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Senator Gregg's Opening Remarks at Hearing on the President's Fiscal Year 2010 Budget Proposal
March 12, 2009
(unofficial)

Thank you, Mr. Chairman. And let me pick up there, because I want to praise the Secretary. I recognize he's come in for a fair amount of constructive thought since he's become Secretary. But I want to praise his efforts and the commitment of this Administration -- the Secretary, Larry Summers, Chairman Volcker -- to try and stabilize the financial institutions of this country.

It's very obvious that unless we stabilize the financial institutions of this country we cannot recover. And as we recover, if we do not have a robust and functioning financial system, the recovery will be stunted.

And we all recognize that not everything you've tried has worked. Not everything that Secretary Paulson tried worked. But you're trying. And you're pulling the levers, along with Chairman Bernanke, to try to settle out the financial structure of this country.

And I have my specific disagreements with some of your initiatives, and I have my specific agreements. I agree with many who feel that we should have more aggressively and more actively focused on the underlying problem, which was real estate. And I still don't think we've done it adequately.

But the fact is that the initiatives such as TARP, TALF, the mortgage initiatives, the initiatives which are putting some meat on the bones right now relative to how you're going to orchestrate getting the private sector to come in and pick up bad debt off the books of some of these institutions, I think on balance, have been more than constructive.

And if it is true that our most problematic, largest financial institutions have actually made money in the first two months -- I haven't looked at the books, and I don't know how they've accounted for that, but if that's true, that's good news. And maybe we have begun to turn a corner, although there's still a tremendous way to go.

So I want to thank the Secretary for his energy in this area. I do hope there are more specifics to come, however.

Now, on the budget, I can't praise you. And in fact, I pick up, again, where the Chairman left off, which is that this budget as it's presently constructed passes on to our children a nation which they will not be able to afford and which will potentially drive this country into bankruptcy.

I recognize the fact, because it's obvious, that in the short term there is a need for the government to step in with huge amounts of money because the government is the first and foremost -- the last source -- of liquidity, and therefore the spending that is occurring in the short run is…we don't want to do it, but we're going to have to. And some of it has been very unfocused and not all that constructive, such as the stimulus bill.

But after two or three years, this budget should be talking about getting things under control, and it doesn't. It's proposing a public debt-to-GDP ratio of 67 percent for the next 10 years, starting in 2013. Before that, it's higher. It's proposing deficits of over 3 to 4 percent, post-2013 to the end of the budget period. It proposes expanding the size of the government, as a percentage of GDP, up to 23 percent, its historical role of about 20 percent.

The practical implications of this are that we are essentially putting on our children's backs a debt which they can never get out from underneath. And it's a debt, which as it's presently being proposed to be accomplished, involves a radical expansion of the size of the federal government as a percentage of our economy.

And as a result, I think we're putting at risk not only our children's future, we're clearly putting at risk the value of the dollar and our ability to sell debt. Because if I'm in the international marketplace, and I'm looking at this budget, I'm saying to myself, "Where's the discipline? Where is the containment? There isn't any. So why would I invest in the debt of this country, because I know in the out-years they've got a budget which has no fiscal discipline, and there are only two ways out of that. One is inflation, which is not acceptable; and the other is massive increases in the tax burden, which will significantly reduce the productivity of the economy and as a result, undermine the quality of life of everyone in this country."

And so this is the budget, which has fundamental flaws. The argument that it cuts the deficit in half in four years is truly spurious, because when you take the deficit and quadruple it, and then you cut it in half, that's like taking four steps back and two steps forward. You're not making any progress. You're still going backwards.

The argument that this budget doesn't have tax increases is, I think, an Alice in Wonderland view of the budget. It may be the CBO view of the budget, and it may be the way that they score at, but CBO doesn't really score taxes in a very constructive way.

You're raising the effective tax rate from 35 percent to 41, 42 percent, eliminating itemized deductions on things like mortgages and on charitable deductions. Those are the small businesses of this country that are going to be hit. Those are the people who go out there and take the risk, create the jobs. Those are the people that that tax burden is going to fall on mostly. Sure, it'll fall on the wealthy, but the largest percent of it is going to fall on people who run sole proprietorships, that little grocery store, that little restaurant, that small software company. They're not going to be able to expand, because their tax burden is going to eat up their expansion dollars. They're not going to be able to create jobs.

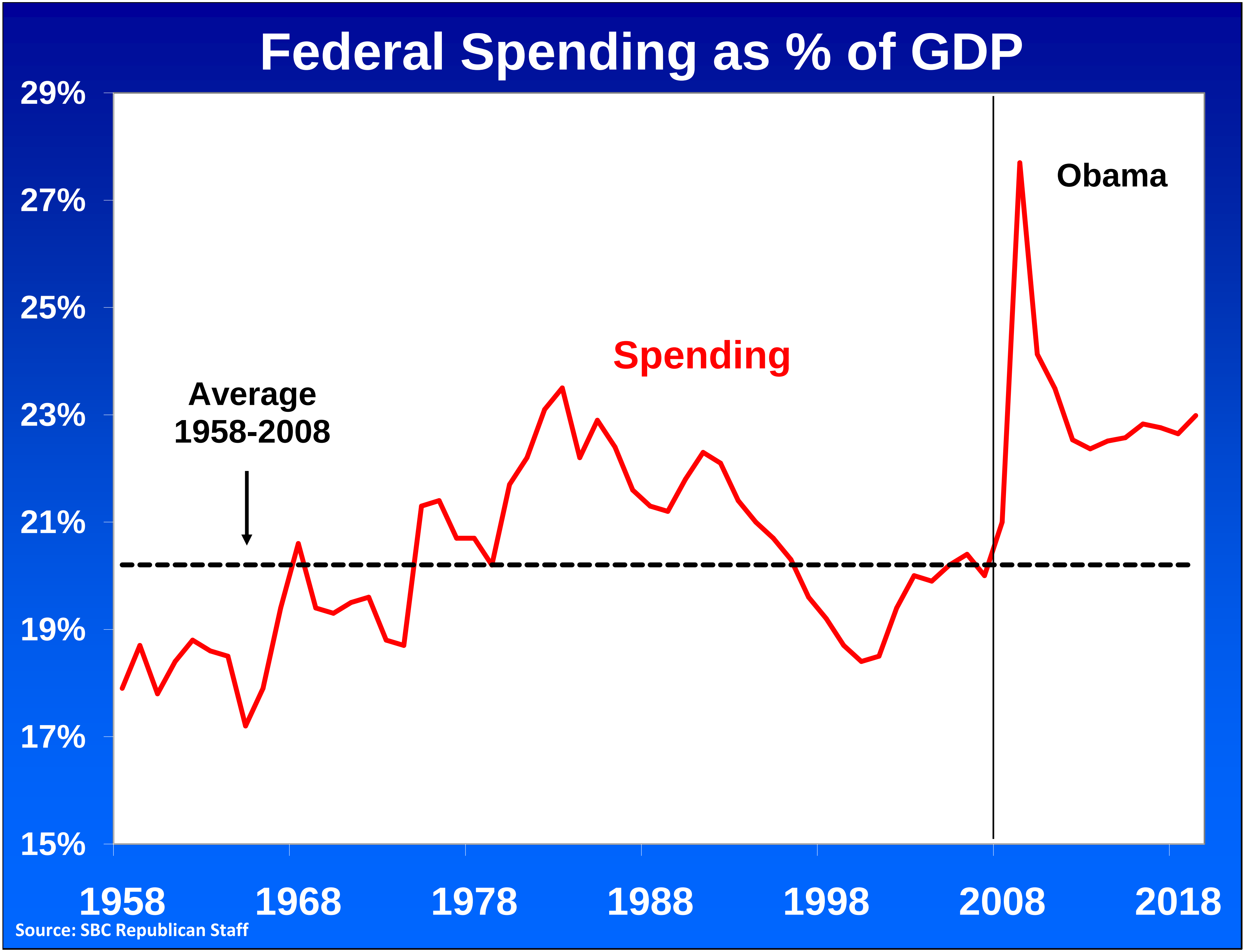
And then you've got this carbon tax, which is represented as being $646 billion of new revenue. That's a huge amount of revenue, but it's a gross understatement. Every independent group that's looked at this, beginning with MIT, which is the most objective, and CBO, has said that this carbon tax in its form as proposed represents a $300 billion a year increase in revenues.

That's a massive sales tax, a national sales tax on everybody's electric bill, especially people from the Midwest and the Northeast. And what do you do with that revenue? You don't use it to contain the size of government. You use it to expand the size of government.

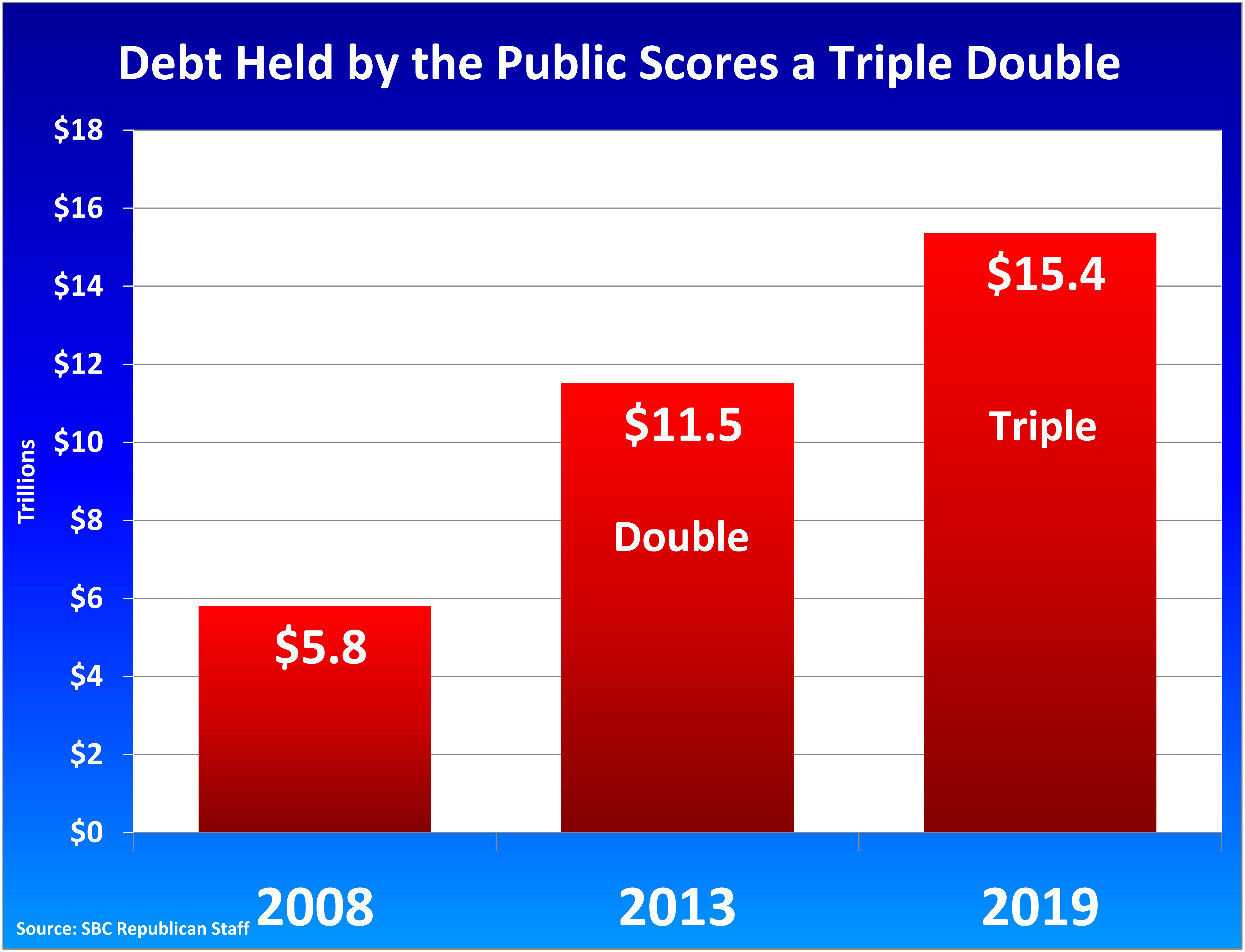
There's a representation that 80 percent of the first $64 billion is going to go for your make work pay tax credit, but the next 20 percent goes to raise the size of the government. And then on top of that you're going to get another $200 billion potentially, and there's no representation of that coming back to taxpayers. In fact, there's specific language which makes it pretty clear that that's going to be used as walking around money for various constituencies that are interested in spending it.

They may be worthwhile constituencies, but it's a heck of a tax burden to put on the American people. And it represents a massive expansion in the size of government. I guess that's my big problem here. I join with the Chairman in being concerned about the effects of this budget on our children, because what this budget is passing on to our children is a debt that's not sustainable, a deficit that's not sustainable, and a government which is growing too fast too far and which is not sustainable.

And so I'm going to be interested to hear your thoughts on that, Mr. Secretary. Thank you very much.



Federal Spending as % of GDP
29%
27%
25%
23%
21%
19%
17%
15%
Obama
Spending
Average
1958-2008
1958
1968
1978
1988
1998
2008
2018
Source: SBC Republican Staff


Debt Held by the Public Scores a Triple Double
$18
$16
$14
$12
$10
$8
$6
$4
$2
$0
Trillions
$5.8
$11.5
Double
$15.4
Triple
2008
2013
2019
Source: SBC Republican Staff