Congressman Joe Pitts

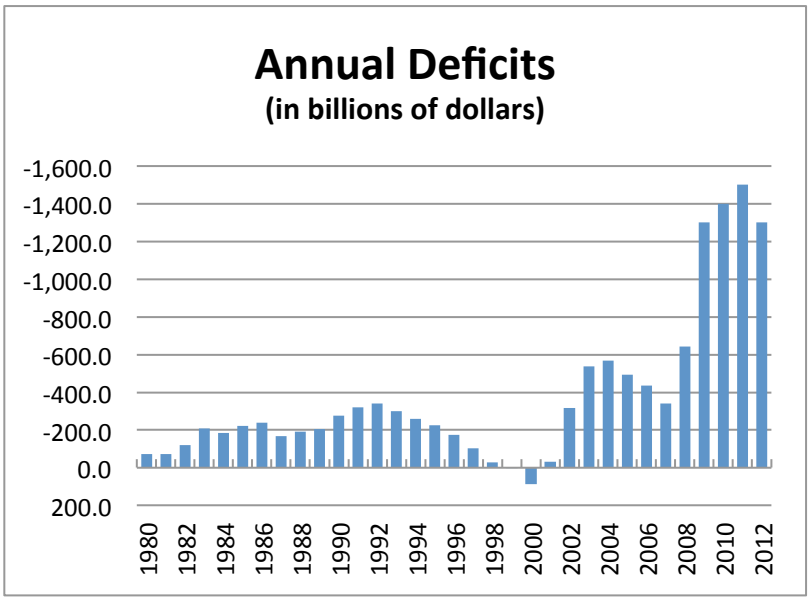
Sixteenth Congressional District of Pennsylvania

Memorandum on the Government's Debt

TO: Citizens of the 16th Congressional District of Pennsylvania
FROM: Congressman Joe Pitts
DATE: April 4, 2013
RE: The Government's Growing Debt

There is more than one way to look at our government's balance sheet. You can look at it like an accountant and see numbers and figures, but you can also look deeper and see that behind those numbers stand the American people. Each dollar of tax revenue is the result of someone's hard work. The government then spends this money to keep us safe, to enforce our laws, to provide for those in need, to maintain infrastructure, and many other good reasons.

I'm not opposed to government borrowing, but we cannot borrow endlessly. If we don't run our budget properly, the good things we expect government to do will eventually be crowded out by interest and debt payments. Historically, liberals and conservatives have recognized the threat of high deficits. Democratic Senator Paul Simon warned in the 1990s that: "If we do not act, interest payouts will spiral upward until they consume not only Social Security, but also health care, education, and transportation." He made the observation that "a rising tide of red ink sinks all boats."[1]



The collapse of the government's finance would do unimaginable harm to our economy and to the American people. We can't let that happen.

During my first two terms in Congress, I served on the House Budget Committee. As former Chairman of the

[1] http://www.nationaljournal.com/columns/all-powers/the-ghost-of-paul-simon-haunts-obama-20130326

Pennsylvania State House Appropriations Committee, I had lots of experience negotiating balanced budgets with Democrats. Because of this experience I worked in the U.S. House with committee Chairman John Kasich as we negotiated four straight balanced budgets with President Clinton. We controlled spending, balanced the budget, and even paid off billions in government debt.

As President Bush took office, the dual shocks of the bursting tech bubble and the 9/11 attacks caused revenue to plummet. While I recognized that our priorities had to be protecting our nation and growing the economy, I was extremely concerned that Congress wasn't trying harder to cut wasteful spending.

Under President Bush, I voted against over one-third of appropriations bills, because they simply spent too much money. As earmarked spending grew out of control, I was one of an initially small group of members who swore off earmarks and pushed the Republican Conference to support a ban on the practice.

As President Obama took office, our annual deficits exploded. While President Bush accumulated about $2 trillion worth of debt in 8 years, in just two years of the Obama administration and a Democratic Congress the national debt grew by more than $2.6 trillion. Debt as a percentage of our GDP grew from 69 percent in 2008, to more than 100 percent last year.

As Congress debates raising the debt limit, we have to remember that we cannot endlessly borrow money. One day, our creditors will simply turn off the spigot and that debt problem will be a debt crisis. This future "fiscal cliff" is much more dire than what we faced on January 1.

Short History of the Debt Limit.

Article I, Section 8 of the Constitution states that the Congress has the power, "To borrow Money on the credit of the United States." Clearly, it is Congress' responsibility to determine how much our nation borrows.

The modern debt limit evolved out of the need to fund the Spanish-American War in the 1890s. While Congress gave the Department of the Treasury the power to issue debt, it set a strict limit on how much could be borrowed.

As World War II loomed on the horizon, Congress set the first comprehensive debt limit for all types of federal debt. Each time Treasury has needed to borrow additional funds, Congress has passed legislation to do so. Unfortunately, this has usually been done with little thought about how these debts will eventually be paid.

The 2010 elections putting Republicans in control of the House were a direct response to the out of control debt and spending. The 112th Congress would not quietly raise the debt limit without a plan to control deficits.

With the House of Representatives demanding responsibility, leading liberals suddenly began talking about loopholes that would allow the President to raise the debt limit without consulting Congress. Some said the President should invoke the 14th Amendment,

which called for recognition of the debt accumulated in the Civil War. Others called for the Treasury to mint a trillion dollar platinum coin.

The President chose instead to negotiate with Congress. The Budget Control Act, passed in August 2011 called for long-term spending reductions equal to the increase in the debt limit. The current limit is set at $16.394 trillion.

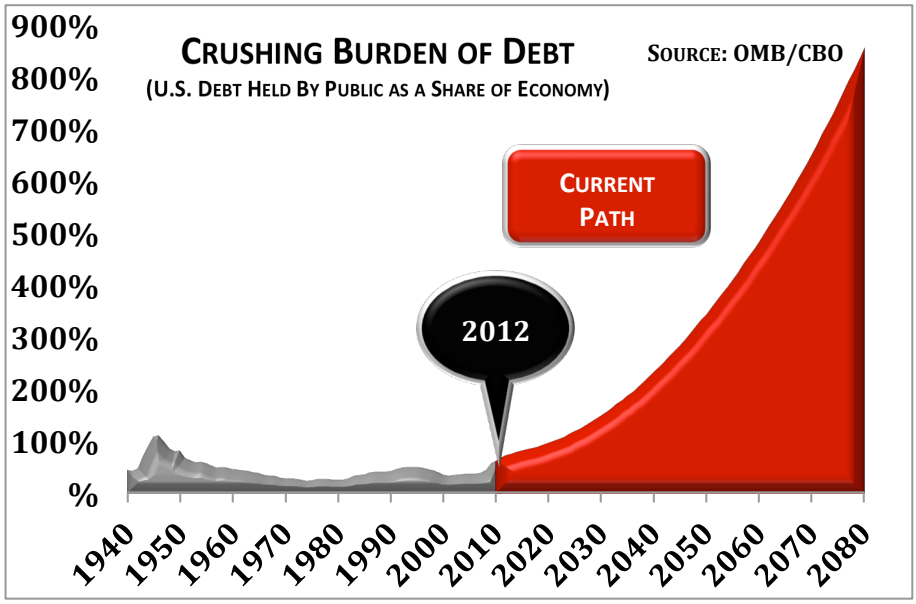
Recent Attempts to Control Debt.

During his first campaign, President Obama promised to cut the deficit in half during his first term. However, his first attempt to cut into spending was mostly symbolic. In April 2009, he ordered his cabinet secretaries to pare spending by a combined $100 million. The total federal budget for fiscal year 2009 was $3.9 trillion. Meaning the cuts represented only 1/39,000 of the total budget.

By early 2010, the President had yet to advance a plan to keep his deficit promise. Rather than advancing solutions in his annual budget, the President created the Commission on Fiscal Responsibility and Reform to put forward solutions.

The Commission was most closely associated with its two co-chairs, former Sen. Alan Simpson (R-WY) and former Clinton Chief of Staff Erskine Bowles. The Simpson Bowles Commission failed to achieve the votes necessary to officially adopt a plan, but the co-chairs reported their recommendations to the President. These suggestions were mostly ignored by the White House.

Speaker John Boehner attempted to negotiate a deal with President Obama to make reforms and raise the debt limit. After their handshake agreement broke down, Congress passed the Budget Control Act, raising the debt limit but deferring cuts.



The Budget Control Act attempted to create conditions that would encourage structural reforms to reduce deficits. The act called for $2.4 trillion in automatic cuts, half to defense and half to domestic programs. A so-called "Supercommittee" composed equally of Democrats and Republicans could offer a plan to replace these cuts with a majority agreement.

As the Supercommittee worked to reach an agreement, the President notably sat on the sidelines, despite the fact that he would have to sign off on any deal. Even high profile supporters of the administration questioned whether this was an appropriate strategy.[2] The Supercommittee failed to reach an agreement despite a notable attempt by Sen. Pat Toomey (R-PA) that would have reformed the tax code and raised government revenue.

The Congressional Budget Office described combination of the sequestration cuts and the expiration of the 2001 and 2003 tax cuts as "the fiscal cliff." The tax half of the fiscal cliff was dealt with in legislation that permanently set tax rates at lower levels for nearly all Americans. The sequestration cuts were delayed for two months, but went into effect starting March 1.

At the end of 2012, the Treasury Secretary announced that the government had once again reached the limit of its borrowing and requested another increase in the debt limit. In January, the House of Representatives passed legislation temporarily increasing the debt limit under the condition that the Senate pass a budget for the first time in four years. Should either the House or Senate fail to pass a budget this year, member's pay will be withheld. The "No Budget, No Pay" act passed Congress and was signed by the President. Each chamber has until May to pass a budget.

As you can see, for over two years now, there has been serious debate in Washington about controlling deficits. Unfortunately, there has been little progress.

What is Sequestration?

Sequestration is the across the board spending cuts leveled on defense and domestic programs. There is a total of $85 billion in spending reductions for this year.

Will these cuts significantly reduce this year's deficit?

No. Most government entitlement programs receive automatic funding increases. Total federal spending is still likely to be larger this year than last year. Sequestration is only 2.4 percent of spending this year. Over 40 percent of this year's spending will still be paid for with borrowed money.

What isn't getting cut?

There are many programs that are spared the automatic cuts of sequestration including: Social Security, Medicare, Medicaid, school nutrition programs, food stamps, Pell Grants, Temporary Assistance for Needy Families, and transportation funding.

What is the House doing about sequestration?

In 2012, the House of Representatives passed two separate bills that replaced the sequestration with smarter cuts and reforms. The Senate and President ignored both these bills. Recently, the Senate took up two measures to replace sequestration but both failed. Replacing sequestration will only be possible if the Senate can do its work and pass a bill.

[2] http://www.politico.com/news/stories/1111/68895.html

Solutions.

What's done is done. The debt is now approaching $17 trillion. So what do we do? As the New York Times outlined a couple of years ago, there are only a handful of options:[3]

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

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

Balanced Budget Amendment. For decades, there has been a strong movement in the country to amend the Constitution to require a balanced budget. Congress has proven itself incapable of living within its means. Congress has repeatedly enacted measures to rein in spending, only to repeal them later. A balanced budget amendment would force Congress to make the hard choices that are necessary. Even Thomas Jefferson called for a balanced budget amendment, writing:

> *I wish it were possible to obtain a single amendment to our Constitution. I would be willing to depend on that alone for the reduction of the administration of our government; I mean an additional article taking from the Federal Government the power of borrowing.*[4]

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

Interestingly, many Americans are unaware that there are two ways to amend the Constitution. Every amendment to date has been passed by two-thirds of the House and Senate and ratified by three-fourths of the states. But if two-thirds of the states call for a constitutional convention, such a convention must meet and may propose an amendment for ratification by the states. As of now, 32 states (including Pennsylvania) have called for a

[3] "The Debt Buildup." The New York Times, November 23, 2009.

[4] Letter to John Taylor of Caroline, November 26, 1798.

convention to propose a balanced budget amendment. If two more states join them, we will have our first Constitutional Convention since 1787—this time to require Congress to live within its means.

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

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

> *If we do nothing to slow these skyrocketing costs, we will eventually be spending more on Medicare and Medicaid than every other government program combined. Put simply, our health care problem is our deficit problem. Nothing else even comes close. Nothing else.*[5]

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

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

The Consequences of Failure.

Our federal budget is complex, but it has a huge impact on the everyday lives of Americans. If we fail to properly plan for the future, our federal budget problem will become a problem for every American's family's budget.

For decades, the U.S. had a sterling credit rating. With the explosion of debt since the beginning of the Obama administration, this is no longer the case. While the Budget Control Act called for cuts in spending, it didn't provide the long-term entitlement reform needed to stabilize our finances.

In 2011, Standard & Poor's, one of the three credit rating agencies, downgraded U.S. debt from AAA to AA+. Now a second agency, Moody's, is warning that it may also

[5] Remarks to Joint Session of Congress, September 9, 2009.

downgrade our debt from AAA if the limit is raised again without concrete steps to control deficits.

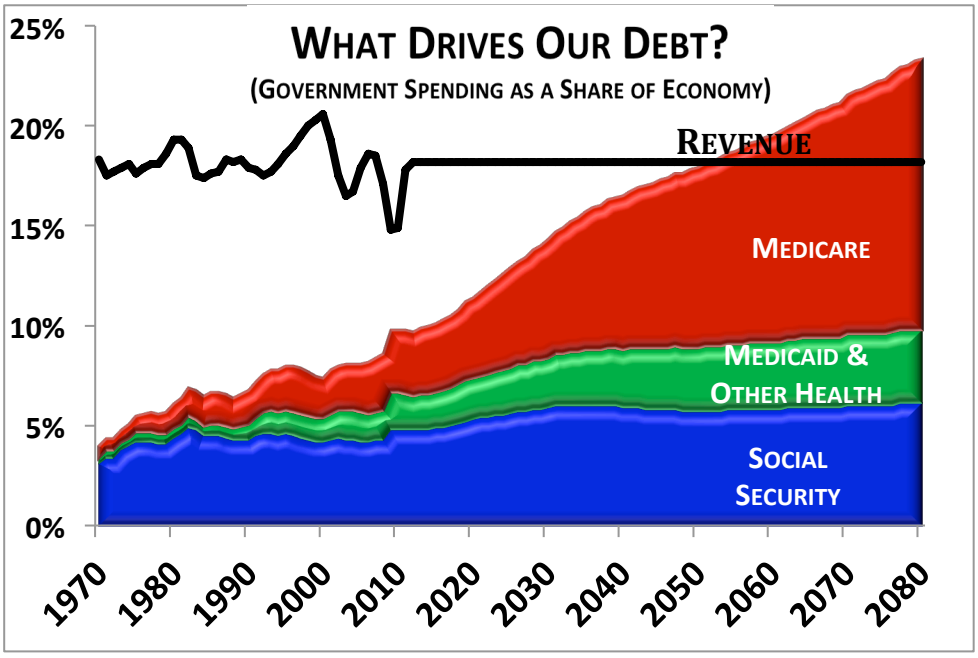
The short-term consequence of failure is higher interest rates on U.S. debt. Even a small increase means billions of dollars in increased borrowing costs. The more we pay in interest, the less we have to pay other priorities.

We can see the long-term consequences of failure by looking at European countries going through debt crises. In Greece, the nation's creditors are making most of its budget decisions, with elected legislators having little choice but to comply. This has meant extremely steep cuts in entitlement programs, dramatic tax increases, and widespread government layoffs. Mass protests have decreased tourism and trade, making it even harder for the Greek government to pay its bills.

When a country goes through a debt crisis, it isn't the wealthy who get hurt. The rich can always pick up and leave when things get bad. The middle class and the poor are left behind to face an economy crippled by either stark austerity or runaway inflation. We have time to avoid a crisis, but we don't know exactly when the clock will run out.

Debt crises happen quickly. One day, a government is paying lavish benefits and strongly affirming its credit worthiness. The next, treasury officials are begging the International Monetary Fund for help. Usually, the signs of weaknesses were evident for years but elected officials ignored long-term problems in order to stay in office one more term.

Here in the U.S., we could probably keep kicking the can down the road for a number more years. Senate Majority Leader Harry Reid (D-NV) has publicly stated that he would not look to fix the problems with Social Security for two more decades, long after he has retired. Each time we kick a can down the road, it gets a little bit heavier. Eventually, we will lack the financial power to kick the problems past another election year.



Earmarks, foreign aid, fraud, and cheating on taxes aren't driving our deficits. An earmark ban was enacted almost two years ago. Cutting all foreign aid and eliminating all waste and fraud across the federal government would save around $160 billion annually. Completely eliminating tax cheating would yield around

$400 billion a year. Unfortunately, we would still have a deficit of more than $800 billion in 2013.

What We Should Do Right Now.

Before the debt limit rises again, we need to put our country on a better fiscal path. While neither the Supercommittee nor the Simpson-Bowles Commission were successful, both can serve as launching points for agreement. I hope that Democrats can seriously consider some of the aspects of the deal Senator Pat Toomey (R-PA) offered while working on the Supercommittee.

President Obama may not want to negotiate with Congress, but legislation is the only constitutional way to raise the debt limit. I don't expect Republicans to get everything we want. When I think compromise legislation fairly meets in the middle, I can support it. I cannot support a bill that just recklessly spends more money without any accountability.

I know that Bill Clinton didn't revel in negotiating with the Republican Congress in the nineties. However, when we came together and worked out a fair deal, good things happened. We can get back on the right path, but it will be hard work.