



BUDGET COMMITTEE



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**Senator Gregg's Opening Remarks at Hearing on
the President's Fiscal Year 2010 Budget Proposal
March 10, 2009
(unofficial)**

Mr. Chairman, it's good to see you back. I hope you are feeling well. And it's nice to have Dr. Orszag here.

Obviously we have some different views on this budget but we do have some things we agree on. I appreciate the Chairman saying that in the second five years of this budget, the debt levels are unsustainable, because they are. And the cost of this budget is unsustainable and the tax burden is unsustainable. The Chairman didn't say that; I added the second two categories.

The budget on balance spends too much, taxes too much and borrows too much, it's that simple. I do not argue with the fact that we are in a severe economic downturn, we all know that, and people's jobs are at risk and people are worried about paying the bills for tomorrow and there is great angst and rightly so, and many people are suffering hard times and therefore the government has had to step up with a massive injection, an historic injection, of liquidity to try to move the markets and move the economy forward, and that has cost money in the short-run and we accept that.

The problem is that that effort to try to stabilize the economy has been used as a straw dog for the purposes of expanding the size of government in the out-years exponentially, moving the government to the left in a way that has never been projected or seen before, should it be successful.

The budget proposes about \$1.4 trillion in new taxes over the next ten years, about \$725 billion in new discretionary spending and \$1.2 trillion in new mandatory spending and virtually no savings. The practical implications of that is that unlike during the years of President Clinton's first term in office, when he proposed a major tax increase as this budget does and I think it's a bit of Wizard-of-Oz politics to claim that there isn't a major tax increase in this bill because there is and the people who are going to pay the national sales tax on their energy bills are going to feel it and the people who are going to pay a 42% effective rate on their income are going to feel it, small business people especially.

But he used those revenues for the most part to reduce the deficit, in conjunction with a Republican Congress at the time that pushed the government in that direction.

This massive expansion in revenues, however, is going to be used to massively expand the size of the government. This budget doubles the publicly held debt in five years. And as the Chairman said, some of that is understandable because of the fact that we've got this severe situation and a lot of debt is being rung up as a result of that. But remember, in terms of much of the debt that is being rung up in the short-term, if it works, if the spending works -- for example, the TARP works and some of the other initiatives work -- then that's going to come back to us because they are invested funds. But the assumption is that it's not going to come back and reduce the debt. It's going to come back and be spent.

So the debt triples in ten years. The practical implications of that are staggering for our children. All the presidents, including George W. Bush, since the beginning of our republic, will not have run up as much debt as this budget will run up in the first period of its term. The wall of debt, which has been a famous wall around here for a long time, jumps astronomically. This debt in year 2013 creates a ratio of debt to GDP of about 67%. Historically we've been around 40%. When you get up around 67% as many of our witnesses have said before this committee, you are creating a situation which is probably untenable for our children because of the size of that debt. And the deficit maintains itself at approximately 3% or 4% of GDP for as far as the eye can see under this budget. And there is no factoring in, really, what is coming at us in a significant way, which is the retirement of the Baby Boom generation and the cost of entitlements on top of all that.

So you essentially have set up a scenario under this budget where we will pass on to our children in the very near future in about four years from now, a debt-to-GDP ratio that is unsustainable and a deficit ratio that is unsustainable. And that means our kids are going to have a hard time digging themselves out of this hole.

And I guess our debate with this budget goes to that point. Rather than doing something in the fourth, fifth, sixth year, to bring the debt down as a percentage of GDP and significantly bring down the deficit as a percentage of GDP, and this idea that they are cutting the deficit in half -- well, if you quadruple the size of the deficit, then you cut it in half, you've taken four steps backward and two steps forward and you're still not going forward and that's exactly what this does. Rather than bending these numbers down, so we don't end up passing on to our kids a government that's not only unsustainable and unaffordable, but a debt burden that's basically going to limit their capacity to have a high-quality life. What we're really doing here is giving them a government that's not sustainable or affordable and you look at the expansion of this government as proposed in the budget and it's really extraordinary.

The proposal here is to expand in healthcare and put in place \$634 billion of new spending and that's defined as a "down payment." That's not even considered to be the full payment, so let's say it's over \$1 trillion of new healthcare spending. That's in an economy that already uses 17% of GDP on healthcare, which is about 5% higher than the

next closest industrialized nation. It isn't that we don't have enough money in the healthcare system in this country, it's that we don't use it effectively. So what this budget proposes is to expand the amount of money into healthcare geometrically, probably in the anticipation of some sort of nationalization of the system.

The same is done in education, where the entire education accounts in the student loan area is fully nationalized under the proposals.

So you take this government and you basically explode it in size and proportion both in the tax burden and on the spending side of the ledger. While there is no significant effort in this proposal to address what is the looming fear that I am concerned about, which is the explosion in entitlement costs; there is no entitlement restraint in here of any significance over the long run.

And so we end up with a situation where what we're seeing here is a budget that's not sustainable for our nation, which fulfills maybe the desires and wants of this Administration in the areas of spending, which it expands dramatically, and taxes, which it expands dramatically, but it doesn't address the issue of our kids' concerns because it expands the debt dramatically.

And again, this is all done under fairly rosy scenarios. I would say this was on the Tinkerbell side of rosy scenarios, this budget. Look at these numbers here, as reflected by the blue chip estimates. This budget is making some assumptions which are very much a reach. 8.1% unemployment when we are already at potentially 8.2% unemployment. Growth rates which are much higher than anticipated by the blue chips and tax revenues which are much higher than anticipated by the blue chips.

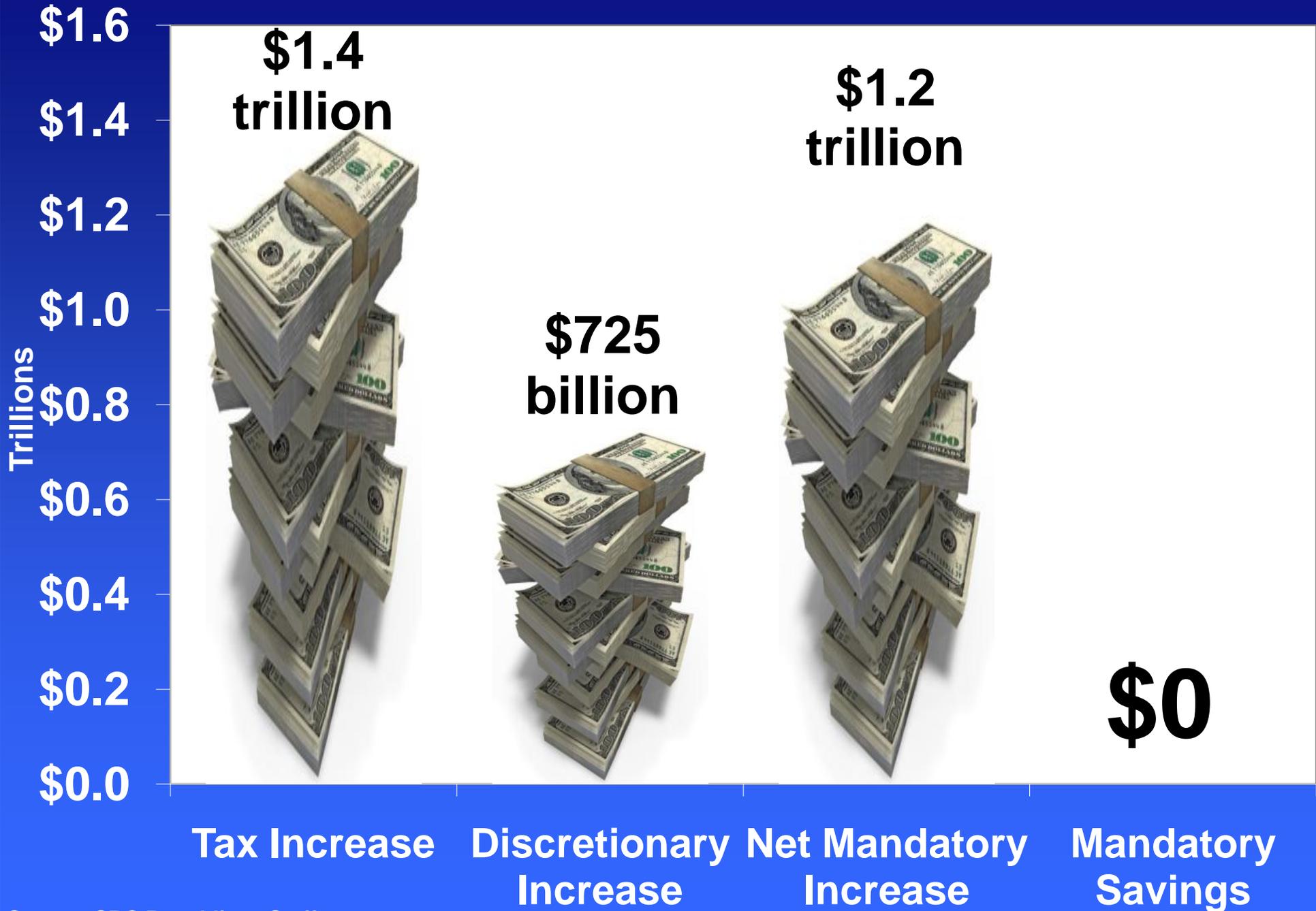
So the budget sets up some very significant problems for us as a nation, I believe, as we go forward and it is appropriate that we address them. Now there are places where we could cooperate to get some things done around here that would actually bend these numbers in the out-years. And yet we're not doing that.

In the entitlement accounts, the Republican Leader has said on numerous occasions that he's willing to move forward in an aggressive attempt to try to bring under control the costs of Social Security as we head into the out-years, or at least its burden on our children. The same is true in healthcare.

There are other places where there could be cooperation. I respect the Administration for putting forward ideas in the area of agriculture, limiting agriculture subsidies.

But as a practical matter, the fundamental philosophy of this budget, is an expansion of the size of government which isn't affordable by its own definition because it maintains debt at a level which will essentially run our country into a position where our children cannot afford the cost of the government. Thank you, Mr. Chairman.

President Obama's Budget Highlights



President Obama Would More Than Double the Federal Debt to \$13.3 Trillion

It Took 43 Presidents 232 Years to Build Up \$5.8 Trillion in Publicly-Held Federal Debt

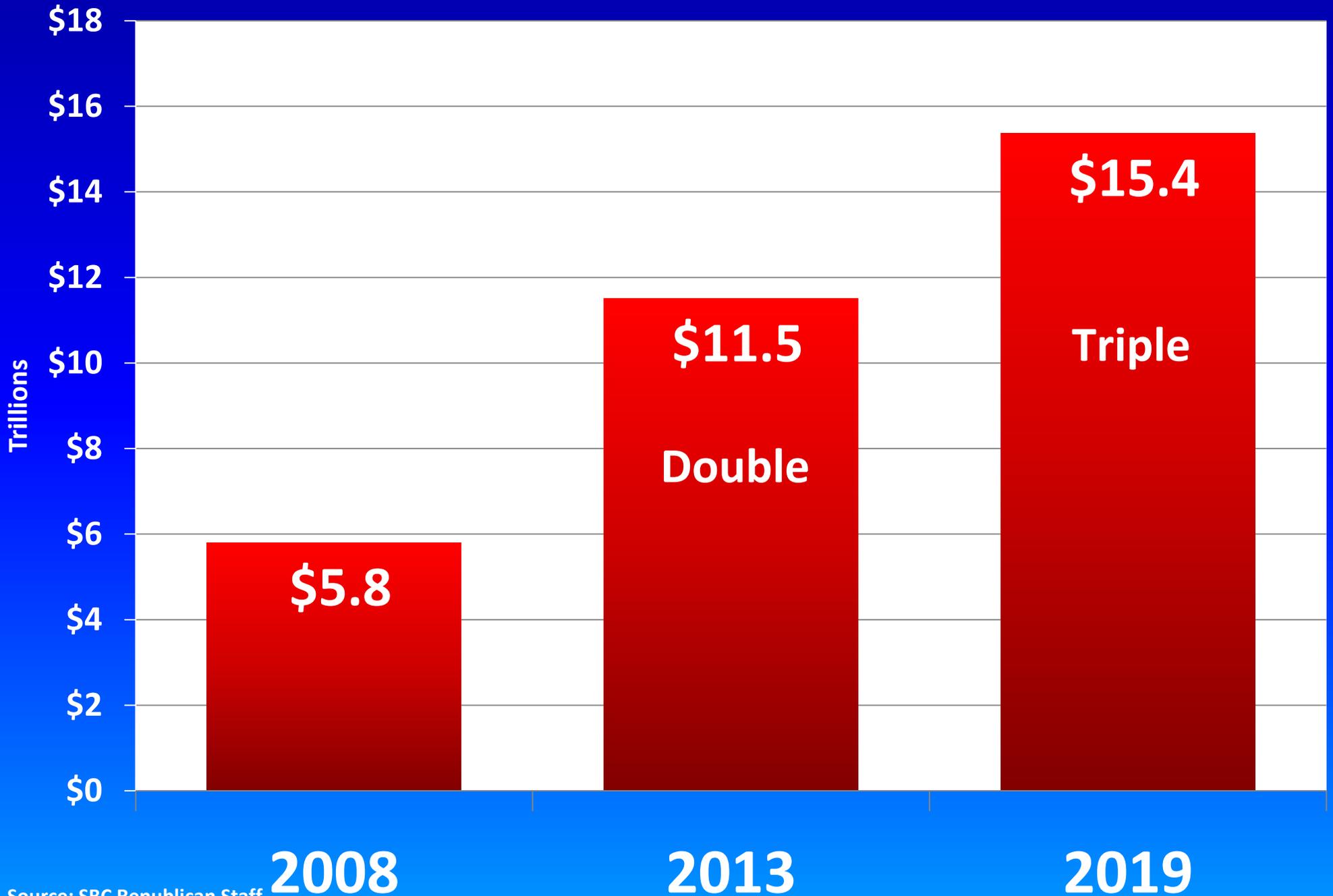


**232 Years
(1776 – 2008)**



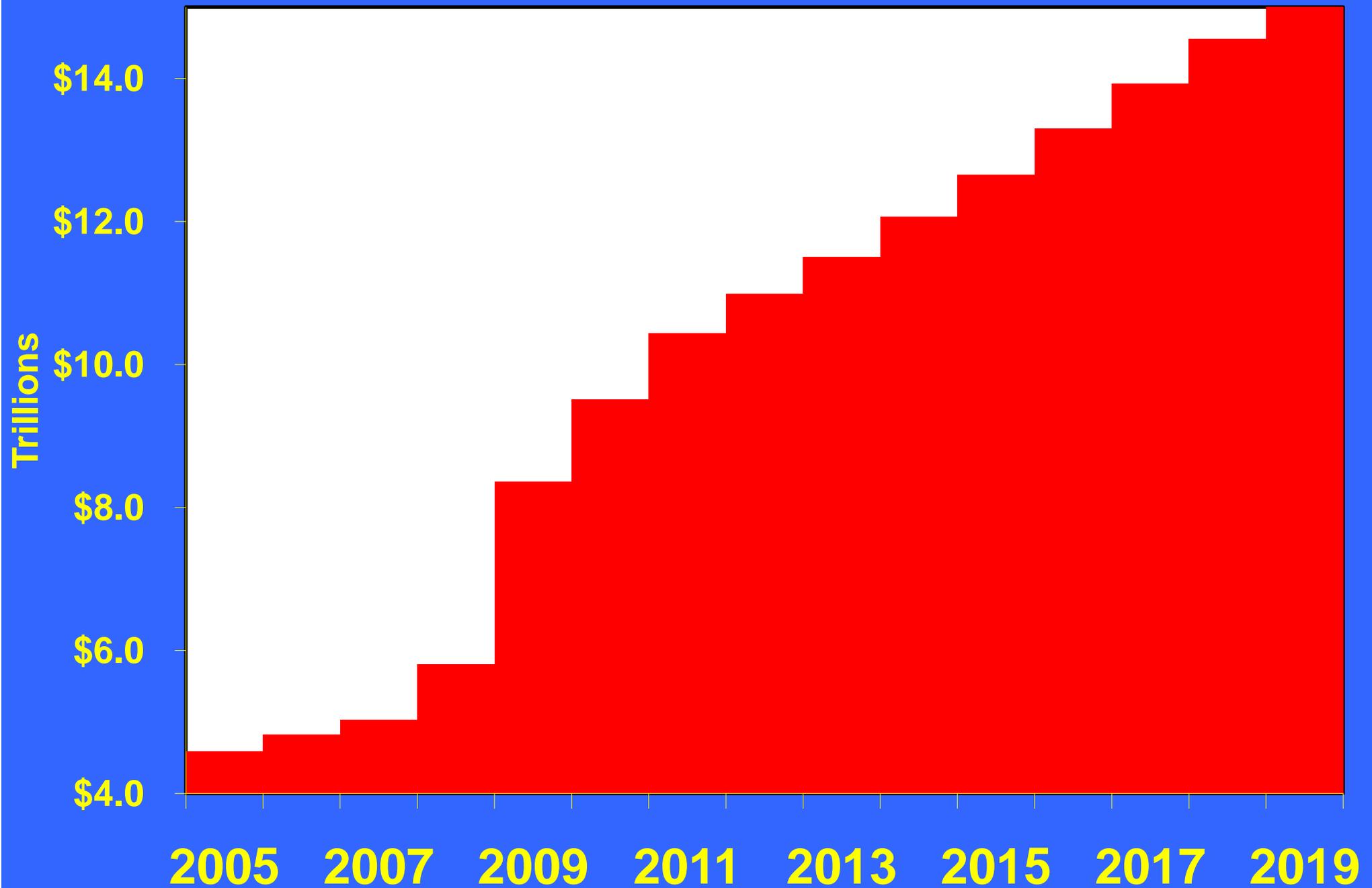
**President Obama
(Proposed 2009-2016)**

Debt Held by the Public Scores a Triple Double



Obama's Wall of Debt

Debt Held by the Public



Optimistic Economic Assumptions Understate the Budget Deficit

