Testimony of Gary Therkildsen
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before the National Commission on Fiscal Responsibility and Reform

on Improving the Fiscal Situation of the Federal Budget

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Sen. Simpson, Mr. Bowles, members of the Commission, thank you for taking the time to listen to the public today.

My name is Gary Therkildsen and I am a Federal Fiscal Policy Analyst with OMB Watch, whom I am representing today. Founded in 1983, OMB Watch is an independent, nonpartisan watchdog organization that advocates for government accountability and transparency, and citizen participation in governmental processes.

OMB Watch recognizes the dangers posed by the unsustainability of the long-term fiscal outlook. However, the current atmosphere of deficit scaremongering poses a different danger: poor fiscal policy that ultimately harms Americans and does nothing to change the trajectory of the long-term budget situation.

"Fiscal responsibility" is not simply setting arbitrary limits on federal spending for the sake of reducing the federal budget deficit. Rather, it is an assessment of the current economic and fiscal environments and a determination of an equitable deployment of national resources.

10.7 million Americans are without work right now and millions more work part-time because they have no other choice. The Office of Management and Budget (OMB) projects that until 2015 unemployment will remain above 6 percent, and will stay above 5 percent through 2020.
All else being equal, reducing the federal budget deficit in the near term will only worsen the situation. In short: yes, deficits can be good things, and fiscal responsibility requires the Commission to acknowledge this.

Cutting federal spending during a recession is fiscally irresponsible for two reasons.
First, either by scaling back programs that provide health care, nutrition and housing services that soften the blows of the worst economic downturn since the Great Depression or by crippling the institutions that protect the public from tainted food and lead-contaminated toys, spending cuts now and in the next few years will inflict undue hardship on millions of American families.

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Second, reducing the federal budget deficit may, as it did in 1937, stifle a nascent recovery that's barely underway. A resultant double-dip recession would keep many from re-entering the workforce and further suppress federal tax receipts, ultimately exacerbating the deficit situation.

Federal spending is a powerful counter-cyclical tool that can help put people to work and increase consumer spending. Given the anemic growth and persistently high unemployment projected over the next three years, and with state budget crises still looming, the Commission should seriously consider a second large stimulus.

The Recovery Act has generated between 1.2 million and 2.8 million jobs according to the Congressional Budget Office. A new stimulus package would help the economy expand by putting more people back to work and increasing revenues, thus allowing short-term deficits, which are largely – though not totally – self-correcting, to come down faster.

Put in stark terms – increase the deficit or increase unemployment. OMB Watch favors increasing the deficit in the short-term, as higher employment will help to ensure the deficit is temporary.

Once unemployment moves down and the economy is less fragile, then, and only then, should we tackle the structural deficits that remain.

I have two final comments on the options the Commission has available to reduce the federal budget deficit.

First, the Commission should consider tax expenditures to be the same as expenditures that occur through cash outlays. In other words, when spending cuts or freezes are called for, the Commission should consider tax expenditures part of that universe of spending.

Syracuse University professor and former head of the Urban-Brookings Tax Policy Center Len Burman estimates that freezing tax expenditures at 2012 levels for three years and indexing the cap for inflation after that would save the Treasury about $3.5 trillion.[1] The $250 billion deficit reduction resulting from a decade-long freeze of non-security discretionary spending is a pittance compared to the savings found in freezing tax expenditures.

Second, without a comprehensive view of federal spending and its impact, the Commission and other federal budget makers will not be able to weigh all possible approaches to deficit reduction. Currently, there is no single source of federal spending information – no dashboard of spending – to which policy makers can turn to see the universe of federal policy initiatives, the money spent on each, and the ultimate impact those programs have on Americans.

Once authorized, such a federal spending transparency system would take several years to design and implement and would of course not be available to *this* commission. However, a recommendation to create such a system would prove invaluable to budget makers in the future.

Thank you.

[1] http://www.washingtonpost.com/wp-dyn/content/article/2010/02/01/AR2010020103072.html