United States Senate

COMMITTEE ON FINANCE
WASHINGTON, DC 20510–6200

September 25, 2013

The Honorable Jacob J. Lew
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Lew:

Thank you for meeting with Members of the Senate Finance Committee on September 18 to discuss the statutory debt limit. That limit, which currently stands at $16.7 trillion, has been raised by a cumulative $5.4 trillion since President Obama took office in 2009, the largest increase in history.

In recent public statements, you have identified the administration's interest in having a "clean" debt limit increase before mid-October, though you have not defined how much of an increase the President would like, or for how long you would like it to last.

A statutory limit restricting total federal debt has been a feature of our fiscal landscape tracing back at least to the Second Liberty Bond Act of 1917. Providing the President with unfettered ability to raise the limit would require legislation, a significant departure from precedent, and a major shift of fiscal authority from Congress to the Executive branch.

For decades, Congress and various administrations have used the debt limit as an opportunity to confront budgetary, fiscal, and other matters. This debt limit increase should be viewed similarly – as an opportunity to bring lasting reforms and debt reduction to our nation.

Make no mistake: we support the U.S. government paying its obligation. Unfortunately, given the growth of America's debt and absent changes to our entitlement programs, which are driving our debt, we will be consciously choosing a future defined by defaults on our promises embedded in the disability and retirement components of Social Security and our promises in Medicare.

The facts speak for themselves:

- According to the most recent long-term outlook issued this month by the nonpartisan Congressional Budget Office (CBO): "Between 2009 and 2012, the federal government recorded the largest budget deficits relative to the size of the economy since 1946, causing federal debt to soar. Federal debt held by the public is now about 73 percent of the economy's annual output, or gross domestic product (GDP). That percentage is higher than at any point in U.S. history except a brief period around World War II, and it is twice the percentage at the end of 2007."

- CBO warns of several adverse effects of our unsustainable debt path, including less national saving and future income; reduced ability and flexibility to respond to domestic and international problems; a higher likelihood of a fiscal crisis in which investors demand very high interest rates to finance the government's borrowing needs; higher tax rates; reduced output; higher interest rates; crowding out of private investment; and higher interest payments.

- CBO's data also make clear that we face a spending problem and not a revenue problem given that federal spending is projected to remain above historic norms (by two percentage points relative to GDP) while revenue as a percent of GDP is projected to be well above historic norms (by almost three percentage points relative to GDP).

- The root of the spending problem is also made clear. According to CBO: "Most of the projected growth in noninterest spending as a share of GDP over the long term is expected to come from the government's major health care programs: Medicare, Medicaid, the Children's Health Insurance Program, and subsidies to help people purchase health insurance thorough the exchanges created under the Affordable Care Act." Social Security spending is also expected to increase relative to the size of the economy.

- As CBO identifies: "Federal spending for the major health care programs and Social Security would increase to a total of 14 percent of GDP by 2038, twice the 7 percent average over the past 40 years." In contrast, total spending on everything other than major health care programs, Social Security, and net interest payments would decline to 7 percent of GDP, well below the 11 percent average of the past 40 years and a smaller share of the economy than at any time since the late 1930s." Of course, those "other" categories of spending, which will shrink dramatically under our current fiscal trajectory as a share of the economy, include a range of programs running from the supplemental nutrition assistance program to roads and bridges.

When it comes to revenue, let's be clear: after the over $1 trillion in tax increases to fund the Affordable Care Act and the more than $600 billion in revenue that was part of the fiscal cliff legislation earlier this year, we believe that any talk of tax increases distracts from the critical goal of entitlement reform. Moreover, as the recent CBO report makes clear, under current law, in the not distant future "Average tax rates would be considerably higher for households throughout the income distribution—in other words, taxpayers at all income levels would pay a greater share of their income in taxes than similar households do today." We are not willing to discuss any revenue increases until the Administration puts real, structural fixes to these massive government programs on the table for consideration.

As such, we call on you to detail to the members of this Committee how long and how great of a debt limit increase the Administration is requesting. We ask that the President begin discussions now to combat our long-term debt through meaningful entitlement reforms – not merely more cuts to health care providers. Lastly, we ask that the Administration view this debt ceiling discussion as an opportunity to bring lasting changes that the American people deserve so the promise of the American dream is extended not only to them, but their children and grandchildren as well.

The bottom line is our long-term debt trajectory remains unsustainable, reflecting unsustainable projected growth in entitlement spending. We stand ready to work with you and the President moving forward.

Sincerely,

Orrin Hatch

Pat Roberts

John Thune

Pat Toomey

Chuck Grassley

John Cornyn

Rob Portman

Mike Crapo

Mike Enzi