



BUDGET COMMITTEE



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**Statement of Senator Gregg at Committee Mark-Up
of the Fiscal Year 2010 Budget Resolution
March 25, 2009
(unofficial)**

Thank you, Mr. Chairman. It is, to some degree, difficult to know where to start because of all the budgets I have participated in – and I haven't participated in that many; a few over the years -- this is by far the most significant, in my opinion because of the fact that the President has used it to define very clearly where he wants to take the country. And in defining it, he has shown us that his plan for the country is to significantly move the government to the left, make it much more expansive and intrusive than it is today, much more costly and much more of a burden on our children in the area of debt that it produces.

We obviously have a disagreement in this area. We feel strongly that this budget just plain spends too much, borrows too much and taxes too much, and as a result, passes on to our children a nation which they cannot afford. To try to put this in perspective, I know that the Chairman spent a little bit of time talking about what this President inherited and he has had a difficult hand dealt to him, I don't argue with that. And I've been active in saying we are not holding him in any way responsible for the situation he confronts today, or the fact that in order to address the situation he has had to engage aggressively the resources of the government. The government is the last source of liquidity and he has used it, as have his people and the Federal Reserve, to try to stabilize the economic situation, and I respect that.

But as you move beyond the immediate period of this recession -- and this country will come out of this recession because we are an inherently resilient nation – into the second, third, fourth, fifth, sixth, seventh years, on out to the ten-year mark in his budget, it's pretty clear that the expansion of the government which he is undertaking during this recession will not be drawn back, that that expansion will be allowed to continue in a way that basically threatens the fiscal stability of this nation, in my opinion.

In five years, the President doubles the debt. In ten years, the President triples the debt. Now the argument was made, "President Bush doubled the debt in his eight years in office." That's true, you can't argue with that. But the fact is, he didn't then take it to the level that this President is taking it. To double the debt that President Bush passed on to him is a radical move. If you take all the cumulative debt from all the Presidents, starting

with George Washington and ending with George W. Bush, and added it up, President Obama is proposing to double that. Those are staggering numbers.

The practical effect of this massive expansion in debt is that the ability of us as a government to pay for this debt becomes an issue and the burden of this debt becomes an issue. If you look at this chart, it's pretty clear that the debt keeps going up and it goes up to historic proportions as a percent of Gross Domestic Product (GDP).

I think most economists will tell you that an economy can handle between 30 and 40 percent, maybe a little bit more, ratio of public debt to GDP. Economy starts to get into trouble when that ratio gets up around 60 percent of GDP. When it gets up to 80 percent of GDP, basically an economy can't handle that. And what is being proposed in the President's budget is to move the public debt up to 80% of GDP and keep it there.

In addition, there is all the spending that is involved here. The spending is so aggressive in the President's budget that essentially we add \$1 trillion dollars of debt, on average, every year of this ten-year period. He produces deficits totaling \$9.2 trillion dollars over this period, taking spending from 20% of GDP up to 25% of GDP, with the practical effect that you basically grow the government at a rate that the revenues can't keep up with that growth and thus you explode the debt.

You couple that with the fact that the tax policy as proposed in this budget is extremely aggressive, increasing taxes by the largest amount in our history. And unlike the tax policy of President Clinton when he came into office, who used tax revenues to basically reduce the deficit, what the tax policy of this Administration is proposing to use tax policy to expand the size of government and not reduce the deficit or the debt.

And the tax policy is extremely regressive. There is proposed by the President what is referred to as a carbon tax. I refer to it as a national sales tax on electric bills. Every time you hit that light switch as an American citizen, you're going to get hit with a sales tax on turning on your lights under this proposal. And it's a huge tax. According to M.I.T., which has taken a look at this in an antiseptic way, it will raise \$300 billion a year. That's massive amounts of revenue. Where does that come from? It comes from the ratepayers of America and it's very regressive.

Then there is the tax on incomes over \$250,000, raising the statutory marginal income tax rates from 33% and 35% to 36% and 39.6%, respectively. But it's actually an effective marginal rate of 41% because they restrict the taxpayer's ability to deduct their itemized deductions and take personal exemptions.

Now, everybody says that is a tax on the rich. Well, think about who those folks are. To a large degree, they are small businesses, sole proprietorships, the job creators in our economy. And in fact, there have been a number of studies that have said 50% of the jobs created in this country are through small business. And those businesses would be affected by this tax. So instead of being able to add a new employee, someone's going to have to pay an additional tax.

And what happens to those revenues? Those revenues are used to expand the size of the government. Not to reduce the debt or reduce the deficit, but to expand the size of government. So their resources are not going to be recoverable. And as a result, where do you get the resources to address this deficit and this debt? You already tax the rich. You've already created a national sales tax. What's left?

Well, basically our children and grandchildren are going to have to pay for it, either by suffering significant inflation or by being hit by a tax rate which would be penal. And it's not appropriate, in my opinion.

Now the President has made it pretty clear -- this is the difference of opinion that is at the core of this issue, and that's why this budget is so important because it is a defining budget as to the purpose of government -- he has said over and over again that his intention is to use the government as the engine of prosperity by expanding government spending in the areas of energy, education and health care. But what he doesn't say - the corollary to that -- is that he also radically increases the debt, radically increases the tax burden in order to expand the government and leaves us with this massive deficit and this massive debt.

The problem of course from our side of the aisle is that we don't believe that you expand prosperity by increasing the burden of the debt and the tax burden and the officiousness of the government. There is a difference of opinion there, and that is at the core of this debate.

Now, as we go through this budget, we will offer a series of amendments and ideas as to how this can be done better. I do not believe that we should have as a goal taking the spending of the United States government up to 25% of GDP, taking the public debt up to 80% of GDP, running deficits of 5%-6% of GDP. Our goal should be to maintain the spending of the federal government at what have been its historic rates, around 20%, you could take it up to 21% if you must; reduce the deficit to its historic levels of under 2% of GDP. That should be our goal, and we can accomplish this.

We can also accomplish this while we move forward in areas such as energy, health care and entitlement reform, which isn't addressed at all in this budget. And so we will be offering amendments to try to accomplish those goals, and we think we have some good ideas in those areas.

As an aside, because we haven't seen the Chairman's mark yet but he has obviously described it here, we have heard OMB Director Orszag say that it's 98% the same as the President and we'll accept Dr. Orszag's comments at their face value as probably being correct.

But it seems to me from what I've heard, the Chairman has basically produced a mark which has stepped backwards relative to transparency and directness in budgeting. Now the President and Dr. Orszag, I will give them credit. They did a ten-year budget, they

told us where they were going, as much as we disagree with it, they were open about it. They repealed AMT outright because we know absolutely that we aren't going to recover those revenues, but for years we've claimed in budget resolutions we're going to recover them and then use them for something else.

They did the doctor fix. They put their carbon tax in their budget and disclosed it. And they put their approach to paying for about half of their healthcare into their budget and disclosed it.

As we look at the press reports and the recent representations from the Chairman, it's pretty clear that none of that transparency or openness occurs in this budget. Basically, it's a hide and seek budget. AMT money is spent in the fourth and fifth year in order to try to reduce the deficit, the doctor fix money isn't taken care of and is used to fix the deficit. The bank bailout money is used to try to reduce the deficit when we know it's coming down the pike. The money raised through the carbon tax is not accounted for.

And really, Mr. Chairman, I think you are making my case on Pay-Go when you do this healthcare reserve fund. For those of you who follow what I say, we have this wonderful Swiss cheese chart that shows what Pay-Go really is, it's a pile of Swiss cheese with a lot of holes in it. Well, we're converting it from Swiss cheese to an onion ring, with this health care item.

The Chairman's idea is that you would set up a healthcare reserve fund where you could do anything you want in healthcare for six years and not have to pay for it. In the face of the fact that the President at least sent up a healthcare proposal where he represented he was going to pay for \$634 billion of it, the Chairman's mark is just an abandonment of good budgeting policy.

The Chairman's mark not putting in the last five years, when the President put in the last five years, is really hard to understand. I know we haven't usually done ten-year budgets around here, but when the President sends up a ten-year budget, to not put in the last five years in the Congressional budget is to essentially play hide the ball. We know where the last five years are going, under your budget and his budget. It's not very pretty. And if we put back into your budget all the things that have basically been taken out through gimmicks, it's not much different than the President's.

We as senators should all be affronted by what is happening here on reconciliation. I regret that Senator Byrd is not here to talk about this, about the history of reconciliation and what its purposes are. Reconciliation has been used by this Committee in the past; it's been used aggressively. I voted for it under Clinton and I voted for it under Bush. But it has always been used for the purposes of adjusting already existing policies, changing rates on tax law, changing some existing authorization event that is already out there, such as the student loan program.

Reconciliation was never conceived to be used to rewrite the entire healthcare delivery system of the United States. That is a massive and totally inappropriate adulteration of

the purpose of reconciliation. Reconciliation is a 20-hour debate event, without really any amendments and one vote. You can't undertake a public policy initiative of this size in this type of a scenario. It's just wrong. It really reduces the Senate's role in the Constitutional process. We might as well be the House of Representatives.

What even compounds that situation is that this budget which the Chairman is going to bring forward doesn't even have reconciliation instructions in it but we know where the reconciliation instructions are. They're over in the House budget. Now the House doesn't need reconciliation; it has the Rules Committee. So the only reason they're in the House budget is so they can be jammed through the Senate in a conference report.

That's a terrible thing to do to the tradition and the status of the Senate. We're essentially letting the House of Representatives write the rules for the United States Senate for something of this significance, which not only goes to the policy significance of health care but goes to the institutional significance of what the Senate is. And the role of the Senate is to be the place where things are debated, discussed, amended and voted on. And especially on an issue like this it's unfathomable that we would allow the House to take charge of our rules and direct us in this way.

On the positive side, Mr. Chairman, I respect the fact that you have reduced the discretionary appropriations request of the President. But in the context of the overall budget, that's nice but it's not going to have a big impact. In the out-years the debt will still be untenable. The wall of debt will out of control and the real issue here for all of us is what do we pass on to our kids? And if you pass on to our children a government that has a debt held by the public ratio of 80% of GDP, spending ratio of 25% of GDP, a deficit ratio of 5%-6% of GDP and a debt that tripled in ten years, we're passing on to our children something they can't afford and which will reduce the quality of their lifestyle.

You know, in the past, budget debates have been arcane exercises sometimes within the body of the Senate and the House. This isn't one. This goes to the heart of where this nation is going to be taken over the next five to ten years, and obviously we fundamentally disagree with the idea of radically expanding the size of government and leaving us with all this debt in the process. Thank you.