

DECEMBER 7, 2009
Newsweek



**HOW GREAT
POWERS
FALL**

**STEEP DEBT, SLOW GROWTH,
AND HIGH SPENDING KILL EMPIRES—
AND AMERICA COULD BE NEXT**

BY NIALL FERGUSON

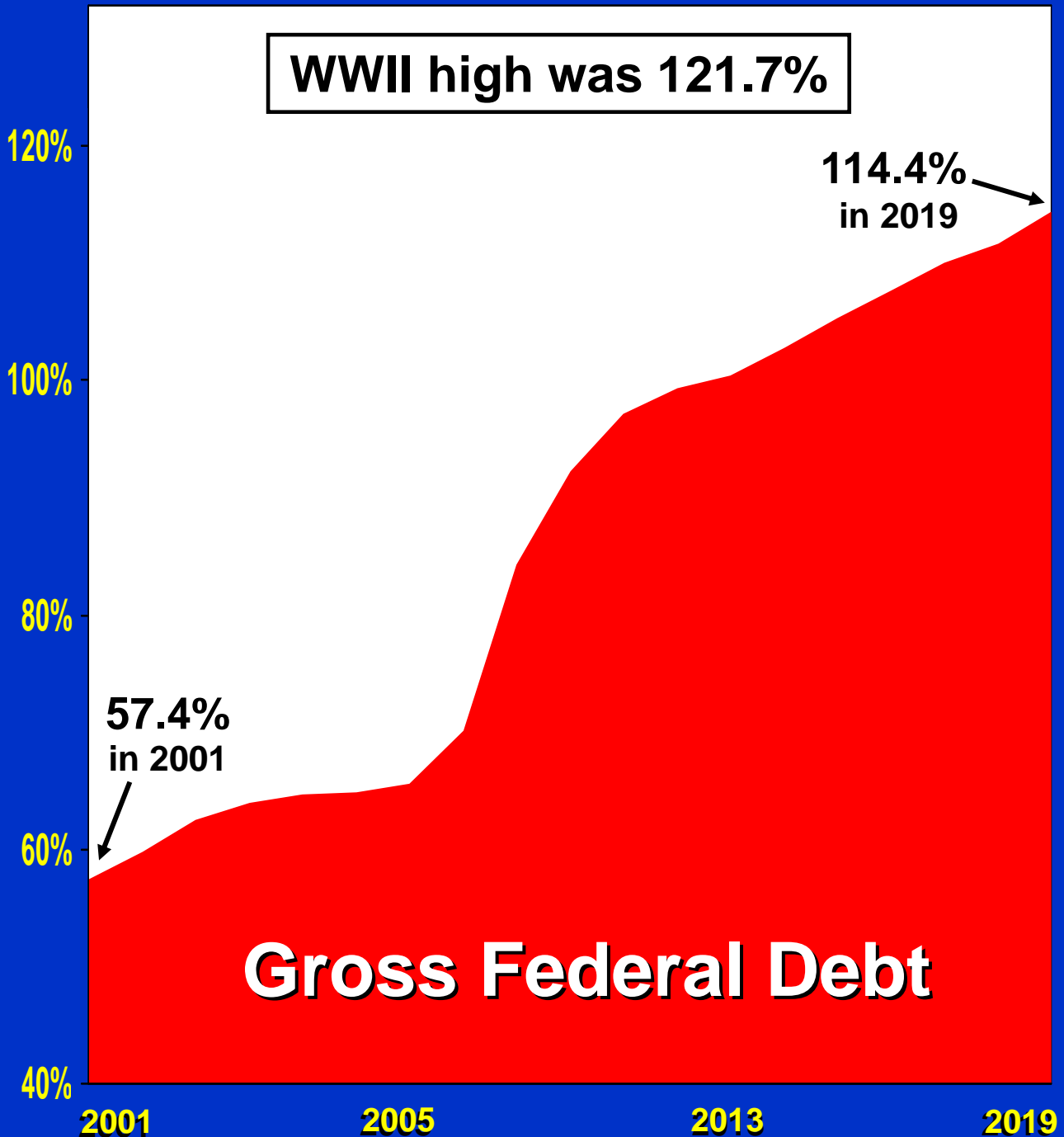
Newsweek: “An Empire At Risk”

“This is how empires decline. It begins with a debt explosion. It ends with an inexorable reduction in the resources available for the Army, Navy, and Air Force.... If the United States doesn’t come up soon with a credible plan to restore the federal budget to balance over the next five to 10 years, the danger is very real that a debt crisis could lead to a major weakening of American power.”

**– *Newsweek* cover story
By Niall Ferguson
November 28, 2009**

Gross Debt Approaches WWII Levels

(Percent of GDP)

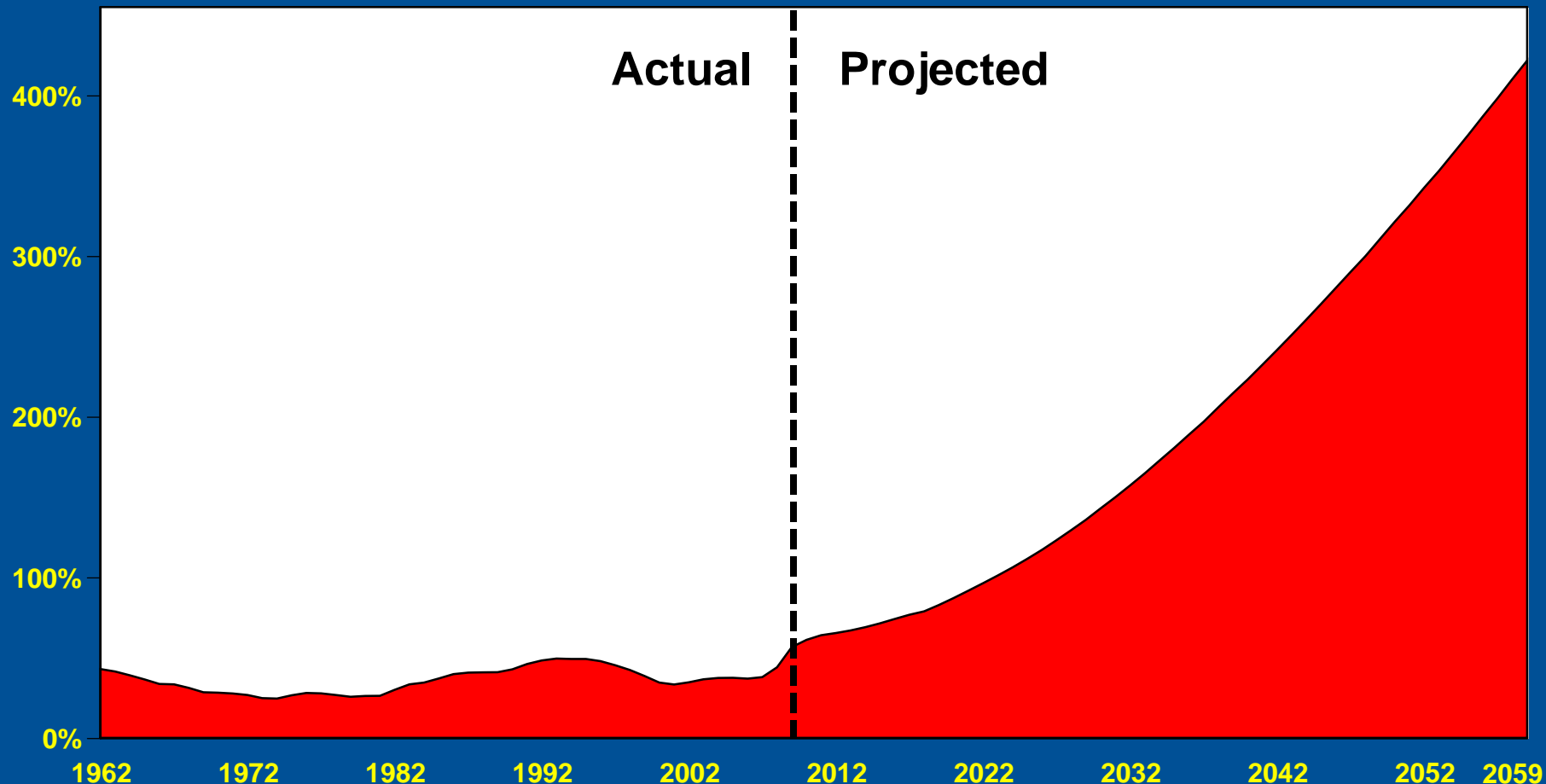


Sources: OMB, SBC, CBO

Note: Gross debt calculations by SBC staff using CBO's "The Budget and Economic Outlook: An Update," adjusted for alternative policies: extension of 2001 and 2003 tax cuts, traditional tax extenders, AMT reform, and ongoing overseas military operations.

Federal Debt Soars Under CBO Long-Term Budget Scenario

(Debt held by the public as a percent of GDP)



Source: CBO Long-Term Budget Outlook, June 2009

Note: CBO alternative fiscal scenario with tax cuts made permanent, AMT indexed for inflation, and Medicare physician payments growing with higher MEI rate.

National Journal: “The Debt Problem Is Worse Than You Think”

“Simply put, even alarmists may be underestimating the size of the (debt) problem, how quickly it will become unbearable, and how poorly prepared our political system is to deal with it.”

***– National Journal cover story
By John Maggs
November 7, 2009***

Former Fed Chairman Greenspan On Need to Address Long-Term Fiscal Imbalance

“The challenge to contain this threat is more urgent than at any time in our history.... [O]ur nation has never before had to confront so formidable a fiscal crisis as is now visible just over the horizon.”

**– Former Federal Reserve Chairman Alan Greenspan
Testimony before Homeland Security and
Governmental Affairs Committee
December 17, 2009**

Bipartisan Fiscal Task Force - Accountability

- **All Task Force members directly accountable to American people**
- **18 members – 10 Democrats (2 from Administration) and 8 Republicans**
- **Currently-serving members of Congress selected by Democratic and Republican leaders**
- **Treasury Secretary and one other administration official**

Bipartisan Fiscal Task Force - Broad Coverage

- **Everything on the table**
- **Spending and revenues**

Bipartisan Fiscal Task Force - Expedited Process

- **Recommendations to be submitted after 2010 election**
- **Fast-track consideration in Senate and House**
- **No amendments**
- **Final vote before 111th Congress adjourns**

Bipartisan Fiscal Task Force - Bipartisan Outcome

- **14 of 18 Task Force members must agree to recommendations**
- **Final passage requires supermajorities (3/5 vote) in both Senate and House**
- **President must still sign – retains veto power**

Current Status of Social Security and Medicare Trust Funds

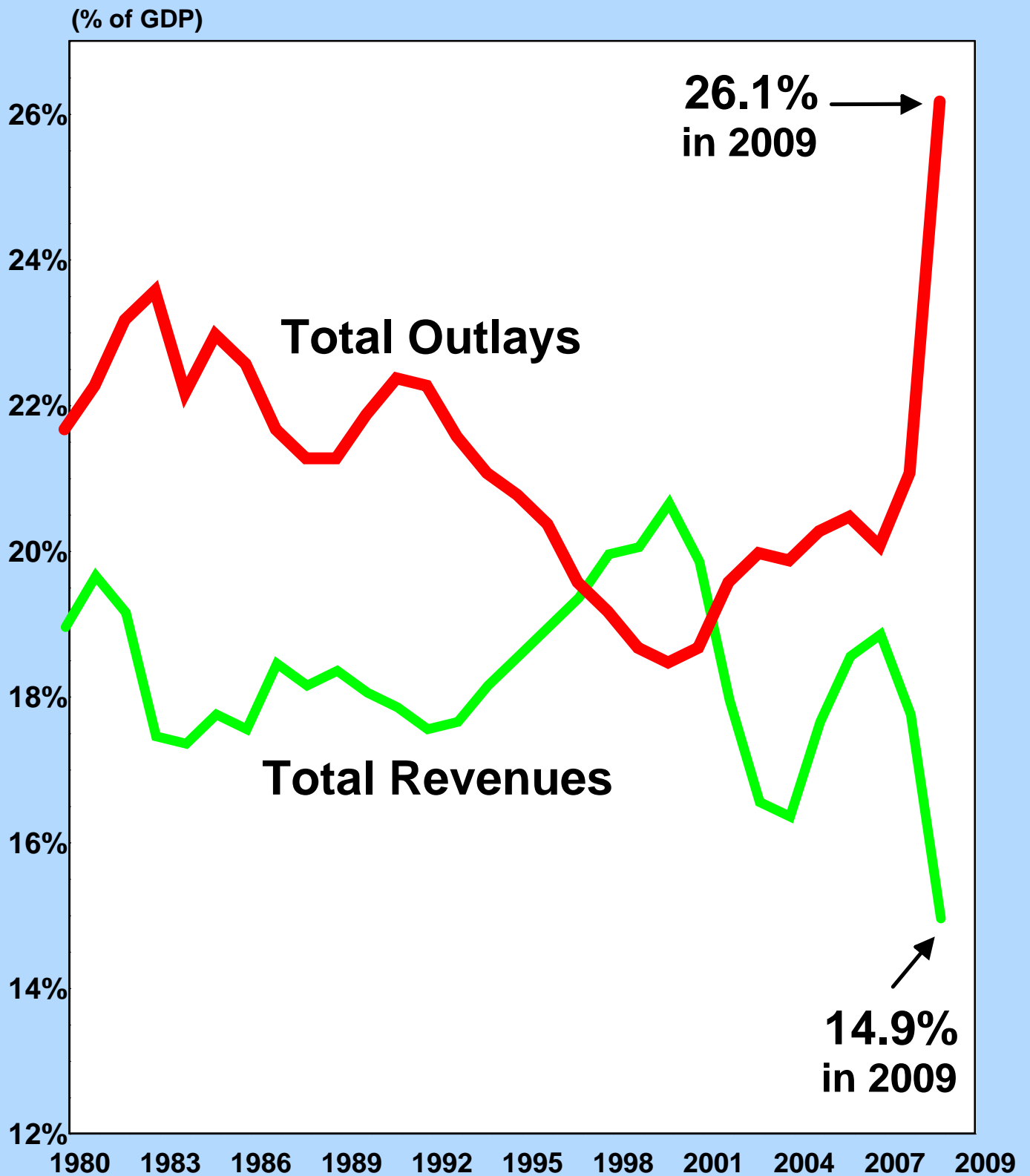
Social Security

- **Permanently cash negative in 2016**
- **Insolvent in 2037 – 4 years earlier than forecast in 2008**

Medicare (HI trust fund)

- **Went cash negative in 2008**
- **Insolvent in 2017 – 2 years earlier than forecast in 2008**

Spending and Revenues



Sources: OMB, CBO

The Need for Tax Reform

- Tax system out of date and hurting U.S. competitiveness
- Hemorrhaging revenue – tax gap, tax havens, abusive shelters
- AMT problem threatening millions of middle-class taxpayers
- Long-term imbalance must be addressed
- Simplification and reform keep rates low

Economic and Budget Experts Agree That Special Process is Needed

Greenspan

“The recommendation of Senators Conrad and Gregg for a bipartisan fiscal task force is an excellent idea.... I hope that you succeed.”

- **Former Federal Reserve Chairman Alan Greenspan**
Testimony before Senate Homeland Security and Governmental Affairs Committee
December 17, 2009

Holtz-Eakin

“I am a reluctant convert. I have always felt that this is Congress’ job, and, quite frankly, it ought to just do it. And that attitude has earned me no friends and has gotten us no action. So I’ve come around to the point where I’m in favor of something that is a special legislative procedure to get this legislation in front of Congress and passed.”

- **Former Congressional Budget Office Director Douglas Holtz-Eakin**
Testimony before Senate Budget Committee
November 10, 2009

Geithner

“...[I]t is going to require a different approach if we’re going to solve [the long-term fiscal imbalance].... It’s going to require a fundamental change in approach, because I don’t see realistically how we’re going to get there through the existing mechanisms.”

- **Treasury Secretary Timothy Geithner**
Testimony before Senate Budget Committee
February 11, 2009

Walker

“I think the regular order is dysfunctional as it relates to these types of issues. And it’s, quite frankly, understandable, because you’re talking about putting together a package that crosses many different jurisdictions.... And the idea that that would end up emerging from the regular order I think is just totally unrealistic.”

- **Then-Government Accountability Office Comptroller General David Walker**
Testimony before Senate Budget Committee
October 31, 2007

Panetta

“It’ll never happen. The committees of jurisdiction will never take on the kind of challenges that are involved in this kind of effort.... If you just leave them under their own jurisdictions, that will never happen.”

- **Former OMB Director and House Budget Committee Chairman Leon Panetta**
Testimony before Senate Budget Committee
October 31, 2007