



# Invesco Insights



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## A Second Chance To Get It Right

Our political leaders are extremely fortunate to have a second chance to put forth a thoughtful economic plan that will create the confidence for individuals and corporations to consume and invest, which will drive economic growth, employment and equity market returns.

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You'll remember that last July, political brinksmanship in Washington threatened to result in a default by the U.S. government on its obligations before the debt ceiling was finally raised. This lack of political leadership in turn prompted Standard & Poor's to downgrade its long-term AAA U.S. credit rating for the first time in 70 years, which subsequently rattled the global markets and continues to drive extreme market volatility today. In its report, S&P was sharply critical of legislators and said the negotiations "fell short" of what would be necessary to address the gloomy outlook for America's finances. Make no mistake: this political inaction has had a material negative impact on our nation's confidence, resulting in damage to our economy, its markets, employment and our global credibility.

As a global investment manager, Invesco is closely monitoring progress by the congressional Joint Select Committee on Deficit Reduction, also known as the "Super Committee." This committee was created by the Budget Control Act of 2011 earlier this year as part of the agreement to raise the U.S. debt ceiling.

Unfortunately, to quote Yogi Berra, the current deficit reduction effort is looking like a case of "déjà vu all over again." We are down to the wire again: the Super Committee appears to be struggling to reach a deal with less than a week to go before a statutory deadline to present its savings plan. While Congress debates, the American people must endure a stubbornly high unemployment rate, a volatile stock market and an economy that is failing to gain traction.

Congress and the Administration must avoid a repeat of this summer's rancorous debate and work together to produce meaningful deficit reduction as part of a thoughtful way forward on our budget challenges. While time is fast running out, the Super Committee's recommendations still represent a historically unique opportunity to tackle the deficit and ensure a brighter economic future for our country.

According to the Congressional Budget Office, America is currently borrowing at a rate of \$3.56 billion per day, and approximately one third of what we spend is borrowed. Clearly, this is unsustainable and has serious consequences for the country's fiscal health over the long term. Given the sheer size of America's debt, our political leaders must seriously address our spending problem and revise our tax code to incentivize economic growth and long-term savings.

U.S. Senator Saxby Chambliss (R-GA), along with five U.S. Senate colleagues, earlier this year put forth a bi-partisan plan that offered specific proposals for reducing the federal deficit by more than \$4 trillion over the next decade. By reforming the key drivers of future debt, including Social Security and health care, and reducing tax rates while broadening the tax base, Senator Chambliss and his group's ideas offered a refreshing, responsible way forward that could form the basis of a viable approach to our spending problems.

The Super Committee members must now rise to the challenge and act courageously and forcefully on behalf of the American people. They need to go beyond the current mandate of finding \$1.5 trillion in savings and "Go Big" by putting forward a credible plan of at least \$4 trillion that will begin to reduce the size of the federal deficit and create the incentives to foster economic growth and employment. This approach has been advocated by Senator Chambliss and now has the backing of more than 40 bipartisan members of the U.S. Senate and more than 100 members of the House of Representatives.

Invesco is a member of the Investment Company Institute (ICI), which represents 92 million investors across America. I have joined with other leaders within the ICI in sending a letter to Congress urging quick and thoughtful action. On behalf of our investors, we believe it is time for our political leaders to act – and act powerfully – to tackle America's fiscal challenges now before they become even more intractable down the road.

We can't afford a repeat of last summer's broken process. Acting forcefully, with a more significant, thoughtful deficit reduction package, should reassure the markets that our leaders can work together effectively to address America's long-term fiscal challenges. Stabilizing the federal deficit and reducing its size as a share of our economy could be the keystone of a compelling fiscal path forward that will reassure the markets, encourage corporations to invest in their businesses and enable investors to return to the markets with confidence. The combined impact of their efforts will strengthen our economy, ensure that U.S. businesses are competitive in the global marketplace and, most importantly, put Americans back to work.