

Opening Statement
John Engler
U.S. Senate Committee on the Budget
“The Benefits of a Balanced Budget”
March 11, 2015

Good morning, Chairman Enzi, Ranking Member Sanders, members of the Committee. Thank you for the opportunity to testify today on the benefits of a balanced budget.

Business Roundtable commends this committee for your work to produce a serious budget resolution.

Above all, a budget must be the blueprint for action – action that restrains spending, modernizes entitlements, and fosters the robust economic growth required to meet America’s many challenges.

Business Roundtable CEOs believe achieving robust economic growth is one of our nation’s most important priorities.

Further, they believe growth is achievable through policies like business tax reform, expanded U.S. trade, investments in physical and digital infrastructure, a fix of our broken immigration system, and a smarter approach to regulation.

This committee understands very well the costs of inaction: An America that remains on a worsening and unsustainable fiscal path.

- The doubling of annual deficits within a decade. More than doubling, in fact: from \$483 billion in fiscal year 2014 to \$1.1 trillion in fiscal year 2025.
- Soaring federal debt – rising more than \$7.6 trillion over the next decade – representing 79 percent of GDP by 2025. This would be the highest ratio, by the way, since the end of WWII.
- Federal government spending rising from \$3.6 trillion today to more than \$6.1 trillion by 2025.

Medicare, Medicaid, Social Security and net interest on the debt would drive government spending, accounting for about 85 percent of the increase in outlays over the next 10 years.

Interest payments on the debt pose a real fiscal and economic threat.

Interest represents the fastest growing component of government spending: As a share of the economy, net interest payments will climb from 1.3 percent of GDP to 3.0 percent in 2025 – and certainly even higher in future years.

The consequences: The government paying higher interest rates to borrow, producing even higher deficits, leading to even more expensive future borrowing.

Balancing budgets is no question difficult, but doable. And again, as the Chairman mentioned, states can show the way.

As a new governor in 1991, my state was faced with a \$1.8 billion deficit. Business as usual ... no longer affordable. So in the 1990s Michigan's budgets actually did downsize government, reduced the number of state employees, lowered property taxes, reformed welfare and made education a priority.

By the end of the decade, we were able to restore Michigan's credit to a AAA rating, something not seen in Michigan in 25 years. Investment rose, and the state's economy grew.

Growth makes budgeting a whole lot easier ... brings in the revenues that allow us to address our nation's priorities.

A CBO report has compelling data: A sustained increase in the growth rate of GDP of a full percentage point annually reduces the budget deficit by \$3.3 trillion over a decade.

I want to highlight two priorities from Business Roundtable's "Achieving America's Full Potential" report that we believe will produce substantial economic benefit.

Entitlement Reform:

For future generations of American retirees to rely on the assurance of basic retirement security, changes are needed to strengthen and sustain Medicare and Social Security. Business Roundtable supports:

- Gradually increasing the eligibility age for full benefits,
- Updating the method of computing cost-of-living adjustments, and
- Implementing means testing for higher-income recipients and expanding competitive models of care much more broadly within the Medicare system.

Pro-growth tax reform:

The U.S. corporate tax system hinders the ability of American companies to compete in the global economy, resulting in less investment in the United States, and an underperforming economy with fewer job opportunities and lower wages.

Roundtable CEOs believe business tax reform has the greatest potential for immediate, positive growth.

The Roundtable has identified two reforms that could put the United States at the forefront of global competitiveness, invigorating economic growth and spurring job creation:

- A competitive tax rate of 25 percent; and
- A modern international tax system that ends the double taxation of U.S. corporations' foreign earnings and encourages the profits to come home to the US of A.

I would be pleased to address these reforms in more detail in the Q&A.

Mr. Chairman, Ranking Member Sanders, members of the Committee: Thank you again for the opportunity to address the need for a balanced budget, its many benefits, and the pro-growth policies that will help reinvigorate our nation.

We look forward to working closely with you.

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