JOINT ECONOMIC COMMITTEE
VICE CHAIR AMY KLOBUCHAR
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"The Economic Costs of Debt-Ceiling Brinksmanship"

Opening Statement of Senator Amy Klobuchar, Vice Chair of the Joint Economic Committee

As Prepared for Delivery

I want to thank everyone for being here this afternoon to discuss the economic costs of delaying an increase in the debt ceiling.

I'd like to introduce our distinguished panel of witnesses, who have a wealth of expertise and insight in this area.

Dr. Mark Zandi is the Chief Economist at Moody's Analytics, where he directs economic research. Dr. Zandi was an advisor to the presidential campaign of Senator McCain and has provided economic advice to Congress for many years.

The Honorable David Malpass is the President of Encima Global, an economic research and consulting firm based in New York. He served as Deputy Assistant Treasury Secretary under President Reagan, Deputy Assistant Secretary of State under President George H. W. Bush and Republican Staff Director of the Joint Economic Committee.

The Honorable Donald Marron is an Institute Fellow and the Director of Economic Policy Initiatives at the Urban Institute. He served as a member of the Council of Economic Advisers under President George W. Bush and as the Acting Director of the Congressional Budget Office. He was the Executive Director of the Joint Economic Committee under Chairman Robert Bennett. He recently served as a member of the Rivlin-Domenici Debt Reduction Task Force.

Dr. Daniel Mitchell is a Senior Fellow at the CATO Institute, where he specializes in tax reform policy. He was previously a Senior Fellow with the Heritage Foundation and an economist on the Senate Finance Committee. He also served on the 1988 Bush/Quayle transition team and was Director of Tax and Budget Policy for Citizens for a Sound Economy.

In the summer of 2011, the United States experienced some of the costs of a protracted debt-ceiling showdown. As Congress struggled to raise the debt ceiling, the Dow Jones Industrial Average dropped more than 2,000 points, and Standard and Poor's downgraded the U.S. credit rating. Consumer confidence also fell sharply.

During that debate, I heard from nearly 20 CEOs of major companies in my state urging Congress to set partisan divisions aside and reach an agreement to raise the debt ceiling.

The delay in lifting the debt ceiling, and the resulting uncertainty, meant that the Treasury had to pay higher yields than otherwise would have been necessary, costing taxpayers $1.3 billion.

After the 2011 debt-ceiling showdown, Federal Reserve Chairman Ben Bernanke told this Committee in very blunt language, "It's no way to run a railroad." He's right.

We now find ourselves in a similar situation: the federal government effectively reached its borrowing limit on May 19, 2013. The Treasury Department has taken "extraordinary measures" since then to postpone default for several months.

Last month, Treasury Secretary Lew informed Congress that those "extraordinary measures" will run out in mid-October.
In other words, we have about a month left to take action that will allow the U.S. government to pay our bills.

We should learn from our experience in 2011 – and not repeat it. There is broad agreement that a default would cause significant harm to the economy. It would disrupt financial markets, limit access to credit and raise financing costs. It could also trigger a run on money market funds and force the federal government to renege on commitments to individuals, businesses and governments.

For consumers, higher credit costs would mean less borrowing for purchases of homes, cars or other durable goods. Businesses could face difficulties accessing short-term debt to finance payrolls.

A default would also require the federal government to suspend payments to creditors, program beneficiaries and others. Delays in Social Security checks, veterans' benefits and other programs would have a direct impact on millions of Americans and would negatively affect the economy by depressing consumer spending.

Because a default would cause significant harm to the economy, even the mere prospect of a default can affect the decision-making of households and businesses and slow economic growth.

As discussed in a report that I released this morning on the costs of debt-ceiling brinksmanship, Congress has raised the debt ceiling more than 70 times since 1962 and voted on the debt limit 12 times since 2002. This is part of Congress's responsibility, and we must get it done.

It's also clear that Democrats and Republicans need to come together on a long-term budget plan and focus on smart, balanced solutions to reducing our debt. But negotiations over further deficit reduction should not be tied to raising the debt ceiling.

The Senate and House have each passed a budget. The President has been reaching out to Democrats and Republicans about the need to move forward on a budget deal. Many of my colleagues, including Senator McCain and Senator Collins, believe that we need to go to conference and agree on a budget that will allow us to address our fiscal challenges in a bipartisan way.

While we have to do more to move the nation toward fiscal responsibility, Congress has already taken steps to reduce deficits by at least $2.4 trillion over the next ten years.

But the vast majority of the savings to date comes from spending cuts. If sequestration continues, the ratio of spending cuts to revenue increases will be four-to-one.

Both the National Commission on Fiscal Responsibility and Reform and the Senate-passed budget call for a roughly even split between additional spending cuts and revenue increases.

In addition to addressing the budget and raising the debt ceiling, there are a number of actions Congress should take to make sure that our economy continues to grow.

Exporting has been a bright spot in our economy, with the total value of American exports reaching a record $2.2 trillion last year. Congress needs to continue efforts to open up new markets and to ensure that American businesses can compete in the global marketplace.

Agricultural products are an important driver of American exports. Last year, the United States exported more than $141 billion in farm products, resulting in a trade surplus of $38 billion. As the sixth largest agricultural exporting state in the country, Minnesota contributes substantially to these numbers.

Our agriculture exports will be undermined without Congressional action on the Farm bill. And passage of the Farm Bill will lead to $24 billion in debt reduction. As a member of the Conference Committee, I am working to ensure that farmers get the certainty they need.

Comprehensive immigration reform would also help by strengthening our labor force, boosting productivity, accelerating economic growth, and reducing the federal deficit. According to the Congressional Budget Office, comprehensive immigration reform will decrease the deficit by $158 billion over the next decade and by nearly $850 billion over the next 20 years.

The American economy continues to recover, adding private-sector jobs for 42 straight months. Economic growth in the second quarter of this year accelerated from the previous quarter.

But there are still challenges facing the economy. Mortgage rates have crept up, slowing the growth in housing. Long-term unemployment remains high. Another bout of debt-ceiling brinksmanship would unnecessarily increase uncertainty and slow economic growth.

It's critical that Congress work together in a bipartisan way to lift the debt ceiling. Getting this done

can also pave the way for bipartisan agreement on other issues before Congress this fall.
Again, I want to thank the witnesses for being here this afternoon. I look forward to your testimony.

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