



# BUDGET COMMITTEE



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**Statement of Senate Budget Committee Chairman Judd Gregg  
At Budget Committee Hearing on Long-Term Budget Outlook  
January 11, 2007**

Good Morning. I would like to thank incoming Chairman Kent Conrad for beginning his tenure with this hearing, because it highlights a very serious issue: our long-term budget outlook. I also would like to thank Comptroller General David Walker, who has sounded the alarm most effectively and whose numbers most of us have been using aggressively to deliver the message on the fiscal challenges we face. We appreciate you being here today to deliver the message again.

Essentially, three entitlement programs – Social Security, Medicare and Medicaid – will absorb the historical amount of spending the federal government has done as a percentage of GDP by about the year 2025 to 2030. Those three programs will cost as much as the federal government has historically cost the American people. At that point, we would have to either give up everything else the federal government does – such as national defense, education or environmental protection – or we would have to begin to dramatically expand taxes, because this spending doesn't level off at the historical norm of 20 percent. It actually continues to rise; I think Chairman Conrad cited 27 percent by 2030, and it just keeps going higher.

This is a reflection of the unchecked entitlement spending by the federal government over the next two decades. It is not sustainable, and this is not an arbitrary number. This is not one of those projections suddenly thrown on the table by looking at tea leaves. The problem exists because the size of the retired generation is going to double – it will be the largest retirement generation in history. And the support for that generation will simply overwhelm Americans who are working during this period –our children and grandchildren.

We need to pass on to our children is a government that is affordable for them but still delivers the quality services that a retired generation needs. That means we have to balance this exercise between benefits and revenues, but we cannot put the whole burden of this exercise on the next generation to raise revenues, because we would simply wipe out our children's ability to enjoy the same quality of life that we have. You would have

to raise their taxes so high that they would be unable to send their kids to college, buy a home, and live a good lifestyle. So it has to be a balanced approach.

To expand on that point, if you were trying to tax your way out of this problem, the tax burden necessary to accomplish that would essentially put us in the same realm as some of our European neighbors, which in my opinion has led to the diminution of their lifestyle, their productivity and their ability to compete with us. So it is simply not an affordable course of action.

Now, where Chairman Conrad and I part ways is how the President's tax cuts effect this exercise. If you look at revenues, under the President's tax cuts, today we are receiving more than our historical amount of revenues at the federal government – we're receiving about 18.3 percent of GDP in revenues. Historically, we've received about 18.2 percent of GDP. So actually the President's tax cuts have generated revenues that are equal to our historical norm.

And in fact, we have a tax level that is even more progressive than the historical tax law. Today, 85 percent of revenues come from the top 20% of taxpayers. During the Clinton years, 82 percent came from the top 20 percent of tax payers. The bottom 40 percent of taxpayers are getting back about twice as much today as they used to get back. They don't pay taxes, they're getting back twice as much as they earned – through the Earned Income Tax Credit – as they did under the Clinton years. So we have a more progressive tax law, which is generating more revenues than the historical norm, so repealing this tax law, would be, in my opinion, counterproductive.

But if you use static numbers, and you repeal this tax law, I don't think you would generate the revenues in this chart, but you would see the revenues would go well above 18.2 percent, which is the historical norm. Revenues would end up in the 23- 24-25 percent range, but we've never had that type of a tax burden put on the American people by the federal government. We would stifle productivity, creativity, entrepreneurship, the creation of jobs, and I'm not sure that's the way we want to go to solve this problem. And in fact, it wouldn't solve the problem. Because the entitlement growth would still be so staggering, you couldn't catch up to it with tax revenues.

So the issue is huge, and it has to be approached in a balanced way. We're going to have to look at the benefits side, we're going to have to look at the revenues side and we're going to have to face up to the reality that our generation has no right to pass this problem on to our children.. We are the governors, we are in charge of this nation – the Baby Boom generation is responsible for the leadership of this generation. If we pass on this issue, we will have done a total disservice to have passed to them a problem which is our creation. And our generation is responsible for resolving it.