

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**

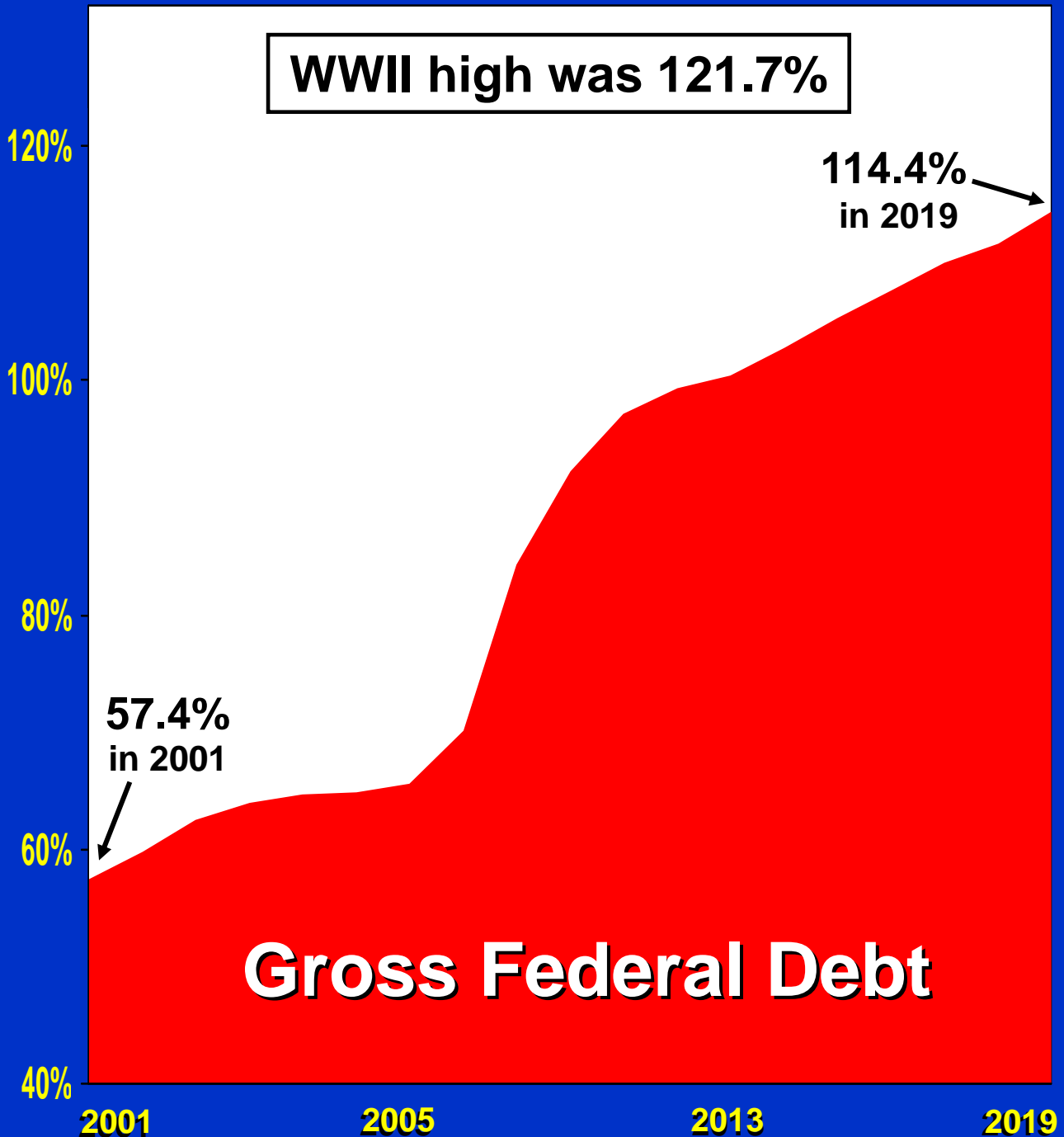
# ***Newsweek: “An Empire At Risk”***

**“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)

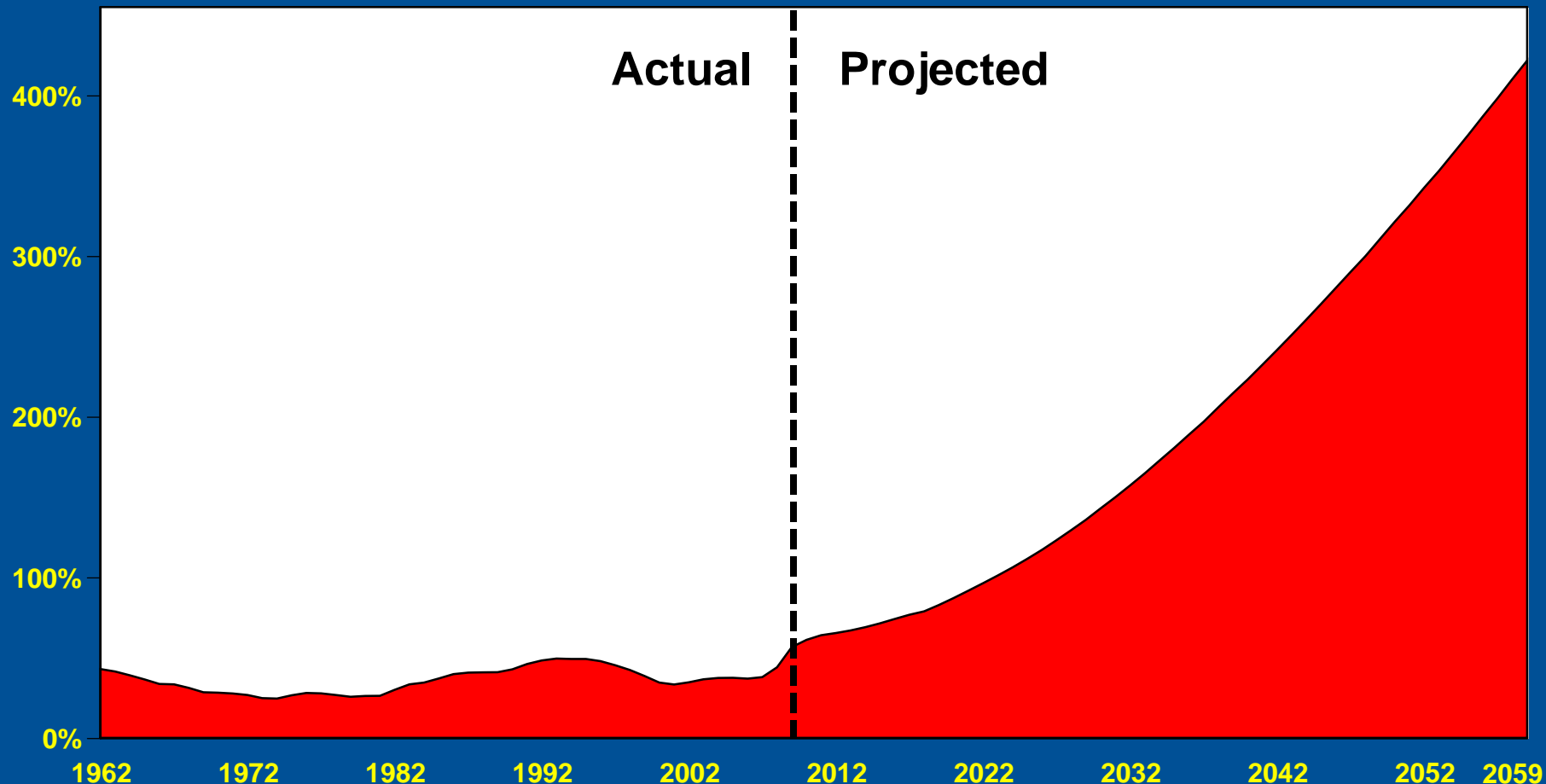


Sources: OMB, SBC, CBO

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***

# 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

# **Bipartisan Fiscal Task Force - Accountability**

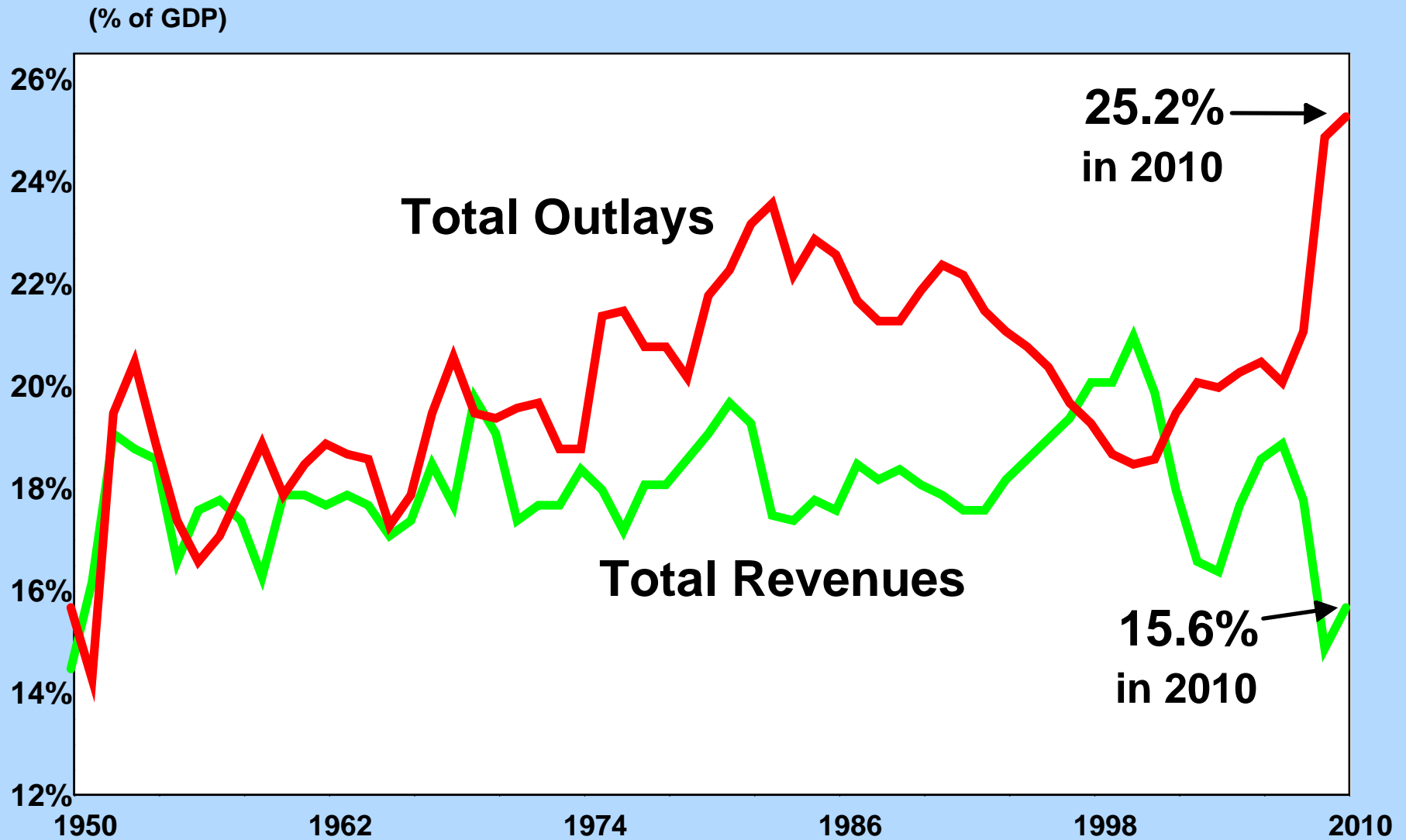
- **All Task Force members directly accountable to American people**
- **18 members – 10 Democrats (2 from Administration) and 8 Republicans**
- **Currently-serving members of Congress selected by Democratic and Republican leaders**
- **Treasury Secretary and one other administration official**

# **Bipartisan Fiscal Task Force - Broad Coverage**

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



# Spending and Revenues



Sources: OMB, CBO

# **Current Status of Social Security and Medicare Trust Funds**

## **Social Security**

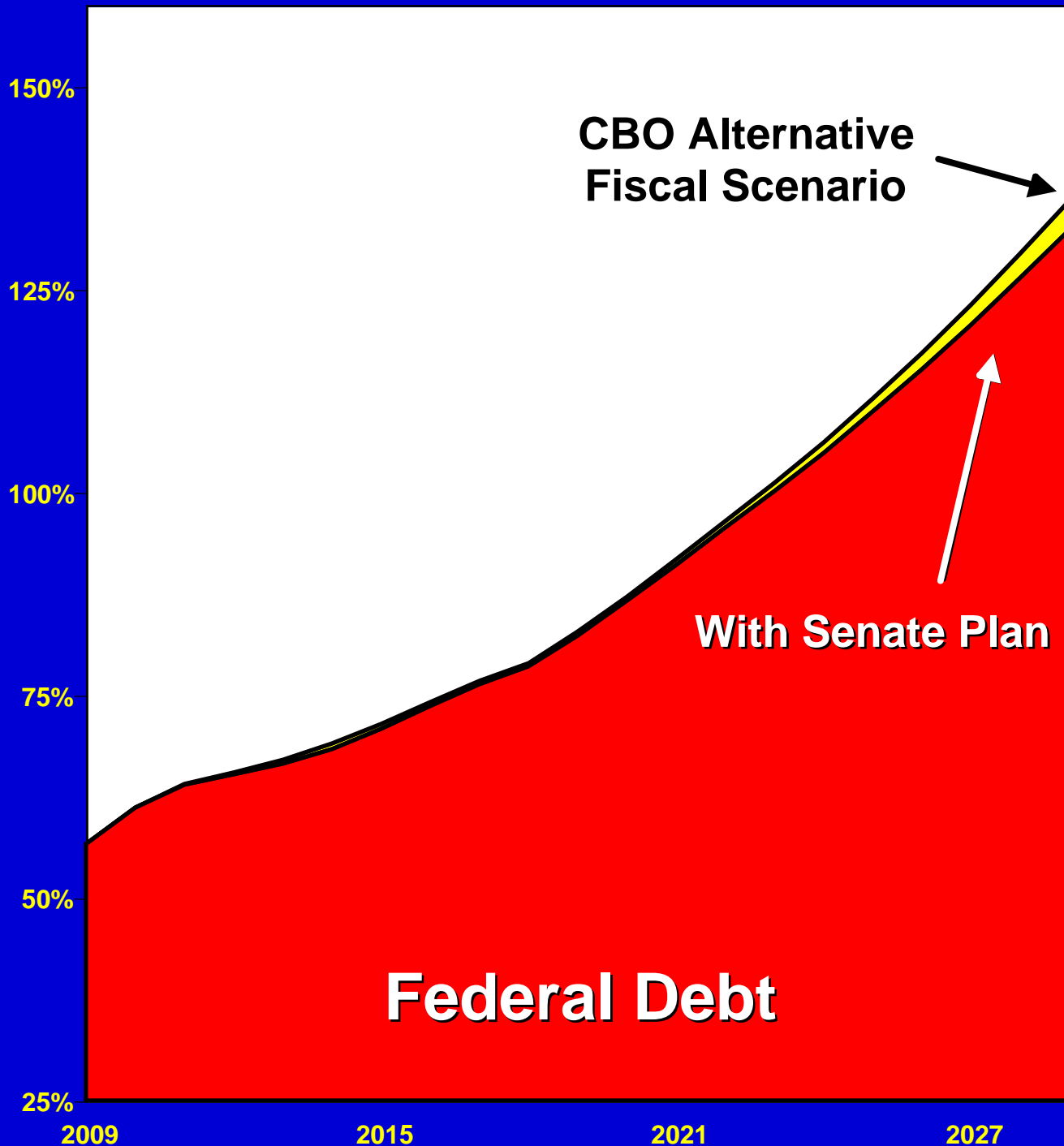
- **Permanently cash negative in 2016**
- **Insolvent in 2037 – 4 years earlier than forecast in 2008**

## **Medicare (HI trust fund)**

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

# Impact of Senate Health Plan on Long-Term Debt Outlook

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



Sources: CBO Long-Term Budget Outlook, June 2009 and SBC estimates.  
Note: CBO alternative fiscal scenario with tax cuts made permanent, AMT indexed for inflation, and Medicare physician payments growing with higher MEI rate.

# **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 111<sup>th</sup> 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**

# The White House

## Office of the Press Secretary

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For Immediate Release

January 23, 2010

### **Statement by The President on a Statutory Fiscal Commission**

The serious fiscal situation that our country faces reflects not only the severe economic downturn we inherited, but also years of failing to pay for new policies—including a new entitlement program and large tax cuts that most benefited the well-off and well-connected. The result was that the surpluses projected at the beginning of the last administration were transformed into trillions of dollars in deficits that threaten future job creation and economic growth.

These deficits did not happen overnight, and they won't be solved overnight. We not only need to change how we pay for policies, but we also need to change how Washington works. The only way to solve our long-term fiscal challenge is to solve it together – Democrats and Republicans.

That's why I strongly support legislation currently under consideration to create a bipartisan, fiscal commission to come up with a set of solutions to tackle our nation's fiscal challenges – and call on Senators from both parties to vote for the creation of a statutory, bipartisan fiscal commission.

With tough choices made together, a commitment to pay for what we spend, and responsible stewardship of our economy, we will be able to lay the foundation for sustainable job creation and economic growth while restoring fiscal sustainability to our nation.

# **National Survey Shows Strong Public Support for a Special Bipartisan Process**

**“Would you favor or oppose creating [a] bipartisan commission as a way of reviewing and addressing our federal budget problems?”**

**70 Percent Favor**

**25 Percent Oppose**

**5 Percent Not Sure**

**Source: Public Opinion Strategies and Peter D. Hart Research Associates**

**Note: National survey of 700 registered voters conducted November 16-18, 2009**