

House Budget Committee Hearing
December 11, 2024
Statement by Hon. David M. Walker
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Chairman Arrington, Ranking Member Boyle, and Members of the House Budget Committee, thank you for the opportunity to testify today. The topic of this hearing is timely and of critical importance to the future of our country, families, and future generations of Americans. And yet, it received little attention in the latest Presidential race, and not enough attention in most Congressional races.

Now that the elections are over, we need to focus on how to put our nation's finances in order to avoid a domestic and global debt crisis. I recently authored an article for International Economics Magazine at their request. In that article, I put the possibility of such a debt crisis at 70% within the next 3-5 years if we do not change course. My colleague on the Federal Fiscal Sustainability Foundation Board, Professor Steven Hanke of Johns Hopkins University, who is an internationally acclaimed economist, believes it is higher than 70%.

As I have said for many years, the federal government has grown too big, promised too much, subsidized too many, undercut states' rights, and lost control of the budget. Shockingly, despite existing for almost 250 years, the federal government still does not have a comprehensive, integrated, and outcome-oriented strategic plan despite a legislative mandate to have one. The related plan should be designed to produce specific outcome-based results consistent with the role and responsibilities assigned to the federal government under the Constitution. It should also focus on providing real value to the American people for the money it spends and other activities that it engages in. Adopting these elements is essential if we want our future to be better than our past.

Every major federal fiscal and monetary agency has stated that our nation has been on an imprudent and unsustainable fiscal path for years. The nation's debt subject to the debt limit recently passed \$36 trillion and is growing

rapidly. Total debt to GDP is at a record high and rising. And yet, this debt is just the tip of our federal financial iceberg. Total federal liabilities and unfunded social insurance obligations now exceed \$125 trillion and are growing faster than the economy. In addition, mandatory spending is now 74% of the annual budget and interest costs now exceed annual spending on both defense and Medicare!

To help put things in perspective, let me provide a few numbers based on the consolidated accrual based financial statements for the U.S. Government for the fiscal year ended September 30, 2023. The federal financial numbers for 2023 would translate to an individual who had annual income of \$45,000, spending of \$79,000, and a deficit of \$34,000. If that is not bad enough, this individual would also have accumulated debt of \$332,000 and total liabilities and unfunded obligations of \$1,250,000! I fully realize that the U.S. Government is vastly different from an individual. However, it is not exempt from the laws of prudent finance. In addition, no one is going to bailout the U.S. Government. We need to solve our own problem.

Failure to change course, restructure our nation's finances, and transform the federal government's operations, will have serious adverse economic security, national security, diplomatic, and domestic tranquility consequences over time. Everyone in America would be affected to differing degrees and the middle class would be affected the most on a relative basis.

I trust that everyone on this Committee understands the seriousness and critical importance of this challenge. In that regard, this committee needs to lead by example and Chairman Arrington is doing so. Therefore, I will focus on what needs to be done to address this challenge.

First, Congress needs to pass the Fiscal 2025 appropriations bills. In doing so, spending should be reduced from the bloated Fiscal 2024 levels in several areas. For example, any COVID related spending should cease, and any unused funds should be reclaimed. In addition, any one time and non-recurring spending items should be removed from the spending base level.

Second, President-Elect Trump recently announced the creation of the Department of Government Efficiency (DOGE) initiative. Based on information

disclosed to-date, it looks like it will be an expanded and expedited external Grace Commission style effort led by Elon Musk and Vivek Ramaswamy with a reporting date of July 4, 2026. It is likely to focus on exploring ways to right size, re-organize, and modernize the federal government to improve its economy, efficiency, and effectiveness. Examples could include eliminating, consolidating, and devolving selected organizations, facilities, and functions while leveraging technology, improving internal controls, reforming human capital and acquisition practices, adopting modern management practices, and strengthening work requirements. It should also explore deregulation efforts and additional re-organization and impoundment authority.

Regarding re-organization and impoundment authority, given our huge and growing fiscal challenge, one possibility would be to provide the President greater flexibility while providing that any proposed changes would automatically go into effect unless one or both Houses of Congress reject the proposed changes within a reasonable period of time (e.g., sixty calendar days).

The DOGE effort is clearly needed and, if properly designed and effectively implemented, could save several hundred billion dollars a year. It should consider the work of GAO and IGs and coordinate its efforts with OMB. It should also seek input from experienced outside experts in government transformation and relevant Congressional Committees, including this committee. In that regard, I believe that I am the only person who has led a successful transformation and right-sizing of a federal agency (i.e., GAO) in the 21st Century. Importantly, additional steps beyond DOGE will be needed to restore fiscal sanity and sustainability.

In this regard, President Trump's nominee for Treasury Secretary, Scott Bessent, has stated his support for a so-called 3/3/3 plan. Namely, achieving three percent real annual GDP growth, reducing deficits to three percent of GDP, and increasing oil production by three million barrels a day. While these are positive goals, they do not come close to achieving long-term fiscal sanity and sustainability since total debt/GDP is already too high. In addition, known demographic trends combined with rising health care and interest costs will present huge and growing challenges beyond President-Elect Trump's second term.

Third, there is no way that Congress will be able to pass the much needed and long overdue spending and tax reforms in a piecemeal fashion and in a timely manner through the regular order to avoid a debt crisis. The fuse has been lit on our debt bomb and there are many indications that our time to defuse it is getting short. For example, there is an increasing gap between the amount of debt we need to issue to finance our huge deficits and refinance maturing debt and the appetite of traditional purchasers of Treasury debt. In addition, the efforts of the BRICS' nations to create an alternative reserve currency that is partially backed by gold to challenge the dollar's dominance is not being taken seriously enough. As you know, the dollar is only backed by the full faith and credit of the U.S. Government. However, there are growing concerns regarding the ability of the U.S. Government to put its finances in order which could result in a flight from the dollar. Any significant reduction in the dollar's share of global reserve currencies will result in higher borrowing rates, fewer trade advantages, and a reduction in the ability of the U.S. to impose economic sanctions.

Therefore, we need to create a statutory Fiscal Sustainability Commission that will meaningfully engage the American people and solicit input on how to reprioritize and reduce spending, reform social insurance programs, and modify our tax system in ways that are pro-growth while generating more revenues as a percentage of GDP. In this regard, the Fiscal Commission Act that passed this committee on a bipartisan basis in the Spring of 2023 should be advanced on a new Continuing Resolution (CR) or re-introduced in the next Congress and passed as part of Budget Reconciliation, if necessary. Several amendments should be considered. For example, the bill should provide for a separate vote on Social Security reforms versus other proposed fiscal reforms. We need to save Social Security from an automatic across-the-board 21% cut in benefits in less than nine years while taking steps to reverse the growth in debt/GDP and stabilize debt/GDP at a reasonable and sustainable level over the next 10-15 years.

Regarding Social Security, recent proposals to repeal the Social Security Windfall Elimination Provision and the Government Pension Offset, and to not tax Social Security benefits would result in an acceleration in the insolvency date for the Social Security Trust Fund and an increase in projected benefits

cuts absent reforms to the program. They would also exacerbate our overall fiscal challenge.

Regarding fiscal sustainability, my experience in performing citizen education and engagement activities in forty-seven states and D.C. has confirmed that the people understand the need for fiscal reforms. A super-majority of voters support an approach that focuses on stabilizing debt/GDP at a reasonable and sustainable level. A super-majority of voters also support pro-growth approaches but recognize that both prospective spending reductions and revenue increases will be needed to restore fiscal sustainability. In that regard, a super-majority of voters also believe that much greater weight should be placed on prospective spending reductions than revenue increases.

Fourth, the only way to ensure sustainable success in connection with fiscal sustainability is to enact a Fiscal Responsibility Amendment to the Constitution. Only a Constitutional Amendment can bind current and future Congresses. The current debt ceiling has failed to constrain mounting debt burdens and past statutory approaches to constrain spending have not stood the test of time. Debt/GDP limitation approaches can work, and they can achieve broad-based bi-partisan support. There are also positive examples that we can look to regarding how such an amendment can be structured, including Switzerland, Germany, Sweden, and the State of Colorado. Unfortunately, Congress has failed to pass such an amendment despite the clear need to do so.

In the spring of 2023, Chairman Arrington introduced HCR 24. That legislative proposal was designed to bring light and prompt action given the failure of the Congress to discharge its express, enumerated, non-discretionary, and ministerial responsibilities under Article V of the Constitution. Namely, the responsibility to receive, store, and count applications from the states to hold a Convention for proposing one or more amendments to the Constitution of the United States. The Congress has failed to perform this basic function for over 125 years on a range of subjects. Shockingly, I and a few others discovered through extensive research that enough states had filed active applications for a state-led Convention to propose a Fiscal Responsibility Amendment as far back as 1979 and yet Congress failed to act. Since then,

total federal debt has risen from less than \$1 trillion to over \$36 trillion and is growing rapidly. In addition, the dollar has lost over 80% of its value since 1979.

Congress needs to pass HCR 24 in an expeditious manner. It will require the Congress to designate a party to receive, store, and count applications from the states, and, if the number of plenary and same subject applications has ever reached 34 (two-thirds of the sovereign states), the Congress must call the convention. Several state Attorneys General are considering filing suit against the Congress for failure to perform this important Constitutional duty and for failing to call a Convention for proposing a Fiscal Responsibility Amendment as far back as 1979. The Federal Fiscal Sustainability Foundation (FFSF) is supporting this effort. Such a suit would be unprecedented and would ultimately be decided by the Supreme Court. Hopefully, that can be avoided.

W. Bruce Lee, who is Executive Director of the Phoenix Correspondence Commission (PCC), is here today. He is working with representatives of the states to plan for a Convention of States for proposing a fiscal responsibility amendment in the expectation that it will be needed due to the failure of Congress to act.

Chairman Arrington, thank you for your leadership. I have three documents relating to the Article V effort, including a statement from Bruce Lee, that I would like to enter into the record with your and the Committee's permission.

In closing, I have been fighting to restore federal fiscal sanity and sustainability for over 30 years from different positions on the battlefield both inside and outside of government. I have grown increasingly concerned since 2003 due to the failure of several Presidents and Congresses to recognize this growing threat to our future and to start taking steps to deal with it. I will continue to fight because I love my country and my family. I hope that the members of this committee will join me. Our collective future depends on it.

Thank you again for the opportunity to testify. I look forward to answering any questions you may have.