant premium on their debt purchases or, in the worst-case scenario, Treasury could find itself with insufficient buyers for an auction.

Were this to occur, it would force Treasury to step in with enough cash to pay off the redeeming bondholders or face a default on the U.S. debt, and it would further delay noninterest obligations -- a vicious circle. We expect that there will be over $500 billion of debt that will need to be rolled over from February 15th to March 15th.

In conclusion, Mr. Chairman, the Bipartisan Policy Center strongly believes that the imbalance in our Federal budget ledger does need to be addressed. Risks are risks, and while no one can know for sure what ramifications the largely unprecedented scenario of passing the X date would have, those risks clearly grow day by day and eventually could become catastrophic. These are considerations I know the members of this committee will keep in mind as you deliberate this important issue.

Thank you.

Mr. Johnson of Texas. Thank you, sir. Appreciate that.

Mr. Johnson of Texas. Dr. Foster, you are recognized for 5 minutes.

Mr. Foster. Thank you, Mr. Chairman, Mr. Levin, members of the committee. Good afternoon. It is nice to be back.

My name is J.D. Foster. I am the Norman B. Ture senior fellow at the Heritage Foundation. The views I express today are my own and should not be construed as the position of The Heritage Foundation.

Mr. Chairman, once again we find ourselves in dire straits. The President's position on the debt ceiling I believe could be summed up simply as: Kick the can, and then we will have a conversation; we will engage in a dialogue. The Senate's position can be summed up simply as: Hoping not to be noticed. And so it falls, as it so often does, on the House to lead.

On the debt ceiling, I believe we face basically three options -- two drastic, and one, which is sound. The first drastic one: Congress could simply leave the debt ceiling in place. While perhaps tempting to some, and understandably so, I think we all know this would be unwise and irresponsible, with consequences we can only begin to imagine -- consequences that do not include, however, defaulting on the Nation's debt, a suggestion the President frequently makes in awesome irresponsibility.

Second, Congress could raise the debt ceiling by some large amount or repeal it altogether, as the President has suggested, and do nothing else. Raising it substantially and doing nothing else would continue a pattern of reckless, irresponsible fiscal policy with no end in sight and, for this reason, would with certainty also bring terrible consequences. To be sure, the date of onset of these consequences is uncertain, which makes this course so appealing in a political environment often favoring perfect myopia.

The Federal Government's debt trajectory is dangerous -- dangerous to our economy, dangerous to our future as a Nation. And surely that, at least, we can all agree on. Fiscally, the rise in the debt means more of the government's resources will be crowded out in the future into paying interest expense, making less resources available for other priorities. Americans generally are willing to pay taxes, but they expect services in return. Servicing the government's debt is not what they have in mind.

Economically, it also means that savings that would otherwise be available for productive investment in the private sector have been captured by the government. Less private saving means a smaller economy and lower wages. Soaring public debt also means that when interest rates begin to rise -- and rise they most assuredly will -- they are now set to rise much farther and much faster. The consequences of these higher interest rates will be the most terrible of all, for families, for businesses, for the economy. And there will be nothing then that Congress can do to stop them.

What Congress should do is raise the debt ceiling while enacting concrete programmatic spending reforms, especially to entitlements, to reduce the deficit in the short run and especially the long run. There are sound, bipartisan, commonsense, options for restraining entitlement spending while ensuring these programs preserve economic security for the elderly and the poor. Indeed, it is possible through reform to remedy key failings, such as the woefully inadequate minimum benefit in Social Security and the lack of a catastrophic benefit in Medicare, while doing these reforms. Our mantra should be "reform and improve" while slowing the growth of spending.

If the President led on these issues, he could help shape these vital programs to ensure their sustainability and effectiveness and, in the process, transform himself from the most fiscally irresponsible President to arguably the most fiscally responsible President in our history.

Which brings us back to the debt limit. Modern history provides fertile ground for doubt when process solutions substitute for concrete decisions, such as the House is considering. Thus, I have my qualms over the course the House leadership has set. But I understand the difficulties the House faces, and I accept as sincere assurances that there is a firmer strategy. I accept this.

I agree entirely that if we are to make sustained progress in restraining spending and deficits, Congress must return to the regular order in a budget process, however much the other body would like to do otherwise. The House is correct to press for a regular, disciplined budget process.

I don't know whether the House can compel a change in course. I acknowledge the difficulties. For all our sakes and the sake of my children and yours, I fervently hope you succeed.

I do know the House can take a stand to present the American people a clear alternative to soaring debt and a dimmer future: to choose to stand with deficits and debt and decline, or to stand with the economic security and prosperity of future generations of Americans. The American people deserve at least to know this much from the United States House of Representatives: where the Nation is heading and what the House would do differently.

Thank you, Mr. Chairman.

Mr. Johnson of Texas. Thank you, Dr. Foster.

Mr. Johnson of Texas. Professor Johnson, you are recognized for 5 minutes. Please proceed.

Mr. Johnson. Thank you very much, Mr. Chairman.

I find it frightening and also hard to believe that we are having this conversation in general and that you are having a hearing on this matter.

Among other things, I am the former chief economist of the International Monetary Fund, and I would remind you that the United States is not just the center of the world's economy; our financial assets, our government debt serves as a linchpin of the world's financial system.

In 1948 to 1968, foreigners held as reserves U.S. Government debt worth about 2 percent of our GDP. Their reserves now, their rainy-day funds, the basis of their financial calculations, are now at least 15 percent of our GDP. These are assets they hold willingly. They hold them because this has in the past been regarded as the world's safest asset. You are calling this into question when you raise the issue of not increasing the debt ceiling. This, to the world, to the world's investors, is just unbelievable, that you would even have this conversation.

Could I show, please, the first slide?

I testified before this committee and I made these exact same points in the summer of 2011. And the point I tried to communicate to you then was that if you continued to have a confrontation around the debt ceiling, you would create an unprecedented level of uncertainty regarding economic policy in the United States.

This chart is taken from the work of Professors Baker, Bloom, and Davis. The full reference is in my written testimony. And they have measured policy uncertainty since 1985 -- not, I would say, at my behest or particularly focusing on the debt ceiling. But what do they find? What do you see in this chart?

Matching exactly with what Mr. Levin said at the beginning, August 2011 stands out as the moment since 1985 when we had the greatest uncertainty, the most lack of clarity for everyone -- not just for the government, everyone in the private sector. Consumers, businesses cannot make decisions if they don't know what is going to happen to the government debt.

And listening to the testimony just now, I was further frightened by the extent to which leading experts disagree or vary in opinion with regard to exactly what may happen if we are to breach or come up against or somehow play with this debt ceiling.

The U.S. has never threatened to default, not since the 1780s. That has been the key element of U.S. fiscal policy since the Constitutional Convention in Philadelphia. That is actually a lesson that President Madison learned the hard way in and after the War of 1812, the importance of being very careful with your public debt and very careful with all communications around your public debt management.

If you don't raise the debt ceiling now or if you postpone this conversation, if you say, every 60, 90, or 100 days we are going to again have the same kind of conversation about the debt ceiling, you will continue to have this sort of spike in policy uncertainty, you will continue to undermine the private sector, you will continue to delay investment and to reduce employment relative to what it would be otherwise.

I urge you -- I understand you have many difficult fiscal conversations to come. I appreciate that. I realize there is a range of reasonable opinion here. But I urge you, as I urged you in the summer of 2011: Take the debt ceiling off the table. Do it for our sakes. Do it for the world economy. Do it for the global financial system, which has still not recovered from the problems of 2007-2008.

If you want to destabilize the European economy, if you want to put pressure on all those sovereigns in Europe who are right now struggling fiscally, then you should have exactly this confrontation, pushing up the yield on risky assets around the world. But you don't want to do that. You don't want to destabilize Europe. You don't want another downgrade of U.S. debt. You don't want another spike in policy uncertainty.

Please, take the debt ceiling, once and for all, completely off the table.

Thank you.

Mr. Johnson of Texas. Thank you, sir.

Mr. Johnson. We have a vote going on right now, and it appears to me that we are not going to be able to continue as we are. So I think we will recess until the vote is over, which will be about a half an hour, they say, and return. So the meeting stands in recess --

Mr. Levin. Mr. Chairman, let me just mention, there is going to be a Rules Committee meeting on the bill, so I may not be here for the questioning. I think my colleagues will be pressing the issue of a 3-month delay and the potential harm it can do.

We went through this once, Dr. Johnson. I remember your testimony so well. And to think of going through it again, my hope is that there will be questions that can elicit your view as to why we should not be playing with fire once again.

Thank you.

Mr. Johnson of Texas. The committee stands in recess.

[Recess.]

Chairman Camp. [Presiding.] The committee will come back to order.

I want to thank our witnesses for being here today.

And I think we will move into the question and answer period. I am going to reserve my question time for a minute, and I will go to Mr. Brady.

You are recognized for 5 minutes.

Mr. Brady. Thank you, Mr. Chairman.

And thank you to all those who are here for the testimony today. It was very helpful.

One, clearly, America will pay its debts. That has been made clear by Republicans and Democrats in Congress. We always have. And I hope that those who choose to be melodramatic about it these days to gain political advantage, if you could please stop, that would be helpful.

Secondly, there is absolutely no chance that the President's request to have a permanent unlimited debt ceiling will occur. This is the constitutional prerogative of the House and the Senate. As we have seen in the past, it has also been a helpful tool, not only on checks and balances, but to enact spending reforms and restraints that can be helpful, although, in my view, have not been as helpful as they have in the past.

And a third point is that the claim we heard earlier today, that a short-term extension of the debt limit may raise our U.S. Government debt service cost, that is highly speculative. The 2011 GAO study showed mixed results, with no significant impacts in 40 percent of the extensions. So three out of every five had no impact. The 2012 report was based on only one event, so it is statistically inconclusive. The Bipartisan Policy Center estimates are based upon both of these questionable GAO studies, and they miss the point.

The fact of the matter is, unsustained spending over time, without doubt, will raise the cost of our borrowing in America. That is why we are all here today to deal with this issue or attempt to give our best insight.

I would like to ask Dr. Foster a question because it relates to the debt ceiling. Many of us see the other side of that coin as a credit downgrade, a second one, which has serious consequences not just for our borrowing but for borrowing of small businesses and consumers at home.

My question to you -- and I know there are different opinions, but what do you think Congress has to do? What steps should we take to create not just medium-term fiscal consolidation addressing that issue, but long term, dealing with our long-term drivers of debt and spending? What do we need to do to avoid a second downgrade, or a downgrade by a second credit rating, to be accurate?

Mr. Foster. To avoid another downgrade, which on our current path is almost assured, we really need to do two things. And they are pointed out in the letter expressing the first downgrade.

One, don't raise any question about not raising the debt ceiling; ultimately, we have to do that. And the second is we have to get our long-term fiscal house in order. That means we have to get the entitlement programs under control, achieving two goals: one, the reforms necessary to make sure they achieve the result intended, which is protecting at-risk populations, while spending moneys that we can afford to spend and no more.

There are simple entitlement reforms -- straightforward, and well-vetted -- that this Congress could adopt, I believe, fairly quickly. They are not even legislatively complex. And these are the kinds of reforms that have received bipartisan support in the past. They are sort of commonsense changes.

It is frustrating, in fact, that we don't take these reforms more seriously and move on them because they would have profound impacts in the long run, where the fiscal problem really lies. Yes, we have a serious problem with a trillion-dollar budget deficit today, but, really, as large as that is, that problem is dwarfed by our long-run fiscal problems from the entitlement programs.

We know some of the basic reforms, bipartisan reforms that can be enacted that will go a long way to getting Medicare and Social Security, in particular, on a more sustainable path. And that is where the Congress should be looking as we debate fiscal policy this year, beginning with the debt ceiling.

Mr. Brady. Do you think investors look beyond that debt-ceiling issue to those fundamentals you talked about, answering the question, is America serious about getting its financial house in order over the long term? Do you think that really creates the most uncertainty going forward over the long term?

Mr. Foster. It is certainly a tremendous source of uncertainty. There are others, but that is a major source of uncertainty that credit markets most assuredly look at, as indicated by the letter transmitting the credit rating downgrade the last time.

Mr. Brady. All right.

Thank you, Mr. Chairman. I yield back.

Chairman Camp. Thank you.

Mr. Rangel is recognized for 5 minutes.

Mr. Rangel. Thank you. And welcome back, Mr. Chairman.

Chairman Camp. Thank you.

Mr. Rangel. I am under the impression that the debt ceiling is to give the authority to the President to assure our creditors that each and every nickel that we would borrow will be paid back. I also believe that we have to have some guidelines on the spending in order to share with creditors and Americans alike the fact that we are going to reduce unnecessary spending. Having said that, there are some people who believe that we have to have to be involved, this debt ceiling, and with the deficit. And, of course, that is controversial.

Under the system of prioritizing payments, as some people are pushing forward, they would believe that we can determine just who we were going to pay out interest to while we get a better handle on the spending part of this dilemma. And I just want to ask Dr. Johnson some questions.

These programs, I think you pay your interest on your debt as the number-one priority. I think every family would like to pay off interest; Social Security; and then third, somewhere active duty military. And I think that is patriotic as well as political.

But under this scenario, Dr. Johnson, will we be paying the people that we borrowed from in China, the debt that we owe China, the biggest creditor, or one of the largest, before we would pay our American military that got caught, like I did, in Korea, fighting the Chinese? Does this work out, that in terms of avoiding the payment of our debt, that we would pay off our debtors before we pay off our military? Is that part of this plan?

Mr. Johnson. Well, Mr. Rangel, it is hard to know. I mean, I don't think these plans are very detailed, worked-out, credible plans. They are vague notions, the ones I have seen.

But, yes, I have seen the notion expressed that the U.S. would pay its debts in the form of interest and principal on bonds, a substantial fraction of which are held by the Chinese Government, for example, ahead of payments that it would make of other kinds, which would include, presumably, the way that is framed, payments to active service military personnel, for example.

Now, that just seems like a very strange notion --

Mr. Rangel. It seems to me, if you owed anybody any money, no matter whether it was the country or your company, and you were not giving the executive director the authority to pay what has already been borrowed, that that shouldn't make our lenders feel comfortable.

But about the question of reducing spending, is there a vehicle that the Congress can exercise its ability without jeopardizing the reputation of credit? I mean, we have to deal with it, but you say and I think most people believe, don't attack the debt ceiling and integrity of the United States of America, but use the constitutional vehicles you have. What can the Congress do to express America's concern about spending?

Mr. Johnson. Well, Congressman, as you know far better than I do, you have a wide range of tools, and, in fact, you have more than 200 years of fiscal history in which the Congress did exactly that. Congress exerted for many, many years both a reasonable tax base that were consistent with the spending that they wanted, and nobody ever put the debt ceiling or the U.S. willingness to pay its obligations on the table in the way that it was placed in the summer of 2011 and the way that I fear it is now being placed on the table again.

It was a big mistake in 2011 to create this degree of uncertainty and fear in the U.S. and around the world, and it is a big mistake to do it again today.

Mr. Rangel. Why would any good-thinking, patriotic American who loves the country as well as we all do want to use the debt ceiling as a vehicle to reduce spending rather than the other legislative opportunities we would have? What would their reasoning be? Certainly not to embarrass the United States of America.

Mr. Johnson. I have no idea, Mr. Rangel. But I can tell you that --

Mr. Rangel. Well, if you don't have any, then maybe it is to defeat the objectives of this President at whatever cost, as some leaders or so-called leaders have said: that they want to stop this President, and they were unsuccessful in that measure. So maybe, maybe they have decided to change tactics. And maybe this discussion is unnecessary and we find some other way to get a handle on the deficit.

Let me thank you for your contributions to this hearing, as you have so many times before.

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

Chairman Camp. Thank you.

Mr. Johnson is recognized.

Mr. Johnson of Texas. Thank you, Mr. Chairman.

Mr. Foster, in his famous farewell address, President Eisenhower said, quote, "We cannot mortgage the material assets of our grandchildren without risking the loss also of their political and spiritual heritage. We want democracy to survive for all generations to come, not to become the insolvent phantom of tomorrow."

In your testimony, you say that with respect to our fiscal future, quote, "a change of course is inevitable." The question is, what kind of change? You warn that one such change may be brought by credit markets increasingly intolerant of Washington's fiscal imprudence.

In essence, you are saying, if we don't do anything, it is only a matter of time that financial markets will, so to speak, blow the whistle on Washington and say, The game is over. In other words, we are on borrowed time here, aren't we?

Mr. Foster. Yes, sir, I am afraid we are.

And this is rather an unusual posture for Americans to be in. We are not used to thinking in these terms because, traditionally, even though we have had a fair amount of government debt, it has ranged in the order of 40 percent of our economy, which is completely manageable. It has since shot up dramatically and is going to continue to shoot up under current policies.

And the evidence is very clear in the academic literature; it is very clear in international observation. There comes a point where your debt, as a share of your economy, reaches levels at which credit markets become noticeably disturbed. They become very worried. And it is expressed, in part, as rising interest rates, which then spread throughout the economy. We are not just talking about Treasury interest rates but mortgage rates and consumer rates and so forth.

Mr. Johnson of Texas. Well --

Mr. Foster. This is a certainty. And it is a path that we are on that will have extreme consequences that we are not used to thinking about in this country.

Mr. Johnson of Texas. Well, I ask the question, how much time do we really have? You know, with the U.S. per-person debt now 35 percent higher than that of Greece, when do you think we face our Greek moment if we fail to take meaningful action to get our fiscal house in order?

Mr. Foster. Well, right now we are having a good news/bad news situation. The good news is that, despite all that we have done wrong, we are still one of the safest places in the world to invest. And there are a lot of places around the world that capital wants to avoid. So it keeps coming into this country, driving down our interest rates, even as we are raising debt rapidly.

Well, at some point that is going to reverse, and that capital will flow out again, and interest rates will rise rapidly. When that will happen I cannot say because I don't know when, for example, Europe is finally going to get its fiscal house and monetary houses in order. But once they do, this process will reverse and we will see the consequences of what we have done.

Mr. Johnson of Texas. Yeah, Germany is making moves now.

Mr. Hoagland, would you care to comment?

Mr. Hoagland. I agree with Dr. Foster that we are probably the best-looking horse in the glue factory today. That may not last.

I would also say that I am very worried about, as I said in my opening statement, that we are looking at debt-to-GDP that is close to 77 percent. And while in the past we have had debt-to-GDP after World War II at that level, we didn't have 50 percent of it being owned by foreign investors. And that is what scares me in terms of our sovereignty. We think we have to deal with this going forward.

I agree also that the real issue here is mandatory spending and putting in procedures, processes, and building upon a regular-order process up here of getting budget resolutions adopted, conference agreements, reconciliation bill, and working it through the regular order. And that is why I would say that while this is not the perfect solution in terms of the 3-month extension, it puts you back closer to what would normally have been a regular-order process. And I think that is positive.

Mr. Johnson of Texas. Well, you know, I would like to know what both of you think, if we don't get it in order, you know, to our small-business owners, to our young families, to our aspiring college students, what kind of future are we looking at for these folks? Either one of you.

Mr. Hoagland. I think the standard of living that we experienced and enjoyed, we have to be honest with ourselves that we are lessening that standard of living for future generations, our children and our grandchildren. I don't think there is any question that this level of debt would lower that standard of living that we enjoyed.

Mr. Johnson of Texas. Yeah, and people will stop wanting to come here, won't they?

Thank you, Mr. Chairman. I yield back.

Chairman Camp. Thank you.

Mr. McDermott, you are recognized for 5 minutes.

Mr. McDermott. Thank you, Mr. Chairman.

I have to tell you, listening to this hearing is like we are living in "Alice in Wonderland." Here we are hearing from witnesses telling us how to use default creatively or use it to get some leverage or something. And the simple talking about it here is destructive. The whole world is watching this hearing. It is the first hearing on this issue.

And the whole point of a society is to create and run a government in order to make order for people. People don't like chaos. And this hearing is about how to create chaos to get what you can't get politically with votes. Businesses and workers in my district think this kind of talk is crazy.

Today we are talking about a crisis manufactured by the Republicans, a crisis they have manufactured to achieve policies that the voters wouldn't vote for at the ballot box. The Republicans are taking the economy hostage every single time they get a chance. There are threats for workers and businesses, investors, retirees. And job growth stops every time the Republicans have a crisis; the economy falters. This is the Republican governance and economic policy at work -- or not working, really.

The biggest problem with the Republican arguments that are before us -- and we just heard it again -- is that spending and debt are problems. And this is a misdirection. Republican Congresses and Republican Presidents were happy to run up huge deficits to wage wars they didn't pay for, or take tax cuts for individuals and industry and give billions to oil companies.

Now, deficits aren't what the Republicans care about. What Republicans want to do is end the guarantees on Medicare and Social Security. We just heard somebody say it is the entitlement payments that are the problem. I disagree. I think this country can have a social safety net that covers people and pay for it.

And that ought to be happening, but what is happening on the other side of the aisle here is that they want everybody who is lucky and doing well to just do well, and if you aren't doing well, well, you have to deal with it. It is your problem. It is social Darwinism; it is survival of the fittest put into public policy in this committee.

That is the Republican policy. And I respect that they want a different policy than I do, but we ought to be honest about the debate. Instead, we just watch people say "spending" in the TV cameras again and again and again. "Spending" is just a term that the polls like. Republicans won't say what they want to cut because the public doesn't want their policies. But the word "spending" polls very well, so we hear a lot of it. But we don't hear debate because the Republicans want crisis but no solution.

If we were serious about having a debate here, we would start talking about what in Medicare should be cut, or how are we going to change it, or how are we going to finance physicians. All those things would be on the table. But we don't hear that. What we say is, Let's just cut. And when you start talking across the board, you are talking about medical research, and you are talking about NASA, and you are talking about NOAA, and you are talking about all these government agencies as though they don't do anything that add anything to this society.

So when we are spending our time here talking about this deficit stuff and raising the debt limit, we are simply saying to the world, for the first time, America is not going to pay its debts.

Now, my question to you, Mr. Johnson, is this: If this was such a good idea, why haven't we done it before? We could have saved a lot of money by not paying our debts. Why have we suddenly decided that this is the time to do it?

Give me some understanding so the American people can understand why, after all these years since the First World War, we have paid our debts under Republicans and Democrats. I voted under George Bush -- both of them -- to raise the debt limit. But now we are going to stop paying. Please tell me why they are doing it.

Mr. Johnson. Well, Congressman, it is not a good idea, and it is not the way fiscal policy was run not just since World War I, but go back to 1789, after the initial assumption of debt at the Federal level and the restructuring of debt with which Alexander Hamilton began fiscal policy in this country; policy has absolutely been to always pay your debts and your other obligations. And it took a long time to convince the world that the U.S. was the safest place to put your reserve assets or your rainy day money. And it was a great achievement. And now it is being squandered and thrown away for, I presume, some negotiating purpose. It makes no sense from a broader economic perspective.

Chairman Camp. Thank you. Time has expired. I would ask unanimous consent to place in the record a statement of administration policy on H.R. 325, the temporary suspension of the debt ceiling, where the administration says, For these reasons, the administration would not oppose a short-term solution to the debt limit and looks forward to continuing to work with both the House and the Senate to increase certainty in the stability for the economy.

Without objection, so ordered.

[The information follows: The Honorable Dave Camp]

Chairman Camp. Mr. Tiberi, you are recognized for 5 minutes.

Mr. Tiberi. Thank you, Mr. Chairman.

Thank you, gentlemen, for coming and testifying.

Let me expand a little bit on Mr. McDermott's line of questioning and just get a quick response from the four of you. Back in 2006, speaking on the Senate floor, then Senator Obama announced that he intended to vote no on the debt-ceiling increase. He went on to say, I quote, to oppose the effort -- I oppose the effort to increase America's debt limit. We now depend on ongoing financial assistance from foreign countries to finance our government's reckless fiscal policies. Over the past 5 years, our Federal debt has increased by $3.5 trillion dollars to $8.6 trillion. Oh to have those numbers today. Since then, we now have a $16.4 trillion debt, nearly doubled in 6 years. In fact, since this President has become President in 2009, he has added more than four times, more than -- more debt in 4 years, excuse me, than the previous President did in 8.

So, to the four of you, a quick question, was the President right, is this a failure of leadership? And is there a better direction?

Mr. Casey.

Mr. Casey. Well, I certainly think he was right that we oughtn't to continue to run the store based on borrowing. There is a lot of ways you can pay your debts, and they don't all include incurring --

Mr. Tiberi. But since he made that speech, it has gotten worse; we have done nothing to change the trajectory.

Mr. Casey. I agree.

Mr. Tiberi. It has gotten worse. So is the President right, it is a leadership failure?

Mr. Casey. Yeah, I would agree with that, it is.

Mr. Hoagland. Congressman, it didn't say that he was right to say what he said. I would be careful to point out that some of that increase in that debt that took place was a result of obligations that were incurred long before he was ever President of the United States or he --

Mr. Tiberi. Oh, right.

Mr. Hoagland. Or wherever. And I just would make very clear.

Mr. Tiberi. Oh, sure.

Mr. Hoagland. Also I would simply say, the House-passed budget resolution last year under Congressman Ryan, which was going in the right direction of controlling spending, still had a debt for the end of this year at $17.1 trillion.

Mr. Tiberi. Right. Getting worse.

Mr. Hoagland. It is -- and getting worse. It is built into the pipeline.

Mr. Tiberi. Thank you. Agreed.

Mr. Foster.

Mr. Foster. Yes, sir, thank you. There is no question that allowing debt to continue to build more rapidly as a share of GDP is reckless; it is irresponsible. Under some circumstances, it is inevitable. Those circumstances are not what we have today. We should be getting it under control and doing so quickly.

Mr. Tiberi. Mr. Johnson.

Mr. Johnson. Congressman, figures 2 and 3 in my written testimony address this issue directly; where did the debt come from? These are the Congressional Budget Office numbers. This is figure 2, and you can see the impact of the tax cuts; the two foreign wars; Medicare Part D, which was not paid for; the 2008 Bush tax cut; and then, of course, the financial crisis. The largest swing, if you move to figure 3, this shows you the swing in medium-term debt projected by the CBO before and after they realized the severity of the financial crisis.

Mr. Tiberi. Let me ask you a quick question.

Mr. Johnson. That is a 50 percent of GDP increase in debt.

Mr. Tiberi. Was the President right, yes or no?

Mr. Johnson. The President was right when he spoke of the reckless fiscal policies at the moment. What he didn't realize was how bad it was going to get as a result of reckless financial policies --

Mr. Tiberi. And so the President is right today, then, you are saying as well. Even though the debt has nearly doubled and we had a deficit actually that was on the decline with what you talked about, two wars, prescription drug benefit, tax cuts, it was actually less than $200 billion the year that Rob Portman, now Senator, was budget director and has now since gone over a trillion dollars 4 years in a row.

Mr. Johnson. Congressman, we had the largest financial crisis since the Great Depression.

Mr. Tiberi. I have heard this before.

Mr. Johnson. We lost a huge amount of revenue, according to the Congressional Budget Office that is 70 to 80 percent of the swing in debt. These are the CBO's numbers.

Mr. Tiberi. We are not going to solve it. I have another question for Mr. Hoagland.

Mr. Hoagland, I notice that you have some experience on budget issues in the Senate. How many years did you work in the Senate, and when you worked in the Senate on budget issues, did they pass budgets when you were there? How many times? Or did they fail to pass a budget 1 year, 2 years, or maybe 3 years?

Mr. Hoagland. I was with the Senate Budget starting with the CBO in 1975, with the Budget Committee since 1982, and left the Senate after Majority Leader's Office in 2007. Over the 33 years that we have had budget resolutions, beginning in 1979, seven times have we failed to get a conference agreement on a budget resolution. Unfortunately, over that 33 years, three of those times have been in the last 3 years. There is one time when I was staff director of the Senate Budget Committee with Chairman Pete Domenici that we did not get a concurrent resolution on the budget, and that had to do in 1998 when John Kasich was chairman of the House Budget Committee, and we had just finished the 19 -- but one time.

Mr. Tiberi. One time.

Mr. Hoagland. The Senate not --

Chairman Camp. Time has expired. Thank you.

Mr. Tiberi. Thank you.

Chairman Camp. Mr. Doggett.

Mr. Doggett. Thank you very much, Mr. Chairman.

I know opinions clearly differ about where we are headed in the future, but I think as Mr. Johnson's chart demonstrates, when we concluded the Clinton administration, we had a surplus for the first time in recent memory, and a huge tax cut, where Alan Greenspan sat where you are sitting, Mr. Johnson, and told us that the justification for this tax cut in part was that we were reducing the debt too fast, that we would create some uncertainties in the bond market because we were moving so quickly, but an unpaid tax cut, unpaid prescription benefits, two unpaid wars. Now we are told we can no longer afford, by some of our Republican colleagues, to provide health security for people at 65 or 66 that you just -- you would like to do it, but we just can't afford to do it.

Anymore, and as it relates specifically to the proposal we just heard the administration's statement on, I gather your opinion, Mr. Johnson, is, you know, better than have a Valentine's Day cliff to at least have some additional time to help resolve this, but if we keep moving in 3-month or 1-month or 6-month spurts, the effect on economic growth will be very damaging.

Mr. Johnson. Absolutely, Congressman. If we could pull up figure 1 from my written testimony --

Mr. Doggett. Please.

Mr. Johnson. -- what you would get is the spike, this is the spike from August 2011, you are going to have that every 3 months. That was a disastrous month for hiring because who wants to hire when you don't know if there are going to be payments made by the government or if various other disruptions are going to take place? These are big numbers for the U.S. economy. You are going to do this every 3 months, for how long? Until you have another election? That is far too long for the health and sanity of the American people.

Mr. Doggett. And at the same time we had that phenomenon, I believe the General Accountability Office has estimated that the direct cost of Republicans taking us right up to the brink on the debt, on the full faith and credit of the United States last time was over a billion dollars in increased interest costs. We could also expect to see an increase in borrowing costs for taxpayers if we don't get this debt ceiling resolved.

Mr. Johnson. That is a definite possibility, Congressman. To the extent we disrupt debt markets, if we worry investors, if we create risk, and we are hurting not just the Federal government; this has implications for State governments and for local governments that, of course, do not generally borrow at the low interest rate the Federal government borrows at, so they have a risk premium in there. You are driving up risk premia around the world when you generate this kind of uncertainty.

Mr. Doggett. Your written testimony indicates that, for a decade, actually for a couple of decades, we have seen income inequality increase dramatically with little change in income for 90 percent of wage earners and a 50 percent increase for those at the top. What are the policies that you think we most need to address other than getting stability on this full faith and credit of the United States to change that and to ensure that there is a more equitable share in the success of the American economy?

Mr. Johnson. Well, the evidence is completely compelling that education, human capital, the ability of people to work with information technology, these are huge determinants of what has happened to income inequality. And many people in American society today cannot afford by themselves to get that kind of education. To the extent that you can make resources available to support younger people, support families in the pursuit of high productivity human capital, that is good for them, that is good for the economy, and that is good for the tax base, so over the medium term, that is absolutely going to strengthen the budget.

Mr. Doggett. And in terms of competitiveness worldwide, building a stronger workforce from, as you mentioned, early childhood education to access to a college education is really vital to American competitiveness, isn't it?

Mr. Johnson. It is the number one determinant of both our competitiveness, the extent to which we can compete with other countries, and our productivity, how much do we actually produce per person in this economy? Number one determinant looking forward is human capital; that is about education. It is about ability to innovate, ability to work with those new technologies.

Mr. Doggett. And over the short run, what is the effect of across-the-board cuts on early childhood education, on Pell grants, on research funding for medical research and other basic scientific research?

Mr. Johnson. It is all going to be negative for growth and for human capital, and it is going to impact equality, and to the extent that you don't have a progressive tax system, it is also going to give you negative impact on the budget.

Mr. Doggett. While the most immediate concern, I know, is and the main focus of your testimony is upholding the full faith and credit of the United States, is it your feeling that at this time in our economy, we need to see a contraction of government spending?

Chairman Camp. All right, time has expired, I am sorry.

Mr. Reichert.

Mr. Reichert. Thank you, Mr. Chairman.

My first question is to all the panelists. Thank you for being here. There are a lot of -- there is a lot of talk across the aisle about raising revenue to solve our debt problem. Is it possible to raise taxes enough to permanently sustain programs such as Social Security and Medicare without reforming the programs themselves? And what sort of tax increase would this be on the middle class, and what would this sort of tax increase do to our broader economy?

Mr. Casey. I would ask the committee if I may pass on that since it goes beyond my legal expertise. I will defer to the economists.

Mr. Hoagland. I believe that it would require a balance between both spending, controlling entitlement spending, mandatory spending, and revenue increases to lower the debt-to-GDP figure to a goal of about 60 percent. I believe the last proposal that was on the table before the fiscal cliff discussion was that the House Republican leader's proposal was $800 billion in tax increases; the President's was 960. You get 600; there is 200 there that you are still looking at for this next 10-year window, but I think that has to be coupled with changes to mandatory spending programs.

To Mr. McDermott's position, there are specific proposals as it relates to changing the Medicare program that does not harm current recipients of Medicare but protects the program for the future beneficiaries out there.

Mr. Foster. There is an illusion that you can solve all these problems with tax increases without getting into the question of whether or not you should, or that you could. The answer is you can't. The costs in these programs are rising so rapidly over the next decades, not 2014 or 2015, but over the near future, that you can't solve them with tax increases. We would not have much of an economy left if we tried that.

So you must understand, the starting point for getting our fiscal house in order is reducing the growth in the entitlement spending, just as Mr. Hoagland suggested. Then it is a political point, a debatable point, as to whether or not you want to mix in tax increases as part of that solution. That is a political decision at that point, not an economic decision, understanding that the tax increases we tend to enact tend to be those most harmful to the economy, thereby slowing the growth of the economy as well as the tax base. But you have to start with the entitlement reform, slowing the growth of that spending. That is a necessary and unavoidable component of getting our fiscal house in order.

Mr. Johnson. Congressman, I actually wrote a book on this topic, which I would be happy to send you.

Mr. Reichert. Congratulations.

Mr. Johnson. Thank you. And the bottom line is that Social Security you could rebalance relatively easily with new revenue, and some relatively minor --

Mr. Reichert. What kind of impact would that have on the middle class, just using revenue, just taxing people?

Mr. Johnson. The impact on the middle class would be relatively small, and again, I can send you the numbers. The key issue there is that they are raising the cap on earnings subject to Social Security, which was not indexed last time that was changed by this Congress in the mid 1980s.

The big problem is health care spending, Congressman, but it is not Medicare, per se, it is health care spending. If you shift that, the responsibility of health care from Medicare on to families, individuals, and companies, you will raise health care spending as a percent of GDP, that is the CBO scoring of that issue. And that is not going to help -- American families. You need to find a way to control, limit health care spending as a percent of GDP. That is the key variable to focus on, how the health care system functions, how it delivers, and what it costs.

Mr. Reichert. If tax increases were the only solution that you are talking about here, you are just relating the tax increase to Social Security. Medicare, Medicaid, what is the impact there? What is the impact of just raising taxes on the broader economy totally?

Mr. Johnson. The problem, Congressman, is the health care spending. If health care spending increases, you can either pay that out of the budget, in which case it would be very high cost, or you can shift that on to individuals, in which case it ruins them either way. So it doesn't make much difference. It is the health care costs that you have to focus on.

Mr. Reichert. I want to go to some of the discussion that was occurring earlier, why are we focusing on spending today, now? Why now? I may not have enough time to get to that question. I see the yellow light is on. So, Mr. Chairman, I will yield back before. It is a long question.

Chairman Camp. All right. Okay.

Mr. Larson, you are -- I am sorry, Mr. Neal has come back in.

Mr. Neal is recognized for 5 minutes.

Mr. Neal. Thank you, Mr. Chairman.

As we debate increasing the debt ceiling this afternoon, I think a bit of history is important as we acknowledge the current fiscal situation. In January 2001, CBO estimated that the total budget surplus for 2002 to 2011 would be $5.6 trillion, surplus. Instead, after years of reckless spending and tax cuts, the Federal Government ran deficits from 2002 until 2011. The total deficit over that 10-year period amounted to $6.1 trillion, a swing of $11.7 trillion from January 2001 and its projections.

We began this path by enacting tax cuts that cost the government $2.3 trillion. The other major expenditure during those years that contributed mightily to these deficits is the engagement in two wars. By the time we got to January of 2009, the debt was $10.6 trillion, setting a record for debt for any administration. Pursuing two wars and massive tax cuts was the reason, and Mr. Johnson, while he was temporarily holding the chair for Mr. Camp, indicated that we were all responsible for many of those positions. Having voted against the war in Iraq and having voted against the Bush tax cuts in 2001 and 2003, I think I have earned an element of credibility on these questions.

So today we are debating another increase in the debt limit. I don't understand how anyone who voted for the Iraq war could now vote against raising the debt ceiling. In reality, arguing over the debt ceiling is essentially an argument over whether or not we should pay our bills. We should pay our bills.

This debt is about the past, not about the future. If you voted for the war in Iraq and the Bush tax cuts, the bill is here. Remind our colleagues and friends: 1.7 million new veterans, 45,000 of whom have served us honorably, as the other 1.7 million have, but they have been wounded. Half of the 45,000 have claimed disability.

So we hear from some of our friends, the default deniers, that they think hitting the debt ceiling is no big deal, that we could raise the debt ceiling only if we cut government spending as well. But where were they during those years, those very difficult years? And incidentally, I have compiled the voting records on the debt limit increases that President Bush requested during those years.

And I hope, Mr. Chairman, I could insert that into the record.

Chairman Camp. Without objection.

[The information follows: The Honorable Richard Neal]

Mr. Neal. Thank you, Mr. Chairman.

Many of the most senior members of this committee routinely voted to raise the debt ceiling during those years, even though the money for the tax cuts and the wars was put on emergency basis for the purpose of hiding the costs. So I am pleased that we are coming around to a more reasonable position today, and I hope that we are going to find a common path forward on many of these issues.

Mr. Johnson, you state in your testimony that low -- unemployment depresses tax revenue, and this is the major reason for our current deficits and why they are so large. Once the economy recovers fully and the unemployment rate is lowered, it certainly will take some of the pressure off of these discussions, acknowledging there are long-term challenges that we have to address. I have been making this point inside of my own caucus, not to overreact to the situation in which we find ourselves, and if we could only find that common path forward that I referenced, we would find that you could have a conversation that would be worthwhile past the political talking points.

Now, getting Americans back to work should be the number one priority, and as we address this fiscal situation, toying with the debt, considering that American companies are estimated to be sitting on $1 trillion domestically and more than a $1.8 trillion offshore. If we offered a picture of stability, and again a conversation worth having, we might be able to ameliorate some of the tension that surrounds this issue.

Would you comment, Mr. Johnson?

Chairman Camp. You have 8 seconds. You can follow up with a letter, but we are going to stay on time here.

Mr. Johnson. We should pay our bills. That is the number one priority. If we don't pay our bills as a government, we will disrupt the economic recovery and push unemployment higher.

Mr. Neal. Thank you.

Chairman Camp. Thank you.

Mr. Boustany, Dr. Boustany is recognized.

Mr. Boustany. Thank you, Mr. Chairman.

I want to put this in perspective for a moment. The former chairman of the Joint Chiefs of Staff, Admiral Mullen, was quoted as saying the debt of the United States is a threat to our national security, and while it might not rise to that level acutely immediately, it certainly is a serious strategic restraint on the ability of the United States to operate in an international environment. And it is clearly a threat to our economic prosperity.

I want to make it clear, nobody on this side of the aisle is talking about default, none of us are talking about default. We are talking about a serious solution going forward with a big problem, which is widely acknowledged to be a spending problem.

Now, several of you made a number of points. Mr. Casey, you talked about Congress having the power of the purse and using it wisely, with discretion, to enact spending reforms which are desperately needed.

Mr. Hoagland talked about going back to regular order, something we all believe needs to happen. You also mentioned temporary extraordinary measures that are currently being used and talked a little bit about prioritization, and I want to bring that up again in a moment.

Mr. Foster, you spoke about process not being a substitute for real policy reforms. We all agree with that, I think both sides could agree with that.

But the bottom line is this: We have a spending problem, and we have to also recognize that in the context of how it plays out in the economy, it is not just spending, but it is also a need for growth. This is why we want to do tax reform, real tax reform, fundamental tax reform that puts our tax code on a 21st century basis that promotes American competitiveness and growth.

Now, historically, and I went back and I read a CRS report, short-term debt limit increases have been used just to buy time in order to get to a point where you couple it with real spending reforms. This has happened historically. Am I correct?

Mr. Hoagland. Yes, sir.

Mr. Boustany. So we are not talking about something out of the ordinary as we talk about this current proposal on the table.

But I want to go back, Mr. Hoagland, to prioritization because we know there are extraordinary measures already being done by Treasury, and prioritization, we wouldn't have to be in this crisis if the President had come forward with a real plan. He has had opportunities with four budgets and hasn't done that and has continued to perpetuate the problem.

Now, we are caught now in a situation where we are waiting with the budget and the timing, but the bottom line is this: We don't need to be in this. We didn't need to be in this crisis, but we find ourselves in it. Now if prioritization is going to be used as one of these extraordinary measures, talk a little bit more, elaborate a little more on the fact that we have uneven receipts coming in and how this plays out. I want this to be real clear for the public that might be paying attention to this.

Mr. Hoagland. The Treasury has estimated that the cash flows in are very unprecise. Even in a 1-week forecast out, the estimate is that varies on statistically plus or minus $18 billion, just 1 week out, just estimating the receipts coming in. Two weeks out, the estimates are a $30 billion variation plus or minus. When you combine that with the requirements, in terms of statute, the payments going out, you create a tremendous level of difficulty in terms of being able to set the time frame in which you should pay those when you don't know exactly, when you are doing prioritization, paying with income coming in with the degree of variation that exists in the receipts coming in. It is just very, very difficult.

Mr. Boustany. For the interest payments, there is a different computer system, right, than what is used for the other payments?

Mr. Hoagland. Correct. The interest payments is a separate computer system. It is possible that you could just prioritize those interest payments, but I think the Fitch report last week said that you could avoid an actual default, default being defined as paying the interest, but then those other noninterest obligations will be looked at as another form of default, which would also affect Fitch's rating.

Mr. Boustany. I see. How much time do you think we would have with prioritization? How much time could be bought?

Mr. Hoagland. Congressman, I mentioned in my report that we are talking about the pay-fors, the Prompt Payment Act, the Impoundment Act; I think you have got a long time in terms of you determining prioritization.

Chairman Camp. Time has expired.

Mr. Larson, you are recognized.

Mr. Larson. Thank you very much, Mr. Chairman, and always good to see you back here and in good health. Let me start by saying, thank our panelists for their testimony and thank you for your service to your institutions and the country and thank the chairman for this hearing.

I think it is a good news/bad news story. On one hand, the good news is that we have avoided yet another immediate crisis. The bad news is that we are just kicking the can down the road for 3 months and, in essence, then are dealing with default and not paying on our bills just 3 months later, and so that creates an enormous problem and one I think that -- I would hope that this committee, above all others, could solve because I do believe in this committee and its bipartisan membership in our ability to address this issue, and we know that what we have to do is both stabilize this economy, invest in this economy, reform this economy, and grow it in terms of what everyone has testified and what the people on this committee believe in.

No less than Speaker Gingrich said on "Face the Nation" that, look, take the debt ceiling off the table. At least provide the American people with a modicum of security that they know that we are not going to hold this hostage, too. We ought to be adults about it, as the former Speaker said, and take that off the table. That doesn't mean to desert the issue or back away from the issue of dealing with debt. And there are still appropriate opportunities, as he pointed out, whether through sequester or continuing resolution to do it, but we owe it to the American people to make sure we take this uncertainty away from them. We saw what that uncertainty does in terms of impacting their pensions and their 401(k)s, and they look to this Congress, and frankly, I think the Congress looks to this body to return to regular order. And I know we have the leadership on this body to do that, and by returning to regular order, we can go after the difficult things.

Mr. Johnson pointed out that the issue is health care costs. That is true. Mr. Ryan, who serves on the Budget Committee and this committee, has pointed out the issue is health care costs. How do we go after those costs? It just simply isn't entitlements, aka insurance that people have paid. They have paid for that; that is their insurance. What are the actuarial assumptions around that? What do we have to do to change and alter that? We ought to be able to carry that out in regular order, not in meetings in the White House, not in meetings in the Senate, where they won't do a budget and where they will wait to do some kind of bill themselves. We ought to be doing it in this committee.

Mr. Johnson, I was confronted in my hometown by our CFO, who said, Listen, if you guys don't provide us some certainty again, we have got to go out to the bond market again in this very difficult time, and what happens to us is we end up in a situation where we have to raise people's property taxes because Congress twiddles and diddles and plays hostage politics. What is your experience with respect to the impact that this will have on local municipalities, our cities, and our communities?

Mr. Johnson. Well, Congressman, the impact is going to be bad, and it could be dramatically bad, depending on what happens in 3 months. I don't agree with Mr. Gingrich on many fiscal issues, but I think on this one, he is right. Take the debt ceiling off the table permanently. Investors around the world are watching this hearing. They are looking at your words. They are trying to understand, what does prioritization mean? How does this not involve default? The degree of uncertainty that is being multiplied by this conversation is extraordinary, the impact on municipalities is going to be tough. They will face higher borrowing costs to the extent that risk premia rise in the United States and around the world and that means either they are going to fire people or they are going to raise property taxes or they are going to face some other problems. So this is a very bad route to go down from that perspective.

Mr. Larson. I have great respect for Dr. Boustany, but we are talking about default. And whether we are talking about immediate default or default 3 months from now, that is a policy issue.

Mr. Hoagland, you also talked about bringing balance to this issue. I thought that was an excellent point, and you said that it ought to be done through regular order. How do you see that proceeding?

Mr. Hoagland. I see that proceeding by the President submitting a budget. I see that proceeding by the Budget Committee passing budget resolutions. I see that by a conference agreement between the House and Senate on a budget resolution. I see that by including a reconciliation instruction to achieve the savings over the time period, and I see that working through the normal course.

Mr. Larson. I have been in Congress 14 years; we have not completed that once since I have been here in full complete order.

That is why I think it is incumbent upon our committee, and I know the great integrity that our chairman and members of this committee have. I think that we can achieve those goals. I know my time is up.

Chairman Camp. Thank you. Thank you very much.

Mr. Paulsen is recognized for 5 minutes.

Mr. Paulsen. Thank you, Mr. Chairman, also for holding the hearing.

I want to thank each of the witnesses for being here. You know, it is pretty clear to me that there is actually broad bipartisan consensus that our country is on a fiscally unsustainable path right now. The 2010 report by the Bipartisan Policy Center's Debt Reduction Task Force -- Mr. Hoagland, I believe you were a member of that task force -- included the very sobering warning that the Federal budget is on a dangerous, unsustainable path. Federal spending is projected to rise substantially faster than revenues, and the government will be forced to borrow ever-increasing amounts. Federal debt will rise to unmanageable levels, which will push interest rates up, endanger our prosperity, and make us increasingly vulnerable to the dictates of our creditors, including nations whose interests may differ from ours. We have talked a little bit about that earlier from some of the other questions.

My constituents are, quite honestly, very perplexed that Washington continues to borrow 40 some cents of every dollar it spends. They can't get their arms around that. And there is a recognition now that without significant changes to our fiscal policy, the national debt itself is going to become an existential threat. I would like each of the panelists, if you could, just comment what are the implications of current debt levels? What are the consequences of increased levels? And what really is the turning point where our debt becomes unmanageable, where it becomes an unmanageable situation?

Mr. Casey?

Mr. Casey. Well, I think on most of that question, I will defer to the economists, but I will say that one thing I think we need to keep in mind is that we are not -- we fling around the term debt ceiling. What we are talking about here is Congress' power to borrow money and how we should be paying our bills based on that or based on some other method of raising revenue, so I think it is very important to keep that clearly in mind.

Mr. Paulsen. Mr. Hoagland, you were a member of that task force as well.

Mr. Hoagland. Yes, and in fairness, Congressman, that task force also recommended a balanced plan that included tax increases as well as spending cuts going forward, more on the spending side than on reduction of the rate of growth. The implications of the debt level that we are headed at 77 percent going into the future I think has a major, will jeopardize, quite frankly, our standing in the world. When we have about 40, 50 percent of this debt owned by investors outside of the United States, we are questioning, we are raising questions about the sovereignty of this country going forward.

In terms of, where is the turning point, I think that is the problem; most economists would say they can't answer that question. Who knows when that last drop into the test tube turns the water blue? But it will turn at some point, and that is the problem. When it turns, it will turn fast. That is why I think you have to have a plan going forward to avoid that date coming. I don't know. There is a book out on this called, "This Time is Different." This time is not different. Something will happen. We just want you to control that so it has some process behind it.

Mr. Paulsen. Now, knowing that the United States is still a safe haven in terms of money flocking here, based on what is happening in Europe, I mean, can we learn anything of what is happening in Europe basically on how capital --

Mr. Hoagland. We are not Greece. We are not Italy. We are not Spain, but I think when you look at the level of spending there relative to their assets, I think you end up with a situation where you do create social disorder and which is very dangerous.

Mr. Paulsen. Mr. Foster?

Mr. Foster. There are three basic things. The first is that with all that debt, you are going to see in the future a lot more of government's resources, the Federal Government's resources being used just to pay off the interest on the debt from the past. As I said in my testimony, Americans expect services from the taxes they pay; they don't expect just that you service the debt from previous deficits.

Second, interest rates are going to rise. We have now increased the debt sufficiently that all previous debates about whether deficits matter for interest rates can be set aside. It has now risen enough that it will matter, and it will matter a lot. Interest rates will rise and they will rise a lot faster and further than they ever would have otherwise.

Third, as my colleague was just saying, it is like a family or any business, if you take on far too much debt, you lose control of your own future. You lose control of your path forward. Somebody else is going to be able to dictate the terms to you as to what you are going to do. The dictator in this case will be the bondholders and the credit markets. We lose control of our future as a Nation. Ask these countries in Europe, Mr. Hoagland knows, we are not Spain or Italy or Greece, but we will have one thing in common if we keep this path: We will lose control of our future as they have lost control of theirs.

Mr. Paulsen. Can you comment in terms of if there is even a 1 percent or a 2 percent increase in interest rates what the effect is going to be on interest payments, on a dollar amount?

Mr. Foster. Well, if you think about it, 1 percent payment, and you have got $15 trillion out there, that's $150 billion --

Chairman Camp. All right, thank you, time has expired.

Mr. Kind is recognized for 5 minutes.

Mr. Kind. Thank you, Mr. Chairman.

I want to thank you for holding this hearing and thank the panelists for your input and your discussion today, which is important. I think we all understand what the ultimate solution is of the debt ceiling: We need a long-term, bipartisan deficit reduction agreement in this place that is comprehensive and that will get our fiscal house in order, especially dealing with the demographics and the aging population. That is the answer. I equate this to the Middle East peace plan. We all know where we need to end up; it is just finding the political process and the will to get there. Every bipartisan commission that has met and been tasked to come up with a solution has reached the same conclusion, there is going to have to be some additional revenue and some major spending reforms in the budget for this to make sense in a balanced and a fair fashion.

Mr. Foster, I appreciated your testimony here today where you said there is some additional room on the revenue side, even given where we ended up with the fiscal cliff, a little over $600 billion over 10 years in new revenue, but that was short of where things stood during the previous conversations and that.

But, Mr. Johnson, in your written testimony and also your oral testimony here today, I think you have been fairly clear that the greatest if not the chief contributor to the deficits and the fiscal shortfall today has been the underperforming economy and the high unemployment rate, so I would assume then that one of the responses if not the response to help with the fiscal situation is to get the economy back fully functioning with good-paying jobs and lowering the unemployment rate. Is that right?

Mr. Johnson. Absolutely, Congressman, and it would be, in that context, disastrous if you were either not to extend the debt ceiling or create a lot of uncertainty about who is getting paid and how they are getting paid because of the debt ceiling or because of the sequester or because of some sort of government shutdown. All of those things are bad for the recovery. They are bad for revenue, and all those things would tend to push up interest rates, which has the adverse consequences that my colleague just described.

Mr. Kind. So I really don't understand the argument for holding the debt ceiling hostage and jeopardizing the full faith and credit and possibly defaulting on our financial obligations for the first time in our Nation's history, given the safe haven that we have enjoyed. In fact, the great irony in this recession is the fact that people have been willing to pay us to take their money, which is, in effect, what has been going on. It has been a life saver for us economically, and all that, I assume, would be in jeopardy overnight if we do default in our financial obligations. Would you agree?

Mr. Johnson. Absolutely. The most obvious risk we face is that we will, through our own deliberate irresponsibility, undermine the safe haven status of the United States. The world is a complicated, dangerous place; people look to the United States as a safe place to keep their reserves, keep their money, but we can throw that out the window very, very quickly if irresponsible actions are taken around the debt ceiling.

Mr. Kind. I would also submit that, you know, both sides, both political parties need to be a little more realistic in our approach to this whole discussion, and not to sound too partisan, but we have just come off two national campaigns where my colleagues on the other side accused Democrats of taking $700 billion out of Medicare and promising to restore that money while at the same time promising to increase defense spending by $2 trillion over the next 10 years. Those are the two largest spending programs we have in the Federal deficit, and that is a $2.7 trillion proposition of new spending that they were offering in two national campaigns, and now they want to sit back and criticize the President for not being realistic in his budget choices? They lose me on that argument.

But, Mr. Hoagland, you have had a lot of experience and especially with Dr. Frist, and we do understand that the largest and fastest growing area of spending is rising health care costs. I think there is a solution to getting enhanced quality of care but at a better price. We need to change the way we pay for health care in this country, so it is value- and outcome-based and no longer volume-based, which fee for service brings. Would that help improve the fiscal outlook if we can make that conversion to a different payment system?

Mr. Hoagland. Yes, Congressman. I don't want to scoop my bosses. Senator Frist, Senator Daschle, Senator Domenici, and Alice Rivlin will be coming out with a report here in the middle of March, where we are looking specifically at this question, and one of the areas where we are focusing, we have to move away from the fee-for-service payment system to a more orderly system and move it away, and we believe that in the long run will help control costs overall in the Medicare area, but that also some 50 percent of health care is --

Mr. Kind. Well, I knew you guys were involved in that work because the Institute of Medicine is doing a comparable report coming out in a couple months. I also appreciated Mr. Brady's comment, he is going to be the new chair of the Health Subcommittee, about getting away from SGR and moving to a quality-based physician reimbursement system, too. I think that is going to be key to the fiscal outlook as well, but there is a lot here we can follow up on.

But, Mr. Chairman, thanks again for this hearing and the feedback here today. Thank you all.

Chairman Camp. Mr. Reed is recognized for 5 minutes.

Mr. Reed. Thank you, Mr. Chairman.

I have been listening to this testimony all afternoon, and I just have to say, I am embarrassed to hear some of the comments that have been made today about what I believe to be the biggest threat to the future security of our country, the security of our country, when it comes to our kids and our grandkids, and that is the debt. So I am going to ask you point blank, each and every member of this panel, is the present debt path sustainable? Does anybody think that it is?

Mr. Hoagland. No.

Mr. Reed. Mr. Casey?

Mr. Casey. No.

Mr. Reed. Mr. Foster?

Mr. Foster. No, sir.

Mr. Reed. Mr. Johnson? It is a yes or no question.

Mr. Johnson. No, sir, not over the long term, Congressman.

Mr. Reed. Thank you. Why is it not sustainable? Can each of you briefly answer that question?

Mr. Casey, starting with you.

Mr. Casey. Well, frankly, as a layman, there comes a point when they start cutting up your credit cards, and we will reach it.

Mr. Reed. Mr. Hoagland?

Mr. Hoagland. And when the rate of growth in terms of payment on the interest of that debt is faster than the rate of growth of the economy, then you are, the country is defaulting.

Mr. Reed. Mr. Foster?

Mr. Foster. That is the heart of it, sir, when your interest expenses are growing faster than your income, you are in trouble.

Mr. Reed. Mr. Johnson?

Mr. Johnson. Health care costs, Congressman, it is the failure to control health care costs, as just discussed.

Mr. Reed. So that is the debt, but the debt crisis, why it is not sustainable, is eventually the interest on the debt becomes so large that you can't pay that payment, correct?

Okay, because I have done some calculations on that point, and I have looked at, what is our -- if our present debt at $16 trillion, just close to 3 percent, what is the debt service payment on that for our interest costs? Do you guys know that off the top of your head? Well, it is $492 billion. Let's say it goes to 6 percent. Does anybody know what that is?

Mr. Foster. Twice.

Mr. Reed. That is $985 billion. Do you know what that means? What are we presently paying on our debt service payment? Any of you know that number off the top of your head?

Mr. Foster. About $250 billion I believe.

Mr. Reed. Yeah, so if you take the difference between the two, it goes up to 6 percent, you have got $765 billion of additional need for cash payments to service the debt. What do we pay on our national defense budgets in an annual year?

Mr. Hoagland. About $700 billion.

Mr. Reed. So overnight, because that is an annual number, we are going to have to find the amount that we pay on our national defense lines in our Federal budget, an equivalent amount of dollars to service our debt. Is my understanding correct? Does anyone disagree with that math?

Mr. Johnson. You are right, Congressman, but if you have a big fight over the debt ceiling, that is going to push up interest rates and cause exactly the effect you are worried about.

Mr. Reed. So if we just take care of the debt ceiling, put our head in the sand and say, we are never going to worry about the debt ceiling, at what point in time does the debt become so large that our creditors say, you know what, we are going to charge you a little bit more interest, and that interest then goes up to 6 percent on the $16 trillion. Don't we just get to the same problem that you are concerned about in the short term on a long-term approach by not dealing with the underlying problem at all?

Mr. Johnson. Congressman, I am totally in favor of dealing with the budget, that is the point of the book we wrote called, "White House Burning," a dramatic enough title I hope, but the point is you need a balanced approach, as Mr. Levin said at the beginning, and you have the forces to do it --

Mr. Reed. Mr. Johnson, if I could, it is my time, it is my time. And I have heard the balanced approach now for a year and a half, and I heard it today from the panel. There has been $600 billion of additional revenue that -- as a result of the fiscal cliff negotiations. A balanced approach to me was if you gave revenue, you got spending reforms. Has the President offered any spending reforms as of yet in regard to that $600 billion of additional revenue?

Mr. Foster. We are hoping to see some in the budget, sir.

Mr. Hoagland. When he, when the President put -- when Geithner put forth his proposal on November 29th, he had spending reductions of like $400 billion.

Mr. Reed. So $400 billion in relationship to $600 billion of new tax revenue, and the President offered $400 billion in spending cuts.

Mr. Hoagland. In fairness, the President proposed $1.6 trillion in revenues for $400 billion in spending cuts.

Mr. Reed. Doesn't sound too balanced to me in my opinion. So I will just end with this. It is clear that Admiral Mullen had it right; this debt -- and I could care less about all the people here in Washington, D.C. -- I am really concerned about the people back at home, my constituents, my kids, my grandkids. This isn't sustainable, and to have this bickering over these issues without putting a real concrete proposal in front of the American people to say these are the visions of how we deal with this problem, that is why I wholeheartedly support this 3-month extension, and I am glad to hear the White House supports it also because at least now we will put in black and white hopefully in the Senate and in the House a vision to deal with this number one threat to our national security. Thank you.

With that, I yield back.

Chairman Camp. Thank you.

Mr. Pascrell is recognized for 5 minutes.

Mr. Pascrell. Three-quarters of the deficit reduction to date has been spending cuts, and I would rather err on the side of what Roosevelt said in his second inaugural, and that was, The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little. He said that in 1937 in the second inaugural.

I am more concerned about one-fifth of our children living in poverty, and I am more concerned about the guys who are working out there -- male income compared from 1969 to the present, and what do we have? We have people making, males making a thousand dollars more back in 1969. That is what I am concerned about. We have had a redistribution of wealth all right in this country. It was all upward. It was all upward. Let's get our facts straight here.

This storied committee, Mr. Chairman, is even discussing the idea that America will not pay our bills, that we will be a deadbeat Nation, as the President said, and that is unbelievable to me. Certain things are unbelievable to you. That is unbelievable to me because if you read Article XIV and Section 4, questioning whether or not to pay the public debt may be unconstitutional from this body. It is not a long section. It is the public debt. It is right there.

And about the public debt, it also says -- Mr. Foster, you didn't read the whole section. It says, if the House -- if the Congress doesn't do it, the executive must do it. It says that right in the bill. Am I not correct?

Mr. Foster. I will leave that to the constitutional scholars.

Mr. Pascrell. I will read it to you.

Mr. Foster. Go ahead.

Mr. Casey. No, sir, it doesn't say that, but please read it.

Mr. Pascrell. I will. If Congress won't pay them, then the executive must.

Mr. Casey. In Section 4 of the 14th Amendment.

Mr. Pascrell. Well, I am talking about the interpretation of Section 4 of Article XIV.

Mr. Casey. Okay.

Mr. Pascrell. You disagree with that?

Mr. Casey. I disagree most wholeheartedly.

Mr. Pascrell. So the executive has nothing to say about the debt?

Mr. Casey. Well, the executive has no power to raise the debt, certainly. He has an obligation to pay the public debt, which is to say pay the amounts of money that have been loaned.

Mr. Pascrell. And how is he going to do that if the Congress does not give him the ability to do that? That is a little problem, isn't it?

Mr. Casey. It is obviously a problem.

Mr. Pascrell. Okay. Well, let me go on here. We are not going to default on our obligations and not just to our bondholders, because another thing that we are talking about, which is questionable, is whether we can prioritize the payments to make everybody happy. I have heard that here. Go ahead.

Mr. Hoagland. I just want to be clear that I was not proposing prioritization. I was just pointing out the difficulties of prioritization.

Mr. Pascrell. So you understand it is questionable under the Constitution?

Mr. Hoagland. Yes, sir.

Mr. Pascrell. We all saw the economic impact that the last debt ceiling had on the economy. The Dow dropped 2,000 points. We added $18.9 billion to our deficit just in that time, and for the first time in our history, we were downgraded for our credit rating. That was all when we didn't default, either. The mere threat of default and irresponsible discussions of default is what I am talking about right now, like the one we are having today, were enough to do significant damage to our economy, just the discussion of it. And we saw that.

So let's give the American people some certainty. We said that for the last 2 years. You have heard that. When are we going to solve that problem? When we solve this problem. How are people are going to invest if they don't really know what is coming toward them? So let's end the talk of default, the irresponsible discussion. Responsibly default, could we responsibly default? Let's get an end to that discussion. Let's pass a long-term increase in the debt ceiling so that the phrase "backed by the full faith and credit of the United

States of America" continues to mean something, and I believe it does mean something to all of you, and thank you for coming today.

Chairman Camp. Thank you. I would just note for the record that this discussion may not be as harmful as we think as the Dow S&P 500 just hit a 5-year high today. With that, I will --

Mr. Pascrell. I am sure it is because of our discussion, Mr. Chairman.

Chairman Camp. Yes, I am sure it will be.

With that, I would recognize Mr. Young for 5 minutes.

Mr. Young. Thank you so much, Mr. Chairman.

I thank all our panelists for being here today.

It is clear, based on all your testimony, that really the big issue here, I think Mr. Hoagland put it most succinctly, the real issue is mandatory spending, and, you know, we are entering budget season, what ought to be budget season here in Washington, D.C., here, and I am just curious, first, Dr. Foster, I will start with you, as the President submits his budget for fiscal year 2014, what do you anticipate the likelihood is that his request will include any reforms of significance to make sustainable Medicare and Social Security in that budget request?

Mr. Foster. Well, sir, despite being an economist, I am also an optimist, so I am going to say I think he may take the opportunity and really choose to lead on this, and until he proves otherwise, that is what I am going to believe.

Mr. Young. Well, good. I share your hope. I spent a couple of years on the Budget Committee before being on this committee and was hopeful then, too, so I think that is the most important thing that certainly could be done because it is important that we act quickly. There is a cost to waiting here, and perhaps, Mr. Hoagland, you could discuss the important benefits of acting quickly here, coming up with a clear, specific, comprehensible, and comprehensive plan to make these largest unsustainable programs of government sustainable.

Mr. Hoagland. Congressman, I think it is necessary that a plan be put together that shows a path towards regaining sustainability in the Medicare program long term in the Social Security program. The President back in November had proposed about $400 billion in spending reductions. I am, like Dr. Foster, I am optimistic he will come forth with that. The proposal here by the Republican leadership was $600 billion. This is over a 10-year period. The only comment I would have, Mr. Young, would be that the issue of controlling health care costs in a 10-year window is difficult. What we really should be looking at is a much longer window because some of the fundamental changes we have to make in the health care delivery system will take time to implement, such as Mr. Ryan's proposal last year.

Mr. Young. Well, fair enough, and I supported Mr. Ryan's proposal last year. I was encouraged that it received some bipartisan support. I would hope in the future it might get a bit more.

But Mr. Hoagland, to continue with you, the road map, if you will, in order to arrive at a spot where we can get concrete ideas from Democrat leadership, from the President of the United States about how to make these largest programs of government sustainable is through regular order. Could you bring us through that regular order as we have articulated it?

Mr. Hoagland. I am a regular order guy. I have spent my career up here. I believe the power of making legislative decisions lies with committees such as this very powerful committee here, that I think it is better that the decisions in terms of what legislation could flow forward come out of the committees. Therefore, that is why I believe a budget resolution that is put together that sets the broad parameters for how much you are trying to achieve in the way of deficit reduction work through the committees of jurisdiction is the most salient way of achieving a goal and expressing to the American public we really are serious about a fiscal blueprint that puts us on a path of sustainability, and we are lowering that level of debt to GDP in the future.

Mr. Young. It strikes me as an orderly approach, a collaborative approach, one that ought to receive bipartisan support, and one that by design is set up to come together with some degree of consensus about what our Nation's priorities are, and then give the markets a degree of certainty about what is going to happen in the future, allowing us to create more jobs, et cetera.

Incidentally, this is exactly the approach that the House Republican Conference has taken with respect to the debt limit increase. We have tied increasing this debt limit contingent upon the Senate finally producing a budget for the first time in several years. It strikes me as eminently reasonable. It happens to also be very popular among the American people. So I do agree that talk about default is irresponsible to characterize this hearing as about something other than an effort to bring us back into balance and to try and get a budget out of the United States Senate and a clear budget out of the President of the United States, I think that is irresponsible to characterize it otherwise.

And I would just say to Mr. Johnson, I will give you a brief opportunity to respond, sir, that you spoke a great deal about policy uncertainty, but really it strikes me the greatest uncertainty longer term exists when you have got Medicare, Medicaid, and Social Security unsustainable and no plan to make them sustainable.

Chairman Camp. All right, Mr. Johnson will have to respond to that question in writing as time has expired.

Mr. Davis is recognized for 5 minutes.

Mr. Davis. Thank you very much, Mr. Chairman.

I certainly want to thank our witnesses for coming. You know, it appears to me that as we continue to raise the specter of possible default, that we undermine the confidence of our citizenry, and we certainly do a disservice to our country. You know, if you are living every day with the idea wondering, are we going to be able to make it until next week, or are we going to be able to make it for the next 3 months, I am not sure that that is the most effective way of convincing our citizenry that we are a stable, viable government, able to solve its problems, to meet its needs, and bring resolution to whatever crisis there might be facing us.

Dr. Johnson, let me ask you, after the 2011 crisis, we had the worst job creation month in 27 months. Why? Why did that occur?

Mr. Johnson. Because of the additional uncertainty created for everyone, including companies that make the hiring decisions about what is going to happen next week or next month. This is a classic problem many countries have, but those are usually countries much poorer and less well organized than the United States. It was in 2001, extraordinary and unbelievable to people that we would come so close to default, and it is extraordinary again today that you would put the debt ceiling on the table in these negotiations when the last thing you surely want to do is get into any of these complicated games about prioritization, nonpayment or this or that creditor or potential default.

Mr. Davis. Let me ask, how do business interests, how does a company respond to this short-term kick the can down the road, when they have got to make decisions about their company, people they must hire, of products they must develop? How does the business community respond to that?

Mr. Johnson. They delay decisions; they wait. That is the finding, overwhelming finding, for example, by Baker Bloom and Davis but also other people who studied uncertainty, the effects of uncertainty. We don't know what is going to happen; therefore, we hesitate to make commitments. We are not going to buy that new equipment. We are not going to expand. We are not going to hire people. Let's wait and see. And while uncertainty remains elevated as it is today, there will be hesitation in hiring and hesitation for the overall macroeconomic recovery.

Mr. Davis. It is my position that one of the great needs that we have to get out of the economic crisis that we have been facing and creating and wondering about is to create jobs. I mean, it seems to me that if more people were working, that that means more people would be paying taxes; they would be putting more money into the Treasury. And if jobs are not being created, then I don't think we can just keep dallying around and dallying around and still there is no bottom line. How does this impact job creation and really provide the kind of assurance that people are going to be able to work and contribute significantly to further development of our economy?

RPTS MCKENZIE
DCMN SECKMAN
[4:22 p.m.]

Mr. Johnson. Job creation is going to be impacted negatively by the uncertainty around fiscal policy, particularly any discussion of the debt ceiling, any of the debt ceiling-related points that have come up today. Those are negative in terms of increasing uncertainty. Those are going to cause more hesitation in hiring. Those are going to slow employment growth below what it would otherwise be. And those are not helpful to the economic recovery or, as you say, Congressman, to the budget.

Mr. Davis. So, in essence, we are kind of kidding ourselves about being able, without creating jobs, to solve economic problems; that just making decisions to shift thoughts and ideas and processes, and at the end of the day, there are still no more people working.

Mr. Johnson. You need an economic recovery, Congressman, for everything else that you want to do. And that requires jobs to come back to where they were. We are still at least 3 percent below peak employment pre-financial crisis. This is the longest, worst recession in American history since the 1930s.

Mr. Davis. Thank you very much.

And thank you, Mr. Chairman.

Chairman Camp. Thank you, Mr. Davis.

Mr. Griffin is recognized for 5 minutes.

Mr. Griffin. Thank you, Mr. Chairman.

Thank you all for testifying today. I want to be really clear as well. I haven't heard any talk on this side of the aisle about default, wanting to default, using default as leverage. That is a straw man. The only people I have really heard a lot about default from are on the other side of the aisle. So I just want to make that abundantly clear.

And it reminds me of what now Majority Leader Reid said back in 2006. He is the one that was talking about default. He said, Americans know that increasing debt is the last thing we should be doing. After all, I repeat, the Baby Boomers are about to retire. Under these circumstances, any credible economist would tell you we should be reducing debt, not increasing it. Democrats won't be making arguments to support this legislation, which will weaken our country, weaken our country. We are being asked to do what shouldn't be asked of us, to increase the debt to almost $9 trillion.

So there is a lot of politics going on here. And what I would like to do -- and most of the questions I had to ask have been asked. So I would like to just go over a couple of things to clarify. We have heard a lot of talk about the Bush tax cuts and the wars adding to our debt. And I was looking here at revenue as a percentage of GDP. And it is interesting that in the mid-1990s, when taxes were higher -- 1995, for example -- revenue as a percentage of GDP was 18.4 percent. During the Bush years, in 2007, after the economy recovered from 9/11, it was 18.5 percent. So the idea that revenue dipped significantly during the Bush years because of tax cuts is just not true. Sure, it went down after 9/11.

I didn't see 9/11 labeled on this chart, Mr. Johnson.

But I think that that is a critical part of the equation.

The other thing that I would point out, a key change -- and Majority Leader Reid referred to it -- the key change has been demographics. We all agree we have spent too much in Congress, a lot of it long before I got here. But the issue now is not who spent too much. The issue now is, who is willing to fix the problem and who is not? That is ultimately the issue.

And we have heard a lot about a balanced approach, and we just had an agreement here in the House, in the Congress, that raised taxes.

Now, from my calculations, before the taxes that were raised on the American people recently -- a few weeks ago -- we had a deficit of about $1 trillion. After those tax increases, we have got a deficit of about $1 trillion. Does anyone disagree with that?

Mr. Casey, do you agree that it had no significant impact on our deficit?

Mr. Casey. I agree.

Mr. Griffin. Mr. Hoagland?

Mr. Hoagland. I agree that the deficit for fiscal year 2013 will still be about $1 trillion.

Mr. Griffin. Even after the tax increases?

Mr. Hoagland. Yes. But of course those tax increases phase in over a longer period of time.

Mr. Griffin. If you take $60 billion a year and subtract it from a little over $1 trillion, you are still right at $1 trillion. Correct, Mr. Foster?

Mr. Foster. That is the simple math, sir.

Mr. Griffin. And Mr. Johnson?

Mr. Johnson. No, Congressman. Look, the way that you have discussed the budget and the way you argue about the budget is over a 10-year time frame. Those were insufficient, I agree, to completely address the budget issue. I supported larger, stronger strengthening of revenue -- not immediately, though. Phasing it in over time is the right way to do it. You don't want to shock the economy too much. Phasing it in over 10, 15 years.

Mr. Griffin. I am running out of time. The bottom line is, I understand you look at things over 10 years. And we all know that in 10 years, there is no control over what is going to be spent and what is going to be coming in. But the bottom line is, the tax increases we got with no cuts did nothing to impact the deficit of any significance -- it is still about $1 trillion. You could say it is $910 billion. Okay. It is still about $1 trillion. The bottom line is, we still are about $1 trillion in the red every single year. And I will be waiting with optimism to see the President's budget.

Again, thank you all for coming today. And I yield back.

Chairman Camp. Mr. Hoagland, your 33-plus years of dealing with budget issues in the Senate on the Senate Budget Committee and in other areas, have you ever known in the history of our country of four successive years of trillion-dollar deficits?

Mr. Hoagland. No, sir.

Chairman Camp. So it is an unprecedented position we are in, in terms of the annual deficits?

Mr. Hoagland. I never thought I would see trillion dollar deficits.

Chairman Camp. And the debt -- and I tend to use gross debt as a percentage of GDP.

Have you ever seen the gross debt as a percentage of GDP at the level that we are seeing right now?

Mr. Hoagland. Only after World War II. But then we owed it to ourselves, and we brought it down rather substantially there.

Chairman Camp. So since World War II, the level of GDP --

Mr. Hoagland. -- has averaged about 40 percent.

Chairman Camp. Okay. And I was on the President's fiscal commission. And at that time, it was about 90 percent. Now it is over 100 if you look at gross debt. And we had a presentation there by doctors -- it was by Drs. Carmen Reinhart and Kenneth Rogoth -- who indicated that a country's economic growth would -- and I am using their words -- deteriorate markedly when its debt-to-GDP ratio was above 90. And obviously, we are at that point now.

Mr. Hoagland. Correct.

Chairman Camp. What impact do you believe that will have on the economic growth and job creation in the U.S. in the future?

Mr. Hoagland. I believe, again, that has a very negative impact upon the growth of this country going forward in terms of our credit rating around the world, in terms of our economic growth pattern will be negatively affected by that level of debt to GDP. While it is not a good example, all we have to do is look at what is happening in Europe and see the consequences that that has had over there.

Chairman Camp. We recently got a Fitch ratings report. And I am quoting from their report that said, "In the absence of an agreed and credible medium-term deficit reduction plan that would be consistent with sustaining the economic recovery and restoring confidence in the long-run sustainability of the U.S. public finances, the current negative outlook on the AAA rating is likely to be resolved with a downgrade later this year, even if another debt ceiling crisis is averted," end quote.

How do you think the financial markets and the broader economy would react if Congress simply increased the debt limit and there was no credible commitment to addressing the current fiscal situation, as we have just discussed?

Mr. Hoagland. Mr. Chairman, I think that the debt limit bill does not control or limit the ability of the Federal Government to run deficits or incur obligations. But I do believe it is a limit on our ability to pay obligations. So I think that while this is not the perfect solution, at least you do have the opportunity here by -- if you simply raised it without some form of a process, which I hope would come about through going back to regular order, I think that would be looked upon very favorably. But if you simply raised it with no process involved, I think that would be looked upon negatively by the market.

Chairman Camp. All right.

Dr. Foster, any comment on that?

Mr. Foster. I think that is exactly right. The markets are looking. They understand something of Washington and how Washington works. They understand there are only a few moments in a given year or 2- or 4-year period in which we have a forcing moment, a time when Congress must actually do something. And the critical value of the debt limit and the debate around the debt limit that is a simple enough issue that the American people can understand it. The budget is complicated. They don't understand the budget. They do understand debt. They have debt. They understand. They don't understand trillions. But the concept, they get.

The second value is that it is a forcing moment. It forces Congress to act when the regular order of the budget process has failed. Mr. Hoagland talked about this -- and I completely agree with him regarding the importance of the regular order. But Congress has a regular habit of ignoring the regular order. This is a forcing moment, and it is a critical time to take action.

Chairman Camp. And Mr. Hoagland, again, given your experience on budget, we have had other short-term extensions of the debt limit in the history of this country, have we not?

Mr. Hoagland. Yes, we have a number of times. Looking it up, I think it was at least -- in my career up here, we have had it at least seven or eight times, we have had a short-term limited increase.

Chairman Camp. And we have also had extensions of the debt limit that have had policy reforms attached to them as well, have we not?

Mr. Hoagland. Oh, I think the most important one -- I said my first experience here was with the 1985 Gramm-Rudman-Hollings Act, which was tied to debt limit increase because we were going over $2 trillion.

Chairman Camp. So when the President and many Democrats call for a so-called clean increase in the debt ceiling, which they mean is no other reforms or other proposals attached to that or changes in spending behavior, how do you see the path forward? And what should advocates of lower spending expect from the administration? Or other budget reforms that might be attached with it? You mentioned Gramm-Rudman-Hollings. And I would like you to comment and then Dr. Foster.

Mr. Hoagland. As I say, I don't think the debt limit bill, per se, it controls spending. It controls -- it is a limit. But I do think that there are other tools. And they are not pretty. But you do have a sequester. I would certainly argue -- and this is just myself speaking, not BPC -- that you would look at the sequester as something that really does reduce spending. And I would also argue that one thing to do there would be to modify the sequester so that it actually does affect more than just the discretionary portion of the budget and maybe, and with some trepidation, also tax expenditures.

Chairman Camp. All right. Dr. Foster.

Mr. Foster. Yes, sir. As I mentioned, the debt limit is a forcing moment. And one of the things it can force is a shift in budget processes to make them more effective, to get Congress to take actions that it might not otherwise take under the regular order as it then stands, Gramm-Rudman-Hollings being the great example.

One of the things we should be looking for in this current debate is, how do we tighten up, make more rigorous the budget process regular order so Congress takes it seriously and then puts forward the kinds of resolutions and reconciliation bills that Mr. Hoagland was talking about?

Chairman Camp. Thank you.

And Mr. Casey, I just want to clarify this point before we adjourn. The Constitution grants Congress the sole authority over fiscal powers to tax, spend, and borrow; is that correct?

Mr. Casey. Absolutely correct.

Chairman Camp. And because the power resides in Congress, the debt limit is not actually a limitation on the executive's power to borrow; is that correct? It is the statute that contains the debt ceiling is actually a grant of authority to the President.

Mr. Casey. It certainly can be read that way. I mean, it is a limit on the amount that Congress is permitting the executive to borrow.

Chairman Camp. But it would be authority he would not otherwise have --

Mr. Casey. Absolutely. Absolutely. Without it, he cannot borrow a nickel.

Chairman Camp. So when that authority runs out, it is actually the Constitution of the United States that is preventing the President from attempting to borrow on the credit of the United States?

Mr. Casey. Yes.

Chairman Camp. All right. Thank you.

I want to thank all of our witnesses and certainly the members for participating in this hearing today.

And with that, this hearing is now adjourned.

[Whereupon, at 4:36 p.m., the committee was adjourned.]

## Public Submissions for the Record

Billy J. Spiva