Statement of Douglas Hamilton
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to the
National Commission on Fiscal Responsibility and Reform
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Chairman Bowles, Chairman Simpson and members of the Commission, I appreciate the opportunity to address the daunting budgetary challenges facing the nation and the need for fiscal responsibility and reform. The federal budget is on an unsustainable path and, without changes in policy, the Pew Economic Policy Group projects that the federal debt held by the public will grow rapidly over the next decade and exceed 85 percent of gross domestic product by 2020.

Such a heavy debt load would damage our economy. It would discourage capital investment by small and large businesses and consequently weaken labor productivity and hinder wage growth. High debt would generate large interest costs that crowd out other national priorities. It also would reduce the flexibility of policy makers to respond to future emergencies, national security threats or emerging social needs, and make the United States more vulnerable to future financial crises, including undesirable disturbances in bond and currency markets.

Not surprisingly, Americans are growing increasingly worried about federal debt and the budget deficit, and those concerns cut across party lines; clear majorities of Democrats, Republicans and Independents now think that the deficit is a top national priority. There also is great concern about the economy and the high levels of unemployment in many of our communities. A Pew Economic Policy Group study found that a quarter of unemployed Americans had been out of work for a year or more; the latest evidence suggests that percentage is rising.

In the face of this reality, some argue that policy makers must choose between policies that stimulate the economy and policies that curb the deficit. That is a false choice. The nation needs both economic growth *and* deficit reduction. In fact, deficit reduction will be essential for ensuring that our economic recovery, once it firmly takes hold, is durable and sustained. Without it, the recovery could be derailed.

In developing deficit reduction plans, it also is important to recognize the fragility of today's economy. Cutting government spending or raising taxes too soon could put the economy in jeopardy. But waiting too long also poses risks. The sensible approach, therefore, is to make a clear and credible commitment today to phase in deficit reduction gradually as the economy grows stronger.

The federal government has taken extraordinary efforts to fight this recession, and more fiscal stimulus may be needed. However, additional stimulus does not have to make the long-term debt problem more difficult to solve. Additional fiscal stimulus today could be fully financed with changes in future spending or taxes. To be sure, finding the offsets needed to finance fiscal stimulus will be hard. But with the annual federal budget currently at $3.5 trillion and growing, there are more than enough opportunities to reallocate budget priorities and find sufficient future savings for fiscal relief today.

Setting budgetary priorities will be a major challenge for policy makers in the years ahead as fiscal resources become increasingly constrained. The Peterson-Pew Commission on Budget Reform, which includes budget and fiscal experts from across the political spectrum, believes that this situation could be managed more easily if the Congress set multi-year fiscal goals and established an effective enforcement mechanism for ensuring that the budget achieved those goals. Such reforms in the congressional budget process also could play an important role in making sure that any initial—and difficult—steps toward deficit reduction were not easily undone by future policy makers.

It took years for the nation to arrive at this budgetary situation, and it will take years to leave it behind. Although some pundits dream of a grand bargain that will solve the deficit problem once and for all, reform can and will be built incrementally. The National Commission on Fiscal Responsibility and Reform could serve the country well by identifying the first step to put the nation's finances on a sound footing and laying out a set of alternative strategies for addressing the imbalances in the budget in the long term.