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The Federal Budget Should Both Meet the Nation’s Needs and Eliminate the Deficit

Alice M. Rivlin

In the following viewpoint, Alice M. Rivlin testifies to the Senate Budget Committee that U.S. economic policy can and should simultaneously focus on helping the economy recover from the recession and decreasing the budget deficit. To recover the economy, the United States needs both a short-term stimulus package and long-term investments in public infrastructure. These programs can be paid for by decreasing spending and reforming the tax system. To lower the current budget deficit, entitlement programs must be overhauled. Alice M. Rivlin, the founding director of the Congressional Budget Office, is now a senior fellow in economic studies at the Brookings Institution.

Alice M. Rivlin, “Budget Policy Challenges,” Senate Budget Committee Testimony, January 21, 2009. Reproduced by permission of the author.

As you read, consider the following questions:

1. How will a transfer of wealth to lower and middle income people help the economy, in Rivlin's view?
2. According to Rivlin, what are the risks of combining anti-recession and investment packages?
3. In Rivlin's view, why is Medicare an ideal place to start reducing the budget deficit?

I strongly share the [Senate Budget] Committee's perception that the future viability of the United States economy depends on policy-makers' ability to focus on two seemingly contradictory imperatives at the same time:

- The immediate need to take actions which will mitigate the impact of the recession and help the economy recover—actions that necessarily require big increases in the budget deficit
- The equally urgent need to take actions that will restore fiscal responsibility and reassure our creditors that we are getting our fiscal house in order—actions to bring future deficits down.

I stress two sets of *actions* because I do not believe it will be sufficient to pay lip service to the long run challenge, while acting only on deficit-increasing responses to the current financial and economic crisis. Congress and the administration must work together on actual solutions to both problems at the same time.

I will say a few words about the economy and then turn to the question of how to deal with the immediate and longer-run challenges of fiscal policy.

The Economic Outlook

We meet at a time of extraordinary uncertainty about how deep the recession will be and how long it will last. Forecast-