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**Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding "Trigger" Budget Enforcement Mechanisms**

Confucius said:

"He who does not economize will have to agonize."

Over the last decade this country has failed to live within our budget. The debt held by the public as a percent of our total economy is now quite high – about 69 percent of the Gross Domestic Product, or GDP.

Now is the time for us to remember the warning Confucius gave. It is time to craft deficit reduction legislation that will stabilize debt held by the public by 2014 or 2015, and it should continue to reduce the deficit in the following years as well.

At the same time, the debt ceiling needs to be raised to accommodate dollars we've already spent.

As we consider a framework for major deficit reduction over time, one policy we may want to consider is a budget enforcement mechanism. How would we create a budget enforcement mechanism?

First, we would set a limit tied to a specific measure of our economy. This limit could be the level of debt held by the public or the level of federal spending as a percent of our economy.

Then, if our economy reaches that limit, it would trigger an automatic response. It could trigger an across-the-board reduction in spending, an increase in revenue or a reduction in tax expenditures, or some combination.

The trigger would encourage efforts to pass a deficit reduction package progress and conclude in a timely manner. If necessary, it would make sure the deficit reduction this economy needs is accomplished.

The President has proposed a mechanism called the Debt Failsafe Trigger. Others have put forward their own proposals as well.

One proposal, put forward by Senators Corker and McCaskill, would cap spending at 20.6 percent of GDP within ten years. If the cap was breached, an automatic, across-the-board spending cut would take effect.

This type of proposal presents some significant challenges.

First, it would encourage domestic spending programs to be administered through the tax code, and our tax system would become even more complex.

This proposal would also cut Social Security, Medicare, and Medicaid significantly. These cuts would have a huge, negative impact on the most vulnerable Americans who count on these programs to make ends meet.

But, there's a catch. If Medicare, Medicaid and Social Security were exempted from an across-the-board-cut, the cuts to other programs would be far too large to bear. That is a significant downside to this type of trigger.

We must also consider the President's trigger proposal. This plan would place a cap on debt as a percent of GDP, instead of spending as a percent of GDP. The target would be set to stabilize debt as a percent of our economy by the middle of the next decade and continue reducing the debt in the years that follow.

This approach provides more tools to meet our significant fiscal challenges. It would allow us to use both revenues and spending to decrease the deficit and debt.

There is certainly a precedent for this type of trigger. President Reagan's 1984 budget included a "contingency tax" that would have only been triggered on if economic conditions reached certain levels. The proposal would have triggered a one percent tax surcharge on individuals and corporations as well as an excise tax of \$5 per barrel of oil.

Today we will ask how a trigger mechanism would work.

In what year should the trigger be set? Should the trigger take place in just one year, or are there advantages to phasing in or extending a trigger over a series of years? And, how would a trigger affect our economy in an economic downturn?

In a sluggish economy, revenue slows and spending on unemployment benefits and Medicaid increases, which adds to the deficit.

As a result, a trigger would slow spending to compensate. But the worst time to be cutting spending is in an economy battling to recover, because cutting spending would deepen the economic decline.

We must ensure that any trigger we consider would not worsen our economy and leave people out in the cold when they need help the most. I look forward to taking a close look at these trigger proposals today.

It is my hope that this type of proposal can help us get our deficits and debt under control, so our economy can grow and create the jobs Americans deserve.

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