



## **Problem**

### **National Debt**

The ten-year budget of the United States government is based on one large assumption. The assumption is that at least one trillion dollars will be borrowed each and every year from this point forward. So, what happens if people around the world stop lending money to the United States? The result will likely be some type of financial crisis. It may be a small crisis or it may be a large crisis. It may come suddenly or it may happen gradually. We don't know for sure. It's hard to begin to even comment on the possible outcomes.

### **What do we know for sure?**

What we do know for sure is the financial path we are on is unsustainable. Almost every area of the budget needs some level of reform to address the national debt. We also know that Congress has put forth little action. The best attempt was by the Senate in the form of the Conrad-Judd Act; however, it failed to pass in the Senate in January. So, where does that leave the nation? Since Congress was unable to act, President Obama issued an executive order for a debt commission called the National Commission on Fiscal Responsibility and Reform. However, there will be no results until after the 2010 election and the order does not require a vote by Congress. In other words there is no real plan for action. Lastly, 14 of 18 commission members will need to agree on the report. Therefore, it is too risky for Congress to simply wait.

### **Input from Economists**

We also know that economists have issued a report in December of 2009 called "Red Ink Rising" requesting immediate action for a credit card limit in America. Leading economists provided the same information to the Senate Budget Committee in February. Here is a summary of the action needed from the reports:

1. Agreement is needed immediately on establishing a credit card limit for America.
2. Develop a deficit reduction plan in 2010.
3. Implementation of the deficit reduction plan needs to begin in 2012.
4. The deficit reduction plan needs to include debt held by the public as a percent of the economy not to exceed 60% by 2018. Some testimony allows for this to occur by 2022.

The debt in item four is dramatically less than projections currently demonstrate.

### **Considerations**

Just the mere passage of a deficit reduction plan will hopefully begin to restore any wavering confidence in our nation's ability to repay its debts to its creditors. The process begins with a national debt (credit card) limit. However, we need to be very clear. In order to support this credit card limit, both spending decreases and revenue increases will likely be needed.

### **Immediate Action**

America needs to agree upon a credit card limit immediately. This document will start there.

Disclaimer: This document is merely a conceptual design and is intended for discussion purposes only.

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## **Solution - *For Discussion Purposes Only***

### **Debt Limit**

Beginning with fiscal year 2012, all ten year federal government budgets set forth by the executive and legislative branches will include a certain debt limit. That debt limit shall be measured as a percentage of the Gross Domestic Product (GDP). Specifically, the debt held by the public as measured by the United States Treasury shall be below 60% of GDP in the fiscal year 2018 and continue to decline through 2020. The budgets will also include a functional glide path from the current budgeting year through fiscal year 2018. This debt limit policy will sunset in 2020.

### **Exceptions**

Exceptions will be made to the 60% debt limit and corresponding glide path by any new war that is declared by Congress. An exception can be made to the glide path targets if a sudden drop in the GDP causes a target to be missed.

### **Timing**

This measure needs to be passed by Congress before the 2010 election. We simply cannot wait.

### **Congressional Self-Discipline**

In addition to setting the debt limit, there is great need to uphold that limit. Congress will absolutely need to show self-discipline and be accountable. How does that occur? The size of the national debt is controlled by revenue and by expenditures. Of the two, only expenditures are completely under control of Congress. No money can be spent unless authorized by Congress; the only exception is interest on the debt. Congress has to be accountable for those authorized expenditures.

### **Accountability**

Being accountable means responsibility for outcomes. It implies rewards for achievement and punishment for failure. First, goals must be set for reduced expenditures. An example is to reduce expenditures by two percent every year in order to reach a ratio of debt to GDP of 60% by year 2018. If the cost reduction goal is not met, here are two examples of resulting actions:

- 1.) All committee chairmen or chairwomen and ranking members who are responsible for a failed goal will be relieved of their posts and not allowed to hold like positions on any committees the following session.
- 2.) Ten percent of the pay for all Representatives and their staff will be withheld and placed in individual accounts, invested in U.S. Treasury securities until the end of the session. If the reduction goal is achieved, the money is returned. If not, the securities will be destroyed, electronically shredded, thus reducing the size of the national debt.

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