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On Behalf of the
American Federation of State, County and Municipal Employees
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Mr. Chairmen, and members of the Commission, my name is Edwin S. Jayne. I am the Associate Director of Legislation for the American Federation of State, County and Municipal Employees (AFSCME). Thank you for the opportunity to testify on behalf of AFSCME.

AFSCME is a labor organization that represents over 1.6 million workers and retired public service employees so we have strong views on the responsibilities of this commission, including the fiscal challenges of the nation and the best path toward economic sustainability for all Americans.

I want to focus on three broad areas in my testimony. First, the economics and the pressing need to create jobs. Second, I want to address some of the areas of spending that have received the greatest attention and offer our views on Social Security and Medicare. And, third, I want to discuss the role that revenues should play in moving forward.

Investment Economics and the Role of Government

AFSCME feels strongly that job growth is essential to controlling federal deficits. Reducing unemployment will reduce government transfer payments and lead to increased government revenues.

We also believe that job growth must be our first priority. We should not make precipitous budget cuts that will shortchange vital government activity and make it more difficult to address the long-term deficit concerns.

While some job creation has occurred, the unemployment rate is still too high and is predicted to stay high for some time. Although private companies and banks have record amounts of cash and liquid assets, neither is investing their own assets because demand for goods and services is weak.

The federal government is the only institution that has the capacity to stimulate economic activity and create jobs right now. Pursuing a deficit reduction strategy that relies on spending constraints will reduce demand just when we need to increase spending. Many noted economists believe that short-term deficit reduction will actually harm the economy and cause negative growth, and some are openly warning of a double-dip recession or even a long-term depression.

Unfortunately, many who assert concern about deficits are focusing on immediate spending cuts as evidenced by the recent failure of Congress to extend state aid and unemployment benefits. If this decision is not revisited, it will undercut federal stimulus spending as states and localities are forced to cut services, lay off more workers and raise taxes and reduce consumer demand as two million workers lose benefits by July 2. In addition, serious state budget shortfalls will likely persist for at least the next two years, reaching an estimated $180 billion in fiscal year 2011 and $120 billion in 2012, according to the Center on Budget and Policy Priorities.

Without any extensions, important Recovery Act assistance will mostly run out this year resulting in the loss of hundreds of thousands of jobs. States and local governments already are slashing spending on schools, roads, offices and other construction projects so fast that even federal stimulus money hasn't filled in the gap. Investment in infrastructure is on pace to drop almost 7% this year to $269 billion.

In addition, spending reductions can end up costing the government and the tax payer more in the long run. For example, the costs to the taxpayer to clean up the financial meltdown and the long-term costs of the oil spill in the Gulf will no doubt dwarf the cost of adequately staffing federal regulatory agencies.

Our nation has a long history of affirmative government policies and spending that have boosted economic expansion and aided private industry. Government spending built the Erie Canal, the railroads and the interstate highway system, all of which were essential means of facilitating the movement of goods and services.

For decades, however, we have turned our back on that history and neglected urgent infrastructure needs and policies that promote individual economic opportunity. Today we stand at an economic crossroad again. If we fail to recognize the important role of government, at best, we risk a long period of economic stagnation that will preclude investments in the infrastructure and human capital that are necessary to fuel a robust recovery that will help replenish the federal treasury.

With interest rates low and considerable slack in the economy, now is an ideal time to make major investments that lay the foundation for long-term economic growth. In addressing the budgetary future of the country, we need to use government resources as we have done in the past by investing in badly neglected public infrastructure in the broadest sense: in roads, bridges, schools, airports, urban transit, high speed rail, education, national, state and local parks, water treatment facilities, health clinics, broadband networks and the like.

Social Security and Medicare

Social Security and Medicare are tremendously important public programs that touch every American. They both provide invaluable social insurance to workers and they are also essential to the U.S. economy, providing millions with monthly benefit checks and health care even in times of recession and high unemployment.

AFSCME is deeply concerned about the present focus on reducing Social Security and Medicare as a primary deficit reduction strategy, especially proposals that would fundamentally change their character as universal insurance programs. Such a change would lay the foundation for eventual weakening of political support for these crucial programs as opponents begin to cast them as “welfare”.

Any consideration of Social Security should be governed by objective consideration of the facts and not ideology. Looking at the facts, Social Security does not add to federal deficits. It has its own dedicated revenue source – payroll contributions from workers and their employers. The system is self-sustaining and doesn’t rely on the government’s general fund. In fact, by law, Social Security is prohibited from borrowing in order to pay benefits. Revenue that exceeds annual benefit payments is invested in U.S. Treasury bonds at market interest rates; Social Security can draw on the principle and interest as needed.

Social Security’s Trust Fund currently has a $2.4 trillion surplus (above what’s needed to pay benefits) that will eventually grow to over $5 trillion. At that point – still many years away – Social Security will start dipping into its surplus as payroll contributions fall short. The principle and interest in the Trust Fund reserve will combine with payroll contributions to pay 100% of all scheduled benefits.

While it has become common to say Social Security is the problem, the fact is that policy makers have relied on a bookkeeping analysis that uses Social Security trust fund surpluses to offset non-Social Security spending.

Another way to look at our deficit problem is to look at the cost of making the 2001 and 2003 tax cuts permanent, as many conservatives in Congress hope to do. The lion’s share of those tax cuts go to the wealthiest 1% of American households – those with over $350,000 in annual income. If made permanent, the cost of the tax cuts would be three times the size of the Social Security shortfall over the same 75-year outlook.

Harmful cuts in Social Security must be rejected, including raising the full-retirement age to 70, which is nothing more than a benefit cut, since many people won’t actually work until age 70, especially if they’re in failing health, work a strenuous job or can’t find a job. AFSCME also opposes changes in the way benefits are calculated and to means testing. Social Security benefits already provide a larger replacement of income for lower income individuals. Reducing benefits for higher income individuals would widen the gap between contributions and benefits further, and risks eroding support for the program among key constituencies. We also reject calls for privatization of the Social Security program. Considering the recent stock market crash and the fact that privatization doesn’t actually save money this should be rejected out of hand, not to mention that transitioning to that system would cost more than $1 trillion.

Medicare also is not the problem. It is true that most experts agree that Medicare costs are growing rapidly and could lead to serious problems in the future if we fail to make changes. However, it is an efficient system with administrative costs below 3%, well below 10 to 20% costs for private insurance. Medicare is subject to the same inflationary pressures as the rest of the health care system – pressures that include the high cost of new technology, lack of coordination leading to duplicated services, fraud and waste. The new health care reform law, enacted in March of 2010, is designed to start getting the entire health care system under control and includes some cost-containment measures specific to Medicare.

AFSCME believes that it makes little sense for the fiscal commission to look at Medicare (and Medicaid) for deficit reduction *before* the new health care law is given a chance to work. Cutting benefits or making major changes now will only hurt the millions of older and disabled Americans who depend on Medicare for their basic health care.

Revenue Considerations

New revenues must be included in any discussion of reducing the deficit and debt. It would be wrong for the Commission to focus exclusively or mostly on the investment and spending side. The consideration of revenues should focus on closing tax loopholes that enable large profitable corporations and the wealthiest Americans to avoid their fair share of taxes. In addition, financial institutions that helped drive America's economy into crisis and our current ditch should be a source of future revenues to help pay to get us out of the ditch.

There are many ways to raise revenues that are currently under debate or have been debated in recent years, including a progressive robust estate tax, capping itemized deductions at the top individual tax rates and increasing the tax rate on capital gains and dividends. America can not afford to extend the Bush-era tax cuts for the wealthiest Americans. These have got to go. During the last decade, America's income inequality has worsened and the wealthiest Americans have earned comparatively much more than working families and middle-class Americans – whose income has been stagnant or falling. According to the Economic Policy Institute, top households in the U.S. saw their effective tax rate decline almost 10 percentage points from 26.4% in 1992 to 16.6% in 2007. By comparison, the average household saw effective tax rates decline less than one percentage point, from 9.9% in 1991 to 9.1% in 2006. We need a detailed and exhaustive review of tax expenditures that benefit the wealthy as well as those that benefit corporations.

AFSCME also recommends a strong push to close the $300 billion annual tax gap. We urge a full top-to-bottom review of the Internal Revenue Service's operations, infrastructure, and personnel to provide the IRS the resources it needs to monitor, review, audit and investigate taxpayers as needed to collect taxes owed and reduce tax fraud.

Conclusion

Our nation's fiscal house does need to be put in better order and job creation should be our number one goal at this time. Cuts in Social Security and Medicare are <u>not</u> the answer, nor should Congress be asked to balance the budget on the backs of low-income Americans through across-the-board cuts in discretionary spending or wholesale cuts in vital community and social services that undermine the mission of government and the common good. We need to identify and create new, progressive ways to pay for important investment needs and vital public services, including those that meet the retirement security and health care needs of the nation. New revenues must be a part of the solution to meet our present and future needs.