Joint Select Committee on Budget and Appropriations Process Reform – Foster testimony on debt limit repeal
June 4, 2019

- Good morning, and I'd like to begin by thanking Chairman Neal and the other members of the Ways and Means Committee for holding this members' day.
- I am here to discuss the debt limit, which I view as the most unnecessary and disastrous risk to financial stability and the economic recovery of the last eight years.

- Over the last six months, I have discussed this issue with various Administration officials and some experts in hearings of the House Financial Services Committee and private meetings.
- In the Committee, Secretary Mnuchin responded that he did not support it as a mechanism for controlling spending last year, and in February of this year, said that he thought repeal should be one option discussed in the long term.
- I agree with that statement and hope to advance repeal as one option this Committee considers.

- The debt limit is an artificial fig leaf over the fiscal irresponsibility of Congress.
- On the one hand, the debt limit instructs an administration not to issue debt beyond a certain point.
- On the other hand, this Congress slashes revenue without paying for it as it increases spending across the board, even on projects that do not make sense.
- This is like ordering a dinner and then deciding not to pay for it after you've eaten.

- The deficits created here inevitably trigger a crisis with the debt limit.
- As a result of the partisanship that has defined recent sessions of Congress, the debt limit is a self-inflicted risk that is unnecessary and ineffective.
- Moreover, it creates a default risk that is not market-driven, complicating the calculation of risk and likely distorting pricing.
- If the United States ever exceeded the debt limit, the results would be catastrophic for our economy and hardworking Americans.

- This problem is not a partisan issue.
- It is an issue that impacts middle class families in every congressional district, and unnecessarily slowed the recovery from the Great Recession.
- A 2013 Treasury report found that when the nation approached the debt limit without a clear path to raising it, the average mortgage in the United States increased 100 dollars per month.

- We need to address our debt through the budget process, the tax code, and appropriations.
- Our economy should not endure a market-rocking event because of a partisan fight over an arbitrary number that is not related to economic performance or GDP.
- I asked Federal Reserve Chairman Powell about the size of our debt relative to aggregate household net worth, which just passed $100 trillion.
- He agreed that we have to address our debt in the long run, but that we are presently not near our carrying capacity.

- Our failure to provide adequate revenue to pay for the programs hardworking Americans need has created a serious structural debt problem.
- Our economy is both rich and productive enough to fulfill our obligations to the most vulnerable.
- We can afford to ensure that Social Security, Medicare, and Medicaid are available in perpetuity.
- I strongly believe it is a moral imperative that we do so.

- The debt limit does not provide fiscal discipline, but does cause market problems.
- There is no hypothesized credit limit of the United States of which I am aware, but it is clear that it is greater than the current debt load based on the market appetite for Treasury's at low interest rates.
- Repeal would allow the markets to impose this discipline. We should consider other mechanisms for forcing Congress to have real debates on fiscal policy.
- These could include changing House rules to provide for a privilege of the House for bipartisan budgets that balance, or a queen of the hill process that could provide for votes on either end of the political spectrum and a centrist alternative with bipartisan support.

- Finally, while I don't have time to expound on these points here, I wanted to highlight two other issues of importance; the need to have CBO score the distributional effects; and the imbalance caused by various tax credit formulas in federal taxes paid vs federal dollars spent in certain states – what I call the Payer State problem.

- I appreciate the opportunity to testify to the Committee and am happy to answer any questions. Thank you.