

FLOOR STATEMENT REGARDING THE FY 06 BUDGET
BUDGET COMMITTEE CHAIRMAN JUDD GREGG
February 28, 2005

IT WAS A PLEASURE TO HEAR THE SENATOR SPEAK RELATIVE TO THE BANKRUPTCY BILL, WHICH IS AN EXTRAORDINARILY PIECE OF LEGISLATION. HOPEFULLY THIS YEAR WE WILL PASS IT AND SEND TO THE PRESIDENT AND IT WILL BE SIGNED. I CONGRATULATE THE JUDICIARY COMMITTEE FOR BRINGING IT OUT AND CERTAINLY THIS IS A PIECE OF LEGISLATION THAT IS VERY IMPORTANT TO THE COMMERCE OF OUR COUNTRY AND IT NEEDS TO BE PASSED.

I WANTED TO SPEAK TO ANOTHER SUBJECT, SPECIFICALLY THE BUDGET OF THE UNITED STATES AND THE FISCAL POLICY OF THE UNITED STATES AS WE PRESENTLY ARE DEALING WITH FUNDING OF THE FEDERAL GOVERNMENT. WITHIN THE NEXT THREE WEEKS, HOPEFULLY, WE AS A SENATE WILL TAKE UP A BUDGET IN COMMITTEE AND THEN HERE ON THE FLOOR OF THE SENATE. THE BUDGET IS A BLUEPRINT OBVIOUSLY, A STATEMENT OF WHERE WE ARE GOING AS A COUNTRY RELATIVE TO OUR SPENDING POLICIES AND OUR FISCAL POLICIES. WHAT IS IMPORTANT, I THINK, TO REMEMBER IS THAT A BUDGET IS JUST AN OUTLINE. IT DOESN'T GET INTO TOO MUCH OF THE SPECIFIC DETAIL OF HOW WE FUNCTION AS A GOVERNMENT. BUT RATHER, IT SETS GOALS WHICH WE AS A GOVERNMENT WISH TO PURSUE IN THE AREA OF POLICY RELATIVE TO SPENDING AND RELATIVE TO TAXES.

WHAT WE NEED TO FOCUS ON THIS YEAR -- AND I BELIEVE THE CONGRESS IS FOCUSED ON IT AND THE PRESIDENT IS FOCUSED ON IT -- ARE TWO THINGS: THE DEFICIT WHICH WE REDUCE AS A NATION IN THE SHORT TERM AND THE LIABILITIES THAT WE CONFRONT AS A NATION IN THE LONG TERM. THE DEFICIT IN THE SHORT TERM IS HAVING A RATHER SIGNIFICANT AND UNFORTUNATE IMPACT ON OUR COUNTRY. IT RISES FOR A LOT OF REASONS. I WOULD ARGUE THAT IT RISES FOR TWO PRIMARY REASONS. THE FIRST IS THAT IN THE 1990'S -- LATE-1990'S AND MID-1990'S-- WE STARTED TO RUN VERY SIGNIFICANT SURPLUSES IN THIS NATION, AS A RESULT OF AN ECONOMIC BOOM WHICH WAS KNOWN AS THE INTERNET. A BUBBLE IS AN ABERRATION ON THE ECONOMIC LANDSCAPE. THERE HAVE BEEN MAJOR BUBBLES IN THE HISTORY OF THE WORLD, SUCH AS THE SOUTH SEA BUBBLE AND THE TULIP BUBBLE, WHEN SPECULATION RAN RAMPANT AND PEOPLE BASICALLY CREATED MONEY. ONCE AGAIN IT WAS, UNFORTUNATELY AS IN MANY INSTANCES, A SUPERFICIAL FINANCIAL GROWTH OF THE ECONOMY RELATIVE TO REAL PRODUCTIVITY AND REAL GROWTH. THAT INTERNET BUBBLE COLLAPSED, AS ALL BUBBLES DO. AND AS A RESULT OF THAT COLLAPSE, THE ECONOMY SLOWED DRAMATICALLY AND THE REVENUES OF THE FEDERAL GOVERNMENT DROPPED SIGNIFICANTLY.

THE SECOND MAJOR CAUSE OF THE DEFICITS WHICH WE CONFRONT TODAY, IN MY OPINION, WAS THE FACT THAT WE WERE ATTACKED ON 9/11; THAT WE ARE AT WAR AND AS A NATION WE MUST FIGHT THAT WAR WITH EVERY TOOL THAT WE HAVE AVAILABLE, AND THAT MEANS FULLY ARMING AND MANNING OUR OFFICERS AND OUR MEN AND WOMEN WHO ARE IN THE FIELD-- OUR SOLDIERS, AND ALSO REGEARING OURSELVES AS A NATION, RETOOLING AS A NATION. WE HAVE HAD TO MAKE WHAT I WOULD CALL SIGNIFICANT INVESTMENTS IN OUR NATIONAL SECURITY: IN THE HOMELAND AREA IN BRINGING OUR FIRST RESPONDERS UP TO SPEED, IN THE AREA OF PROTECTING OURSELVES FROM BIOLOGICAL OR CHEMICAL OR POTENTIALLY NUCLEAR ATTACKS, AND IN THE OBVIOUS AREA OF REARMING AND RETOOLING OUR MILITARY, OUR INTELLIGENCE COMMUNITY ACROSS THE COUNTRY AND ACROSS THE GLOBE, AND IT HAS BEEN EXTREMELY EXPENSIVE FOR US AS A

NATION. BUT IT IS MONEY WHICH WE MUST SPEND BECAUSE WE HAVE BEEN ATTACKED; WE ARE AT WAR. THE PEOPLE WHO WISH TO DO US HARM AND UNFORTUNATELY ARE WILLING TO DO SO IN THE MOST HEINOUS WAYS, WERE WILLING TO KILL AMERICANS SIMPLY BECAUSE THEY ARE AMERICANS AND THEY WISH TO DESTROY OUR CULTURE AND NATION BECAUSE THEY DISAGREE WITH IT. THEY DON'T LIKE OUR FREEDOMS AND THEY DON'T LIKE THE FACT THAT WE ARE PROSPEROUS. THOSE PEOPLE ARE STILL OUT THERE AND THEY MUST BE FOUND AND THEY MUST BE BROUGHT TO JUSTICE. AND MOST IMPORTANTLY, THEY MUST BE KEPT FROM ATTACKING US HERE IN AMERICA, AND THAT IS A COMMITMENT WE HAVE MADE IN THIS NATION AND THIS PRESIDENT HAS PURSUED WITH A FOCUS.

AND SO WE WENT FROM A PERIOD OF SIGNIFICANT SURPLUSES IN THE LATE-1990'S TO A PERIOD OF DEFICITS. AND THAT DEFICIT HAS BEEN RATHER LARGE IN HISTORIC TERMS, BUT AS A PERCENTAGE OF G.D.P. IT ISN'T THE LARGEST DEFICIT IN HISTORY. BUT IT HAS STILL BEEN A SIGNIFICANT DEFICIT. AND WE ARE NOW AS A NATION GIRDING OURSELVES TO ADDRESS THAT FACT BECAUSE THE DEFICIT IN THE SHORT TERM IS HAVING SOME VERY DILATORIOUS EFFECTS ON OURSELVES AND OUR NATION. IT IS OBVIOUSLY CAUSING US TO PASS ON TO OUR CHILDREN DEBTS FOR THE OPERATION OF TODAY'S GOVERNMENT. WHEN YOU'RE BORROWING FROM FUTURE GENERATIONS, THE PEOPLE THAT ARE GOING TO HAVE TO PAY THAT ARE YOUR CHILDREN, NOT YOU, BECAUSE THAT TREASURY NOTE BECOMES DUE POTENTIALLY NOT IN YOUR LIFETIME. IT BECOMES DUE IN A FUTURE TIME-- TEN YEARS, 15 YEARS FROM NOW. WHO HAS TO PAY FOR IT? THE PEOPLE WHO ARE WORKING TEN, 15 YEARS FROM NOW, WITH THEIR TAXES. WHEN THEY PAY IT, IT MEANS THEY HAVE LESS MONEY TO KEEP. SO WE'RE BORROWING FROM OUR CHILDREN'S FUTURE TO PAY FOR THIS DEFICIT. THAT'S ONE VERY DILATORIOUS EFFECT OF THE DEFICIT.

THE SECOND, OF COURSE, IS THAT IT IS HAVING AN IMPACT ON OUR ECONOMY INTERNATIONALLY. THE DOLLAR HAS WEAKED AND IT'S WEAKENED IN LARGE PART BECAUSE THE INTERNATIONAL COMMUNITY LOOKS AT OUR DEFICITS AND SAYS THAT WE AREN'T DOING A HECK OF A LOT ABOUT THEM. WE NEED TO ADDRESS THE SHORT-TERM DEFICIT AND I'LL GET TO HOW WE'VE DONE THAT, BUT THE PRESIDENT'S BUDGET HAS ATTEMPTED TO DO THAT AND THAT IS AN IMPORTANT PUBLIC POLICY ISSUE. BUT THE SECOND LARGER PUBLIC POLICY ISSUE THAT WE HAVE IS THE QUESTION OF HOW WE DEAL WITH THE LONG-TERM LIABILITIES OF OUR NATION-- LIABILITIES WHICH ALREADY EXIST. WHAT DOES IT MEAN? WE HAVE BASICALLY PUT IN PLACE TODAY A LARGE NUMBER OF FEDERAL PROGRAMS WHICH WE HAVE TO PAY FOR TODAY, BUT BECAUSE THESE PROGRAMS SURVIVE FOR AS FAR AS THE EYE CAN SEE OUT INTO INFINITY, WE KNOW THAT THEY'RE GOING TO COST MONEY. MOST OF THESE PROGRAMS -- THE MOST EXPENSIVE ONES, WHICH ARE CALLED ENTITLEMENTS -- DEAL WITH MAKING SURE THAT PEOPLE WHO ARE RETIRED HAVE A DECENT LIFESTYLE. THIS HAS BEEN A GREAT BENEFIT TO OUR NATION-- SOCIAL SECURITY, MEDICARE, MEDICAID. THESE ARE PROGRAMS THAT HAVE TRULY IMPROVED THE QUALITY OF LIFE FOR THOSE WHO ARE RETIRED. AS WE LOOK INTO THE FUTURE, WE SEE HUGE AND VERY COMPLICATED AND VERY DIFFICULT PROBLEMS FOR US AS A NATION AS WE TRY TO MAINTAIN THOSE PROGRAMS AND MAKE SURE THAT PEOPLE WHO ARE RETIRED HAVE A DECENT LIFESTYLE.

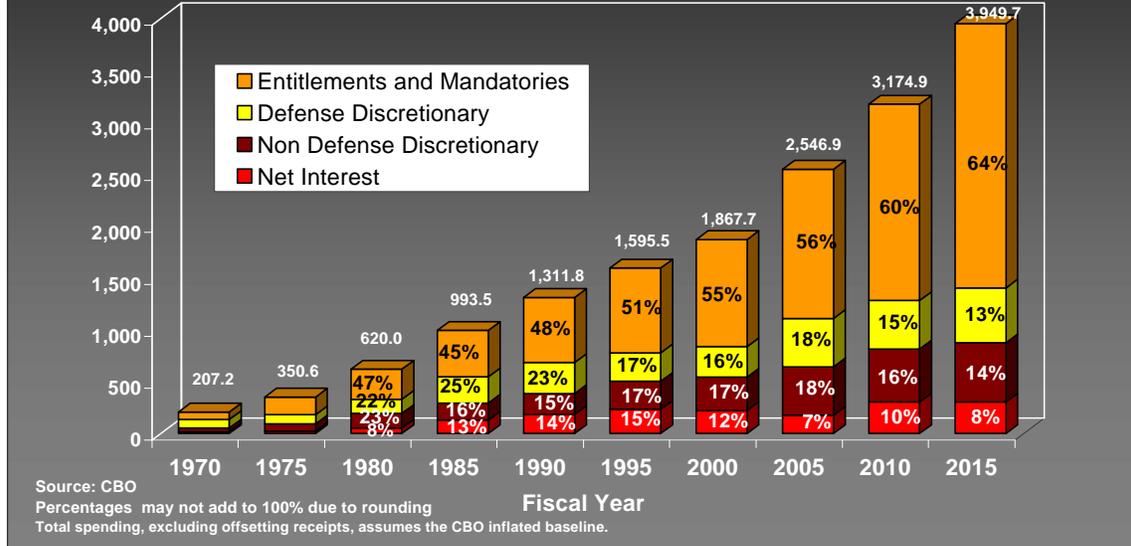
AND WHAT IS DRIVING THIS MAJOR CONCERN, THIS HUGE COST WHICH WE ARE GOING TO FACE AS A NATION, IS A FACT WHICH HAS NEVER EXISTED BEFORE IN OUR HISTORY: IT'S CALLED DEMOGRAPHICS. THERE WAS, AFTER WORLD WAR II, THE LARGEST EXPANSION IN OUR POPULATION THAT EVER OCCURED. MORE CHILDREN WERE BORN DURING A PERIOD FROM ABOUT 1946 TO ABOUT 1955 THAN IN ANY OTHER PERIOD IN AMERICAN HISTORY. IT WAS CALLED THE BABY-BOOM GENERATION. THAT GENERATION IS SO LARGE -- AND I HAPPEN TO BE A MEMBER

OF IT -- THAT IT TOTALLY RESTRUCTURED EVERY LIFESTYLE EVENT THAT IT IMPACTED. AS CHILDREN THAT GENERATION CAUSED A MASSIVE EXPANSION FOR THE NEED FOR SCHOOLS, AS COLLEGE STUDENTS THAT GENERATION CREATED THE HUGE SOCIAL CONCERN OF THE 1960'S, BOTH IN THE AREA OF RIGHTS OF AFRICAN-AMERICANS AND MINORITIES AND THE RIGHTS OF WOMEN, AND OF COURSE IN THE ISSUE OF HOW VIETNAM WAS FOUGHT. AND IN THE 1970'S AND THE 1980'S AS THAT GENERATION WENT INTO THE WORKPLACE, IT BECAME THE MOST PRODUCTIVE ENGINE OF ECONOMIC WEALTH THAT OUR COUNTRY HAS EVER SEEN, AND CONTINUES TO BE AN EXTRAORDINARY PRODUCER OF ECONOMIC WEALTH. BUT NOW THAT GENERATION IS HEADED TOWARDS RETIREMENT AND WE KNOW, BECAUSE EVERYONE IS ALIVE TODAY, THAT WHEN IT RETIRES IT WILL BE THE LARGEST RETIRED GENERATION IN THE HISTORY OF OUR COUNTRY. WE KNOW THAT THE BENEFIT STRUCTURE WHICH WE HAVE PUT IN PLACE TO HELP SENIOR CITIZENS THROUGH RETIREMENT-- SO THAT THEY CAN LIVE A DECENT LIFESTYLE-- IS ALSO IN PLACE, AND WHEN THOSE TWO MERGE, THIS HUGE GENERATION AND THAT BENEFIT STRUCTURE CALLED SOCIAL SECURITY, MEDICARE, AND MEDICAID-- IT IS GOING TO PUT DRAMATIC DEMAND ON OUR SOCIETY IN THE AREA OF COSTS IN ORDER TO PAY FOR THE BENEFITS WHICH ARE IN PLACE.

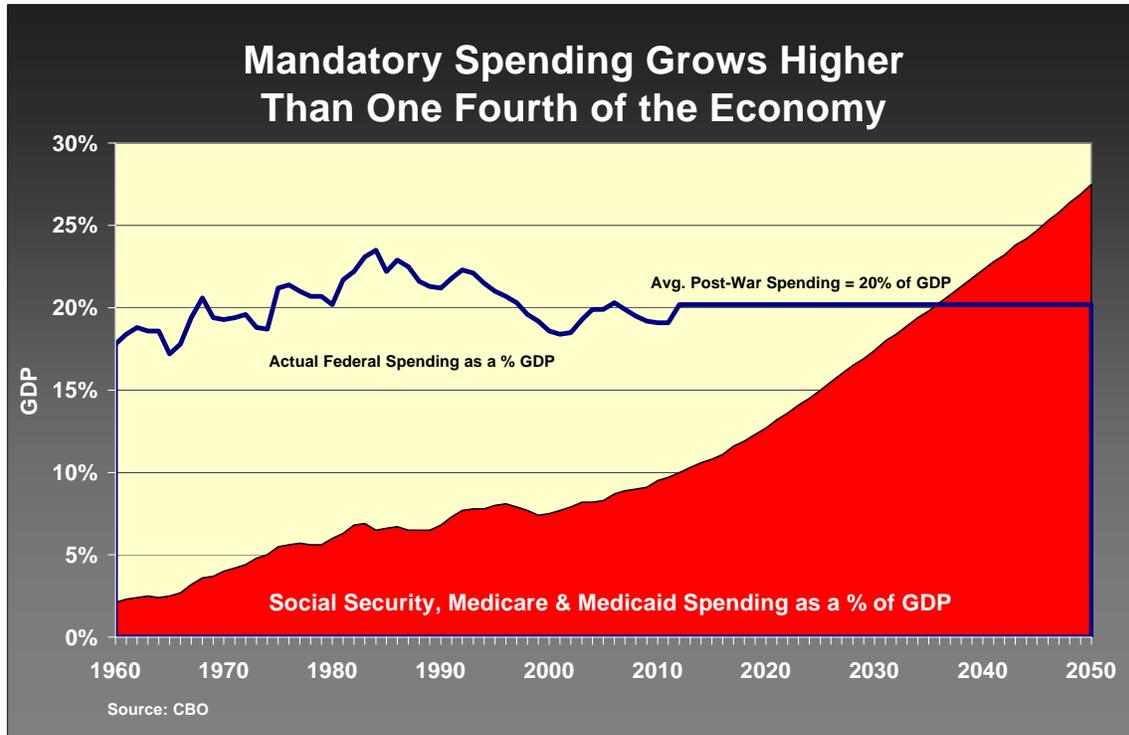
THINK OF IT THIS WAY: ALMOST ALL THE RETIREMENT PROGRAMS WE HAVE -- SOCIAL SECURITY AND MEDICARE ESPECIALLY - WERE DESIGNED WITH THE GENIUS OF FRANKLIN ROOSEVELT, WHOSE POLICIES ESSENTIALLY SAID THAT THERE WILL AUTOMATICALLY BE MANY MORE PEOPLE WORKING THAN THOSE RETIRED, SO THE WORKING AMERICANS CAN ALWAYS SUPPORT THE RETIRED AMERICANS. IT WAS ALWAYS CONCEIVED THAT THERE WOULD BE A PYRAMID. IN 1950 THERE WERE ABOUT 16 AMERICANS WORKING FOR EVERY ONE AMERICAN RETIRED. THAT MEANT THAT PROGRAMS LIKE SOCIAL SECURITY AND MEDICARE NOT ONLY GENERATED MONEY TO SUPPORT THOSE WHO WERE RETIRED, THEY ACTUALLY GENERATED MORE MONEY THAN WAS NEEDED TO SUPPORT THE PEOPLE WHO WERE RETIRED. THAT'S EVEN HAPPENING TODAY. BUT THE NUMBER OF PEOPLE RETIRED COMPARED TO THE NUMBER OF PEOPLE WORKING HAS BEEN CHANGED. IT HAS GONE FROM 16 DOWN TO ABOUT 3.5 TODAY. FURTHER INTO THIS CENTURY, AS THE BABY-BOOM GENERATION RETIRES, IT WILL DROP TO TWO PEOPLE WORKING FOR EVERY ONE PERSON RETIRED. AND THERE'S WHERE THE PROBLEM EXISTS BECAUSE WE GO ESSENTIALLY FROM A PYRAMID TO A RECTANGLE. IT BECOMES PRETTY OBVIOUS THAT IF YOU'VE ONLY GOT TWO PEOPLE TO PAY FOR ONE PERSON RETIRED, THOSE TWO PEOPLE ARE GOING TO HAVE TO PAY A LOT MORE IN TAXES TO SUPPORT THAT ONE PERSON RETIRED THAN IF YOU'VE GOT TEN PEOPLE WORKING OR 3.5 PEOPLE WORKING, AS WE HAVE TODAY. SO THIS CREATES A HUGE UNFUNDED LIABILITY OUT THERE. WE DON'T KNOW HOW WE'RE GOING TO PAY FOR THIS IN THE OUT YEARS. WE DO KNOW THE PROBLEM IS GOING TO EXIST. AND I WANT TO GIVE YOU A CONCEPTION OF THIS PROBLEM TODAY BECAUSE IT IS SO MASSIVE, AND WE SHOULD BE CONCERNED ABOUT IT.

MAJOR COMPONENTS OF THE BUDGET

(Outlays in Billions of Dollars)



WHAT I'M TALKING ABOUT HERE ARE THE ENTITLEMENTS, WHICH ARE THE SOCIAL SECURITY, MEDICARE, MEDICAID ACCOUNTS, WHICH REPRESENT THIS ORANGE BAR AS A PERCENTAGE OF FEDERAL SPENDING, AND YOU'LL SEE THAT TODAY THAT ORANGE BAR IS APPROXIMATELY 56% OF THE FEDERAL GOVERNMENT. BUT WHEN THE BABY-BOOM GENERATION GETS RETIRED AND IS HEADED TOWARDS FULL RETIREMENT BEGINNING IN THE YEAR -- ABOUT THE YEAR 2015 - IT REALLY STARTS IN THE YEAR 2008 -- THERE IS AN EXPLOSION IN ENTITLEMENT SPENDING. IF ENTITLEMENT SPENDING CONTINUES ON ITS PRESENT TRACK, SPENDING TO SUPPORT SOCIAL SECURITY AND MEDICARE, IT WILL CREATE THIS MASSIVE PROBLEM FOR US AS A NATION, WHICH I HAVE JUST ALLUDED TO, WHICH IS THAT WE WILL HAVE SO MANY PROGRAMMATIC DEMANDS PLACED ON THE YOUNGER WORKING AMERICANS THAT THEIR TAXES WILL HAVE TO GO UP RADICALLY IN ORDER TO PAY FOR THIS.



THIS CHART SHOWS IT PRETTY CLEARLY. THE HISTORIC SPENDING LEVELS OF THE FEDERAL GOVERNMENT SINCE THE YEAR 1960 HAVE BEEN RIGHT AROUND 20 PERCENT. THAT'S THE HISTORIC SPENDING. THAT'S ALL FEDERAL SPENDING IN THE POST-WORLD WAR II PERIOD. BUT ENTITLEMENT SPENDING AS A PERCENTAGE OF GROSS NATIONAL PRODUCT HAS ALWAYS BEEN GOING UP, BUT HAS STAYED WITHIN THE 5- TO 10-PERCENT RANGE. BEGINNING IN THE YEAR 2008 IT STARTS TO CLIMB PRECIPITOUSLY AND BY THE YEAR 2030, MEDICARE AND SOCIAL SECURITY SPENDING WILL IN AND OF ITSELF BE 20 PERCENT OF THE GROSS DOMESTIC PRODUCT. BY THE YEAR 2040, IT WILL EXCEED THAT AND BE 25 PERCENT OF GROSS DOMESTIC PRODUCT.

SO YOU WILL ESSENTIALLY BE IN ABOUT A DECADE AND A HALF OR TWO DECADES, YOU'LL ESSENTIALLY BE SPENDING MORE ON THOSE PROGRAMS THAN WE SPEND TODAY ON THE ENTIRE FEDERAL GOVERNMENT.

WHAT DOES THAT MEAN? WELL, IT MEANS AT THAT POINT YOU EITHER DON'T HAVE ANY OTHER PART OF THE FEDERAL GOVERNMENT, YOU DON'T HAVE ANY NATIONAL DEFENSE, YOU DON'T HAVE ANY EDUCATION PROGRAMS, YOU DON'T HAVE ANY ENVIRONMENTAL PROGRAMS, OR YOU HAVE TO JUMP THE TAX RATES DRAMATICALLY TO PAY FOR SOCIAL SECURITY AND MEDICARE EXPENDITURES.

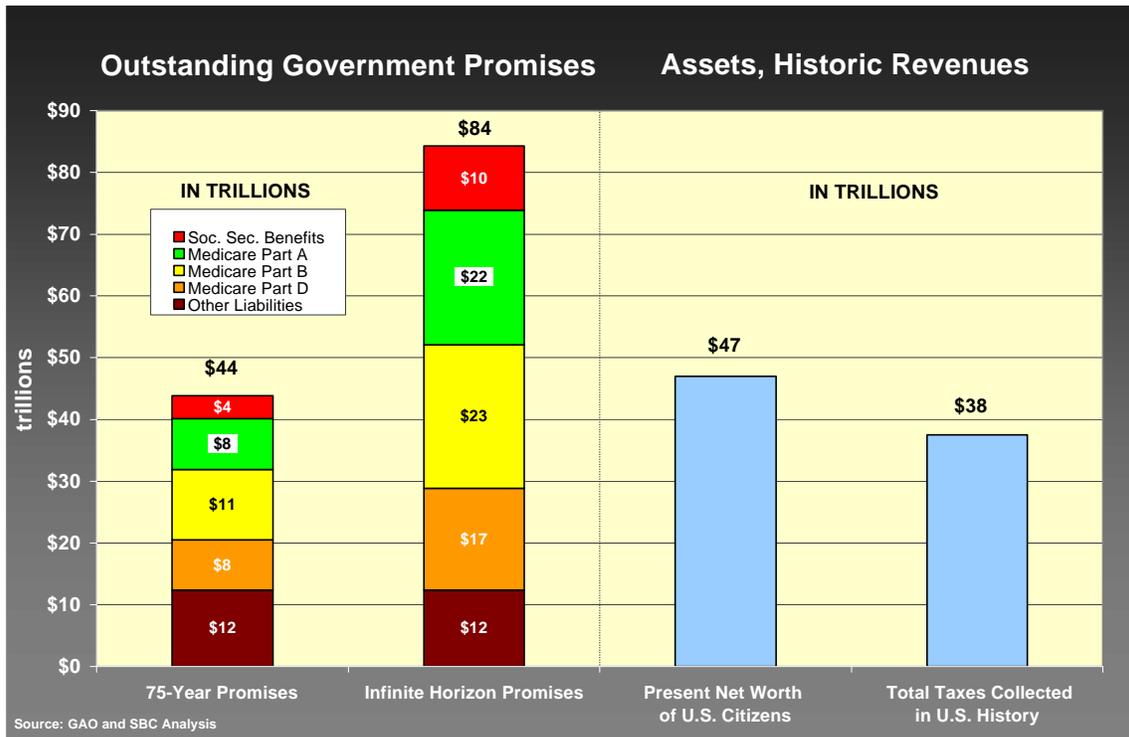
WHAT'S THE IMPLICATION OF THIS OTHER THAN THAT YOU'RE HEADED TOWARDS CLEAR FISCAL DISASTER?

ONE OF THE IMPLICATIONS IS THAT IF THIS GRAPH WERE CARRIED OUT TO ITS LOGICAL CONCLUSION, THE TAX RATE ON WORKING AMERICANS -- MY CHILDREN, YOUR CHILDREN, OUR CHILDREN AND THEIR GRANDCHILDREN -- WOULD HAVE TO BE DOUBLED IN ORDER TO SUPPORT THE SYSTEM. DOUBLED.

ANOTHER IMPLICATION OF THIS IS THAT THERE IS, ACCORDING TO THE COMPTROLLER GENERAL, APPROXIMATELY \$44 TRILLION OF POTENTIAL LIABILITY

-- THIS WOULD BE LIABILITY ABOVE THIS LINE -- OVER THE NATURAL LIFETIME OF SOCIAL SECURITY, WHICH IS DEEMED TO BE 75 YEARS, OR MEDICARE, 75 YEARS, \$44 TRILLION -- THAT'S TRILLION, WHICH -- I DON'T EVEN KNOW WHAT A TRILLION IS BUT THAT'S WHAT IT IS -- \$44 TRILLION ON COSTS WHICH WE HAVE NO IDEA HOW WE'RE GOING TO PAY FOR IT. NO IDEA AT ALL. IT'S CALLED LIABILITIES, UNFUNDED LIABILITIES.

\$44 TRILLION. TRY TO PUT THIS IN PERSPECTIVE. IF YOU TAKE ALL THE TAXES PAID INTO THE FEDERAL GOVERNMENT SINCE THE BEGINNING OF AMERICA, ALL THE TAXES PAID INTO THE FEDERAL GOVERNMENT IN U.S. HISTORY, THAT REPRESENTS \$38 TRILLION. WE'RE TALKING ABOUT A LIABILITY THAT EXCEEDS THAT NUMBER.



WE'RE TALKING ABOUT A LIABILITY THAT WOULD ACTUALLY BE ABOUT THE SAME AS THE PRESENT VALUE NET WORTH -- THAT'S THE PRESENT VALUE NUMBER, BY THE WAY, THAT MEANS IT'S DISCOUNTED TO TODAY'S DOLLARS -- WHICH ACTUALLY WOULD BE ALMOST THE SAME AS THE PRESENT NET WORTH OF EVERY AMERICAN. THE PRESENT COMBINED NET WORTH OF EVERY AMERICAN IS ABOUT \$47 TRILLION.

THE PRESENT LIABILITY OF JUST THE MEDICARE AND SOCIAL SECURITY FUNDS, NOT EVEN MEDICAID INCLUDED IN THIS, IS \$44 TRILLION. SO ESSENTIALLY YOU WOULD HAVE TO USE EVERY DOLLAR OF EVERY AMERICAN -- EVERY ASSET OF EVERY AMERICAN TO PAY THIS.

WELL, YOU CAN SEE THAT THE PROBLEM IS ASTRONOMICAL, SO LARGE, IN FACT, THAT MANY ARE BURYING THEIR HEADS ON THE ISSUE AND SAYING IT DOESN'T EXIST, WHICH IS A VERY UNIQUE APPROACH TO THE PROBLEM. AND OBVIOUSLY WE'RE NOT GOING TO SOLVE IT THIS YEAR OR IN THE NEXT COUPLE WEEKS. BUT WHAT WE CAN DO IN THE NEXT COUPLE WEEKS AS WE ADDRESS THE BUDGET IS TRY TO START ADDRESSING THESE TWO MAJOR ISSUES.

ONE IS THE SHORT-TERM DEFICIT. THE OTHER IS THIS LONG-TERM, LOOMING PROBLEM WHICH WE CONFRONT AS A NATION. AND THAT BRINGS US BACK TO THE BUDGET PROCESS AND WHY IT IS IMPORTANT, BECAUSE IT IS THE BLUEPRINT OFF OF WHICH YOU CAN BEGIN THIS PROCESS OF ADDRESSING THESE HUGE PUBLIC POLICY ISSUES. AND IF WE DON'T ADDRESS THEM NOW, IT'S LIKE THAT OLD TELEVISION AD, "YOU CAN PAY ME NOW OR YOU CAN PAY ME LATER." WHEN YOU PAY LATER, THE COST IS GOING TO BE BASICALLY UNACCEPTABLE. BECAUSE IF YOU WAIT UNTIL 2008, 2015 TO START ADDRESSING THESE ISSUES, YOU'RE ESSENTIALLY GOING TO HAVE TO DO SOMETHING EXTRAORDINARILY PRECIPITOUS. YOU'RE EITHER GOING TO HAVE TO RADICALLY CUT THE BENEFITS OF SENIORS WHO ARE RETIRED OR YOU'RE GOING TO HAVE TO RADICALLY INCREASE THE TAXES ON OUR CHILDREN AND OUR CHILDREN'S CHILDREN, MEANING THAT THEIR QUALITY OF LIFE IS GOING TO BE REDUCED SIGNIFICANTLY.

WELL, THE PRESIDENT HAS SENT UP A BUDGET WHICH BEGINS THE PROCESS OF TRYING TO ADDRESS SOME OF THESE CORE ISSUES. FIRST, ON THE ISSUE OF THE DEFICIT ITSELF, HE HAS PROPOSED A BUDGET WHICH REDUCES IN HALF THE DEFICIT OVER THE NEXT FEW YEARS. AND YOU CAN SEE HERE, HE TAKES US FROM ABOUT 4.5 PERCENT OF G.D.P., THE DEFICIT, AND THAT'S WHERE YOU REALLY NEED TO LOOK AT BECAUSE THE ACTUAL NUMBERS DON'T RELATE TO WHAT THEIR EFFECT ARE ON THE ECONOMY.

THE DEFICIT IS PROJECTED TO BE ABOUT 4.5 PERCENT OF THE GROSS DOMESTIC PRODUCT BACK IN 2004, DOWN TO APPROXIMATELY 1.3 PERCENT OF GROSS NATIONAL PRODUCT BY 2010.

NOW, I WILL BE THE FIRST TO SAY THAT IN THAT ESTIMATE, ESPECIALLY THE 2008 NUMBER, THERE IS NO ACCOUNTING FOR THE WAR. THE WAR IS A ONE-TIME ITEM HOPEFULLY, OR AT LEAST A TWO-TIME ITEM. WE DON'T EXPECT THE WAR TO GO ON FOREVER. AND IN FACT, BY 2008, WE CERTAINLY HOPE THE WAR WILL BE OVER RELATIVE TO IRAQ AND AFGHANISTAN. AND, THEREFORE, IT SHOULD NOT BE BUILT INTO THE BASE. BY THAT TIME, HOPEFULLY IT WILL NOT BE, AND WE EXPECT IT WON'T BE.

BUT THESE NUMBERS HERE MAY BE INACCURATE IN THAT THEY MAY BE OFF BY NOT ACCOUNTING FOR THE WAR. BUT THE POINT IS THAT WHEN YOU GO FROM 4.5 PERCENT TO 1.7 PERCENT, THAT SHOULD STILL BE ABLE TO BE ACCOMPLISHED WHETHER OR NOT WE ARE AT WAR, WITH ACCOUNTING FOR THE WAR CORRECTLY. SO WE CAN REDUCE THIS DEFICIT IN HALF AND THE PRESIDENT'S PROPOSED IT.

AND HOW HAS HE PROPOSED THIS? WELL, HE'S PROPOSED TO DO IT IN A SERIES OF WAY BUT THERE IS A CONSISTENCY WITHIN HIS PROPOSAL WHICH IS THIS. BASICALLY HE SAID WE HAVE TO GET FISCAL DISCIPLINE IN PLACE. WE HAVE TO START BEING RESPONSIBLE ABOUT HOW MUCH MONEY WE SPEND. AND IN ORDER TO ACCOMPLISH THAT, WE'RE GOING TO HAVE TO REDUCE THE RATE OF GROWTH OF FEDERAL SPENDING -- WE NEVER ACTUAL CUT SPENDING AROUND HERE. WE'RE GOING TO HAVE TO REDUCE THE RATE OF GROWTH OF FEDERAL SPENDING RIGHT ACROSS THE BOARD.

AND SO HE HAS ESSENTIALLY PROPOSED GORING EVERYBODY'S OX, AND MAYBE THAT'S THE WAY YOU HAVE TO APPROACH SOMETHING LIKE THIS. HE HAS SUGGESTED THAT WE FREEZE ESSENTIALLY NONDISCRETIONARY DEFENSE SPENDING, WHICH IS GOING TO BE DIFFICULT TO DO BUT IT'S SOMETHING WE NEED TO DO. HE HAS SUGGESTED THAT THE DEFENSE CORE BUDGET NOT RISE AS FAST AS IT HAS BEEN PROJECTED TO RISE, AND WE'RE ALREADY HEARING DISCUSSION FROM

MANY OF THE DEFENSE SUBCONTRACTORS AND CONTRACTORS AROUND THIS CITY THAT THEY CAN'T LIVE WITH THAT NUMBER. SO I GUESS IT MUST BE STEPPING ON SOME TOES OUT THERE. HE HAS SUGGESTED THAT IN THE ENTITLEMENT ACCOUNTS, AND THIS IS THE MOST IMPORTANT PART, THAT IN THE ENTITLEMENT ACCOUNTS, WE BEGIN TO REDUCE THE RATE OF GROWTH. NOT CUT THEM BUT REDUCE THEIR RATE OF GROWTH. AND THAT IS A COURAGEOUS STEP BUT A STEP THAT HAS TO BE TAKEN.

THE ONLY ACCOUNT HE DIDN'T ADDRESS, QUITE HONESTLY, WAS MEDICARE BECAUSE OF HIS RECENT ENACTMENT OF THE MEDICARE REFORM BILL, WHICH I GUESS THEY'D LIKE TO PLAY OUT FOR A LITTLE WHILE BEFORE THEY MOVE BACK INTO THAT ACCOUNT. BUT EVERYBODY ELSE HAS BEEN IMPACTED.

AND HE HAS PUT IN PLACE AND SUGGESTED A SERIES OF ENFORCEMENT MECHANISMS WHICH WILL ALLOW US TO ACCOMPLISH THIS TYPE OF A BUDGET. AND WE INTEND TO PUT IN EVEN MORE TO ACCOMPLISH THIS. BECAUSE THE NUMBERS MEAN NOTHING IF THEY'RE NOT ENFORCEABLE.

AND SO AS WE MOVE FORWARD IN THIS DEBATE -- AND I SEE THE SENATOR FROM UTAH IS HERE AND HE WISHED TO SPEAK AT 3:00 AND I'VE GONE PAST MY TIME SO I'LL COME BACK TO THE TOPIC AGAIN AND TALK A LITTLE BIT ABOUT THE TAX SIDE OF THIS. BUT AS WE MOVE FORWARD IN THIS DEBATE, IT IS CRITICAL THAT WE UNDERSTAND THAT WE ARE FACING THESE TWO HUGE PUBLIC POLICY ISSUES. THE NEED TO BRING UNDER CONTROL THE SHORT-TERM DEFICIT, BUT EVEN MORE IMPORTANTLY, THE NEED TO ADDRESS THE LONG-TERM ENTITLEMENT REFORM QUESTION. AND I SHOULD MENTION ON THAT POINT THAT NOT ONLY DID HE ADDRESS THE ENTITLEMENTS SUCH AS MEDICAID AND SOME OF THE OTHER ENTITLEMENTS WITHIN THE BUDGET, BUT HE HAS SET FORTH A PROPOSAL TO ADDRESS SOCIAL SECURITY AND THAT IS A COURAGEOUS ACT. AND THAT, OF COURSE, IS ONE OF THE KEY COMPONENTS OF ANY SORT OF MAJOR ENTITLEMENT REFORM. WE MUST ADDRESS THE ISSUE OF SOCIAL SECURITY.

AND SO THE PRESIDENT HAS STEPPED UP TO THE PLATE AND MOVED FORWARD WITH A PLAN WHICH WILL PUT IN PLACE FISCAL DISCIPLINE. AND NOW AS WE MOVE FORWARD AS A SENATE, IT IS OUR RESPONSIBILITY TO PURSUE THIS COURSE ALSO, TO PUT IN PLACE A BUDGET WHICH IS FISCALLY RESPONSIBLE AND WHICH ADDRESSES NOT ONLY THE DISCRETIONARY SIDE OF THE LEDGER BUT THE ENTITLEMENT SIDE OF THE LEDGER. AND THAT'S GOING TO BE OUR CHALLENGE. IT'S VERY DOABLE. ALL IT TAKES IS THE WILLINGNESS TO STAND UP AND RECOGNIZE THAT IF WE DON'T DO IT, WE WILL BE PASSING ON TO OUR CHILDREN A NATION WHICH IS -- DOES NOT GUARANTEE THEM AS HIGH-QUALITY OF LIFE AS WE HAVE HAD BECAUSE OF THE BURDEN OF TAXATION WHICH WE WILL BE PLACING ON THEM. IT IS OUR RESPONSIBILITY TO MOVE FORWARD IN THIS AREA AND I LOOK FORWARD TO THE NEXT FEW WEEKS AS AN OPPORTUNITY TO DEBATE AND DISCUSS THIS -- THESE PROPOSALS EVEN FURTHER.