United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510–6200

October 14, 2011

The Honorable Patty Murray
Co-Chair
Joint Select Committee on Deficit Reduction
The Capitol
Washington, DC

The Honorable Jeb Hensarling
Co-Chair
Joint Select Committee on Deficit Reduction
The Capitol
Washington, DC

Dear Senator Murray and Representative Hensarling:

As a result of this summer's historic debate over the nation's debt ceiling, the Joint Select Committee on Deficit Reduction (Joint Committee), which you chair, has been charged with identifying significant savings in federal programs in order to reduce our annual deficits and national debt. With the national debt now at over $14.8 trillion, the work of the Joint Committee is critical.

In our view, eliminating our deficits and reducing our national debt is essential if we are going to create the conditions for long-term economic growth and job creation. Our unemployment rate remains at 9.1 percent, and has been above 9 percent for 27 of the 31 months since the President was inaugurated. Yet this does not come close to telling the full story of weaknesses in the jobs market. Adding in discouraged workers, the unemployment rate is 16.5 percent. There were nearly 14 million unemployed workers in August, and of those unemployed, 45 percent have been unemployed for 27 weeks or more. The average duration of unemployment recently rose to an all-time high of over 40 weeks, the longest average unemployment spell since the Labor Department started keeping track in 1948.

The creation of new jobs is not something that will be done through new government programs. Rather, it will require government creating the conditions for private-sector job creation. Getting our deficits and debt under control is perhaps the most effective thing Washington can do to encourage private-sector job growth. Failure to reduce our deficits, and to put the nation's largest entitlement programs on a path to sustainability, creates incredible uncertainty for the individuals and businesses and thereby inhibits growth in jobs and the economy. A failure to get the debt under control risks further downgrades of the nation's credit rating, with consequent increases in the cost of borrowing that will only slow economic growth.

As Admiral Mike Mullen, the Chairman of the Joint Chiefs of Staff has noted, the most significant threat to our national security is our debt. According to the alternative fiscal scenario from the Congressional Budget Office (CBO), by 2021 debt held by the public will reach 97 percent of the gross domestic product (GDP). The federal government is currently borrowing 40 cents of every dollar spent (FY 11). Under projections from CBO, 10-year Treasury note rates are expected to rise from current levels to 5.3 percent beyond 2016. During the 1990s, rates on 10-year notes averaged 6.7 percent. Under the scenario where interest rates rise to the historical average of the 1990s, the public debt would increase 77 percent over current projections. This suggests that our fiscal outlook only worsens once eventual interest rate normalization is taken into account.

As members of the Senate's Committee on Finance, we are submitting our recommendations on tax, entitlement programs, and trade policy that make meaningful contributions to deficit reduction.

We begin our recommendations confident that increasing taxes in the name of deficit reduction would be both counterproductive and unnecessary. First, tax increases risk undermining economic growth. Second, we note that federal tax revenues are already set to rise above historic levels relative to GDP. According to CBO's June 2011 Budget and Economic Outlook, from 1971 to 2010, revenues averaged 18 percent of GDP. If no changes in law are made, revenues will go up to 20.8 percent of GDP by 2021 and 23.2 percent by 2035. Revenues at 20.8 percent of GDP would represent a tax increase of 16 percent of their recent historical average of 18 percent.

While we are all committed to fundamental tax reform, tax reform must be a base-broadening and rate-lowering exercise that is revenue neutral against current tax policy. Should the Joint Committee undertake such tax reform, we ask that you prioritize economic growth, while making the tax code more simple and fair.

Furthermore, we are all committed to repealing the partisan health law. Financed with over $1 trillion in new taxes and massive cuts to the Medicare program, this new law not only expands existing entitlement programs, but also creates new unsustainable ones. Most importantly, it does nothing to address the most fundamental issue facing our health care system – rising costs.

Our deficits and debt are primarily a spending issue, and they should be addressed accordingly. Recognizing the magnitude of the problems in these programs is essential.

- With respect to Medicare, it is important to recognize that this program is on a path to fiscal insolvency and the status quo is a policy for national bankruptcy. The number of Medicare beneficiaries will almost double in the next two decades — from 47 million in 2010 to almost 80 million by 2030. According to the CBO, Medicare will be insolvent by 2020; and according to this year's Medicare Trustees Report, Medicare is currently facing a $38 trillion unfunded liability.

- With respect to Medicaid, a program initially designed as a safety net for the poor, it now covers 1 in 4 Americans. Medicaid will consume $4.6 trillion in federal spending over the next 10 years and currently consumes 22 percent of State budgets.

- With respect to Social Security, the 2011 annual report of the Board of Trustees of the OASDI Trust Funds identifies that payments now exceed tax receipts and the combined assets of the Trust Funds will become exhausted in 2036. After 2036, Social Security beneficiaries could face across-the-board reductions in benefits of 23 percent, rising to reductions of 26 percent by 2084. The Disability Insurance part of Social Security by itself is projected to run out of assets as early as 2018 (or 2016, under high cost assumptions).

We urge the Joint Committee to consider its deficit reduction responsibilities with these facts and our recommendations in mind. Our nation faces an historic spending crisis. That crisis must be met with appropriate changes to existing spending programs that put them, and the nation, on a more sound fiscal footing. The recent downgrade of the long-term sovereign credit rating of the United States is a clear call to immediate action to rein in our spending, our deficits, and our debt.

Thank you for your service, and should you have any questions or need for technical advice, we are at your disposal.

Sincerely,

Orrin Hatch

Chuck Grassley

Mike Crapo

Pat Roberts

Michael B. Enzi

John Cornyn

John Thune

Tom Coburn

Richard Burr

cc: The Hon. Max Baucus
The Hon. John Kerry
The Hon. Jon Kyl
The Hon. Rob Portman
The Hon. Pat Toomey
The Hon. Fred Upton
The Hon. Dave Camp
The Hon. Xavier Becerra
The Hon. Jim Clyburn
The Hon. Chris Van Hollen