

STATEMENT OF
U.S. SECRETARY OF TRANSPORTATION FEDERICO PEÑA
BEFORE THE SENATE COMMITTEE ON APPROPRIATIONS
ON A PROPOSED BALANCED BUDGET AMENDMENT

February 17, 1994

I am pleased to give this Committee my views on a proposed amendment to the Constitution of the United States to require a balanced Federal budget.

Deficit Reduction is Critical and a Top Presidential Priority

I am sympathetic to the concerns of millions of Americans about the unacceptable Federal deficit. We must reduce the deficit, and President Clinton has made deficit reduction a top priority. We were all participants, one way or another, in the successful effort last year to achieve passage of a deficit reduction plan that brought the deficit down from 4.9 percent of gross domestic product (GDP), where it was in 1992, to a projected 2.5 cent of GDP in 1995 and 2.3 percent of GDP in 1999. With the budget the President has proposed for fiscal year 1995, we believe this country will see three consecutive years of declining deficits -- for the first time since Harry Truman was President!

It has been no easy task to get to this point. Americans watched night after night as the drama of whether Congress would enact the President's five-year economic plan

unfolded here on Capitol Hill. Once it was the law of the land, we in the Executive Branch faced the hard job of bringing forward budgets that lived within the tight, no-growth spending constraints of the final agreement. At the Department of Transportation, we examined all our spending programs very carefully and cut programs that had outlived their usefulness or just couldn't be justified in a tight budget environment. We seek hundreds of millions of dollars in outlay savings in the FY 1995 Budget, and we have proposed a staffing level that is 5 percent below our enacted staffing level for FY 1993.

There are No Painless Ways to Achieve Deficit Reduction

Deficit reduction is essential, but it also requires painstaking examination of current funding programs to identify those that are least critical to national well-being. I can tell you from my firsthand experience reviewing all the DOT programs that the choices are hard; there aren't many programs that don't have a strong reason for their existence. I found that most programs provide genuine benefits and have constituencies. If our goal is deficit reduction--and, especially, if our goal is a balanced budget, there is no alternative to making those hard choices. We are making those today under the 5-year budget agreement, and Americans will come to realize the choices implicit in deficit reduction as your Committee and the House Appropriations Committee hold hearings on the President's Budget proposals.

A balanced budget amendment would not automatically reduce spending. In fact, it would require action to cut--even gouge--programs critical to transportation over the next several years with dramatic impacts on our mobility, the efficiency of freight movements, our domestic economy, and our ability to compete internationally. If deficit reduction pressure in the short run were reduced because of the illusion that a Constitutional amendment would, on its own, bring an end to the deficit, we might face even harder choices in the years just before the amendment took effect.

Other witnesses will no doubt testify about the effects of a balanced budget amendment on the government's ability to counteract recessionary pressures, about the possibility that such budget uncertainties as forecasts of economic growth would force what should be legislative decisions into the judicial branch, and about the risk that a requirement that could be waived only by a supermajority in Congress could provide power to a minority to bring government operations to a halt unless its demands were met. I want to take a few minutes telling you the concerns a balanced budget amendment raises in the mind of a person with special responsibility for our Nation's transportation system.

Investment in the Future

More than many areas of Federal spending, our budget at DOT represents investment in the future. Some 71 percent of our proposed spending in the coming fiscal year is

for investment in infrastructure. That investment pays benefits in the future. Much of the planned investment is, in fact, to preserve the facilities that we have. If infrastructure funding is lost as a result of a balanced budget amendment, we risk deterioration in the transportation system that is the lifeblood of the Nation. We also would break faith with users who pay into the transportation trust funds that finance most of our infrastructure investment and who expect that the fees they pay will be used to improve the facilities they use.

President Clinton has recognized the importance of both deficit reduction and infrastructure investment from his early days in office. In *A Vision of Change for America*, which he sent to Congress within a month of his inauguration, the President recognized two deficits: the budget deficit and a deficit in public investment. He urged that we reduce the budget deficit while increasing much-needed public investment. For FY 1994, Congress appropriated 69 percent of the President's proposed investments, even while reducing the deficit by more than \$500 billion over five years.

Long-Term Effects of Investment Spending

By its very nature, investment in infrastructure spends out much more slowly than spending for current use. Funds obligated for highway construction, for example, are expended over as much as nine years. Since so much of DOT's budget is

infrastructure investment, our outlays in any one year are largely derived from prior-year obligations. In FY 1995, for example, only 37 percent of our outlays come from new budget authority. That may sound like technical "budgetspeak," but it has an important consequence: our outlays cannot be reduced proportionately by cuts in current spending. If we were required to achieve significant outlay savings next year from projections in the President's Budget, we would be forced to take major cuts in our operating programs--that means FAA, for example, an agency that millions of Americans depend on every day to get to their destinations safely.

If spending were not significantly reduced by FY 1999, a balanced budget amendment could require reducing discretionary outlays by 36 percent. To achieve an outlay reduction of this magnitude, DOT would be required to eliminate spending from all new budget authority. That would mean no new grants and perhaps deferring payments on prior commitments or laying off massive numbers of employees. Obviously, those results would be unacceptable. To avoid such an outcome, however, major reductions in infrastructure spending would be required in the years before FY 1999.

The bulk of our infrastructure investment is used to repair or replace existing facilities and equipment. For example, nearly 80 percent of our highway outlays are used to repair, replace, or improve existing roads and bridges. Deferring this maintenance would be penny-wise but pound-foolish. As maintenance is delayed, roads requiring

simple repair work deteriorate into costly reconstruction projects. For every dollar of highway resurfacing not done today, the Nation will have to spend up to four dollars for highway reconstruction in the future. Cutting infrastructure maintenance and repair will only harm existing facilities and condemn us to even higher repair bills in the future.

Ability to Respond to Transportation Emergencies

Congress recently passed an emergency supplemental appropriations bill that, among other things, enabled us at DOT to continue support to the State of California to repair the transportation infrastructure that was damaged and rendered unusable by last month's earthquake. Transportation infrastructure can be the economic lifeline of our communities in normal times and provide the means to deliver critical disaster relief after natural calamities like the earthquake or the floods in the Midwest. Lives and the economic recovery of areas hit by disasters can depend on transportation systems working, and nothing must stand in the way of providing the assistance needed at such times. If a balanced budget amendment had been in effect during congressional consideration of the emergency appropriations bill, California might still be waiting for aid while Congress debated what programs to cut to offset the emergency assistance.

Conclusion

This Administration is committed to deficit reduction and made a pact with Congress and the American people to that effect last year. The President's FY 1995 Budget delivers on our commitment at the same time that it addresses the investment deficit that threatens our economic well-being. For the reasons I have outlined, I believe it would be a serious mistake for Congress to enact a balanced budget amendment. I think we will all learn much as Congress considers the President's Budget and faces the hard choices that we in the Administration had to make to produce a budget within the spending caps on which Congress and the President agreed. If Congress can identify even more reductions without impairing essential services, we in the Administration want to hear your ideas. But I do not believe it would be wise to lock us in to a result before we figure out how to live with that result and what the price will be to the American people.