

# THE CONCORD COALITION



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## **CONCORD COALITION SUPPORTS THE PRESIDENT'S DEFICIT REDUCTION GOALS AND BIPARTISAN FISCAL COMMISSION PLANS**

*NOTE: The Concord Coalition will offer additional analysis of the President's new budget proposals late this afternoon on our website at [www.concordcoalition.org](http://www.concordcoalition.org).*

WASHINGTON -- The Concord Coalition said today that it supports the deficit reduction goals in President Obama's new budget as well as his plans for a bipartisan fiscal commission.

Concord warned, however, that even meeting the ambitious goal of slashing the annual deficit by roughly two-thirds by 2015 would not put the country on a sustainable, long-term fiscal path. That will require substantial changes in Medicare, Social Security, the defense budget and other key areas that would not be affected by the administration's proposal for a partial freeze on domestic spending. It will also require higher revenues than are projected in the budget.

"The President's budget is a step in the right direction on a long and difficult path," said Robert L. Bixby, executive director of The Concord Coalition. "While it certainly leaves much to be done, it recognizes the need to begin reining in our unsustainable deficits without clamping down too fast on the spending increases and tax cuts that were designed to help the economy recover from a deep recession. This is a complex and perilous task, but it is essential.

"The new fiscal commission will also be essential. It should review the entire federal budget and make proposals to chart a more sustainable long-term fiscal course. However, its success will depend upon congressional leaders of both parties agreeing to participate without preconditions and giving its recommendations an up-or-down vote."

Regardless of which political party has had the upper hand in Washington, the conventional legislative process has failed to deal with the huge structural problems in the federal budget. For that reason, The Concord Coalition urged members of both parties to give their full support to the commission and its work. Concord warned, however, that the commission's mandate to stabilize the debt-to-GDP ratio by 2015 -- an appropriate

goal -- should not become a distraction from addressing the more difficult long-term structural deficits.

“If congressional leaders are serious about deficit reduction in the coming years,” Bixby said, “they should use their appointments to put serious people on the new commission -- people who are truly committed to fiscal responsibility and who know how to negotiate and reach responsible compromises.”

The immediate challenge facing Washington is to determine how quickly to reduce the nation’s huge deficit without harming the economy and hurting job creation. The administration’s \$3.8 trillion budget for 2011, released this morning, contains spending increases in some areas but would freeze overall domestic spending in about one-sixth of the federal budget.

Diane Lim Rogers, chief economist for The Concord Coalition, noted the tension between short-term and long-term goals: “On the surface, it may appear that this budget is at odds with itself. It adds to the deficit in the near-term while aiming to reduce deficits in the out-years. However, there is nothing inconsistent about this combination. In fact, it is precisely what current circumstances call for. A contrary strategy -- concentrating on stimulus or deficit reduction alone without regard to timing -- would carry a higher risk for the economy.”

Concord made the following observations about key areas of the budget:

- The budget aims to reduce the deficit from 10.6 percent of GDP in 2010 to 3.9 percent in 2015. This is an appropriate, if ambitious, goal. The biggest obstacle is not the economy, war costs or domestic discretionary spending. It is the political desire to extend a number of tax and spending provisions that are scheduled to expire under current law. According to baseline projections by the Congressional Budget Office (CBO), which assume that current law is allowed to take effect, the deficit would come down to 2.6 percent of GDP in 2015.
- Current proposals to reinstitute statutory pay-as-you-go budgeting fail to address this problem completely because they carve out broad exemptions. In Concord’s view, the President and Congress should be open to closing these PAYGO loopholes. The alternative is to seek new sources of revenue or spending cuts that will be just as controversial. There is no ducking the arithmetic.
- Even if the President’s deficit reduction goal is met, debt held by the public (excluding federal trust funds) will rise from 63 percent of GDP in 2010 to 77 percent in 2020. This level of debt would be far higher than anything experienced in the United States since the immediate post-World War II period and would threaten future economic growth.
- The most immediate and tangible consequence of the debt increase under the President’s budget would be a spike in interest costs, which would rise from \$188

billion in 2010 to \$840 billion in 2020. Even by 2014, interest costs would exceed all non-security discretionary spending.

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The Concord Coalition is a nonpartisan, grassroots organization dedicated to balanced federal budgets and generationally responsible fiscal policy. Former U.S. Senators Warren B. Rudman (R-NH) and Bob Kerrey (D-NE) serve as Concord's co-chairs and former Secretary of Commerce Peter G. Peterson serves as president.