



**Testimony of Jim Kessler
Vice President for Policy, Third Way
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National Commission on Fiscal Responsibility and Reform

Members of the Commission, thank you for the opportunity to testify. My name is Jim Kessler, and I am the Vice President for Policy at Third Way, a moderate think tank that believes that for America to be a nation that leads in the 21st century versus one that is led — we must usher in a new era of fiscal responsibility.

As progressives, we were proud to be a central part of the effort to pass health care reform — weaving the final major thread in our social safety net.

But it is clear that if we are to maintain the safety net that we wove, thread-by-thread, over 80 years, our economy has to grow — or we cannot afford it. And it has to grow faster than the tepid 2.2% that CBO has forecast for the coming decades. We need growth that at least resembles the 3.1% we averaged between 1975 and 2005. Otherwise, the budget math simply does not work.

And we cannot have long term, sustainable, robust growth with the deficit and debt levels that are forecast.

So let me make four quick points.

First, we need to restore some balance to our federal spending between consumptive and investment spending. In 1990, 44% of our budget went to Medicare, Medicaid, Social Security, and interest payments; by 2020 it will be 61%; and by 2035 it will be 69%.

If we stick to this trajectory, we are deciding that it is best for the United States, and for our children, that we have a federal budget that is dominated by entitlements and interest payments. That would be a dangerous and devastating decision — for our economy, our national security and for vital investments in younger generations.

Second, we reject the premise that fiscal responsibility and social justice are inherently conflicting goals. As I said, we spent the 20th century building a robust social safety net. But today, it is ONLY by controlling our deficits and debt — and shifting the federal budget towards investment over consumption - that we can avert ripping huge holes in that safety net for future generations.

Third, we face a skeptical public who believes that government waste is behind the deficit. They want Washington to act, but the public has rejected messages about shared sacrifice because they believe that the federal government, not them, is responsible for the problem. So Washington must lead by example, and take the first hit — by reforming the federal pension system (which is funded by an outlandish \$14 of taxpayer dollars for every one dollar of employee contribution) and by stopping the ridiculous rifle-shot spending that is rife in appropriations bills and the tax code.

Fourth, we must put aside some of our ideological and partisan urgings.

Republicans and conservatives must accept that restoring fiscal order cannot be done without increasing tax revenues. It's impossible. Democrats and progressives must accept that this structural deficit is harmful to our future and that reductions in entitlement benefits must be part of any solution.

And if we are going to transcend ideological gridlock, the path forward will require a "third way" — balancing spending cuts, tax increases, and investments in growth. These are all enormous challenges, but I have confidence in this commission to help America meet them.

Over the coming months, we will augment this testimony by supplying the Commission with detailed ideas on closing our yawning deficit — ideas on Social Security, Medicare, Medicaid, federal pensions, budget process, increasing tax revenues, and national security. We are eager to work with you on these and other ideas, and we are grateful for the opportunity to present our views here today.