



BUDGET COMMITTEE

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**Senator Gregg's Senate Floor Remarks
on the President's FY 2010 Budget and Reconciliation
March 17, 2009
(unofficial)**

Thank you. I listened this morning to President Obama as he spoke on the budget, and in attendance were the chairmen of the Budget Committees here in the Senate and in the House, Chairman Conrad and Chairman Spratt.

Essentially the President was defending his budget, as proposed, and sent up here on the Hill. His theme was that we shouldn't pass on problems to the next generation and, thus, he said his budget took on the issue of energy and took on the issue of health care, as being core questions that need to be resolved now and not be passed on to the next generation.

I couldn't agree with him more. First, we shouldn't pass on problems to the next generation and secondly, we should take on the problems that we have now, and they're fairly big.

Where I disagree with him is the conclusion that the budget that he sent up here doesn't pass problems on to the next generation. In fact, it passes the most significant problem on to the next generation, which is that it so greatly expands the size of government in such a short period of time, with so much borrowing, that it basically will bankrupt our children and our children's children as a result of the cost of government going forward.

He doesn't have to believe me. People don't have to believe me to recognize this. All they have to do is look at the President's budget. In five years, the President's budget will double the national debt. In 10 years the President's budget will triple the national debt. If you take all the debt that the United States government has run up since the beginning of our country, George Washington all the way through George W. Bush, that total amount of debt in five years will be doubled under this budget as sent up by President Obama.

Now, a lot of that debt that's being run up in the short run I'm not going to claim is inappropriate in the sense that it's something that's under his control or that he's responsible for as President. In fact, I agree that we as a government in the short run must expand spending in order to try to address this economy and to try to stabilize our

financial system. I don't happen to agree with the stimulus package passed or the omnibus package passed, where money is being spent inappropriately. But I'm willing to accept the fact that in the short run, there has to be a spike in our national debt in order to address this recession.

What's not tolerable, however, is that under this budget after the short run, after this period from 2008-2009 through 2011, when the recession by all estimates be hopefully be over, this we're still running the debt up radically under this budget sent up by the President. In fact, it doubles debt in five years but it triples in 10 years. I am not aware of a recession in the last five years of this budget being proposed. I certainly hope it's not being proposed. But certainly there's nothing that requires that type of a radical expansion in our debt over that period.

The practical implications of this doubling of the debt is that by the time the budget gets into the year 2013, the public debt of this country will be as a ratio of GDP, 67% of GDP and I suspect when CBO scores the President's numbers at the end of this week, it is probably going to be close to 70% of GDP. What does that mean?

We'll try to put this in perspective. Prior to the recession, public debt -- debt held by people like the Chinese, for example, and the Europeans -- our public debt, the debt which we sell to the world in order to finance our government, was about 40% of our GDP. Most economists will say we can tolerate a debt to GDP ratio of 40%. When it gets up to 60%, 70%, it is not tolerable. You might be able to tolerate it for a few years but you can't tolerate it for an extended period of time. And what the President is proposing is that that debt -- that 67% public debt to GDP ratio, which will be over 70%, I suspect once re-scored -- should go on forever.

In addition, the deficit beginning in the year 2012 under the President's budget, is at 3% to 4% of GDP. Now, historically, over the last 20 years prior to the recession, the deficit has been around 2% of GDP. Every time you add to the deficit, you add to the public debt. When you get in the 3% to 4% range of annual deficits as a percentage of GDP, you are essentially adding so much debt, so quickly, every year that basically your government becomes unaffordable. That's the bottom line here.

What happens as you go into the out-years when you triple the debt and got the deficit around 3%, 4% of GDP? What happens is that the currency starts to be under pressure. The dollar becomes questioned as to its value. People start asking, especially in the international community, 'do we really dare buy American debt?' In fact you heard regrettably the Chinese Premier raise that issue already. And if you can't sell the debt and you can't finance the government, you don't have too many choices. You must move to inflation. That's not a good choice for Americans.

So basically what you're putting in place is a structural debt and a structural deficit under the President's proposal which simply isn't affordable. Which means that our children are either going to be overwhelmed by a tax burden or they're going to find a country where inflation is rampant or basically the standard of living has dropped significantly. And why does this all happen?

Well, it happens primarily because under the President's budget he is taking spending up radically. Sure, in the short run that may be acceptable because we're trying to address this recession. But he doesn't bring spending back down to its historical levels. This chart shows you the historical level of spending has been about 20% of GDP. We've gone up and down for years, but under President Obama's proposal, he radically moves the government to the left, greatly expanding the government role in all sorts of areas -- in energy, in health care, in education. And as a result, he takes federal spending up to 23% of GDP and keeps it there for as far as the eye can see. And revenues stay down here at about 19%. So you've got this big structural deficit in here.

Even if you were to take revenues up to 23% of GDP, the practical effect would be to basically wipe out most people's income with taxes. The President says he's only going to raise taxes on the wealthiest in America. That is inaccurate because he's put in this proposal a massive carbon tax which is basically a national sales tax on electricity and every time you turn on your light, you're going to end up with a new national federal tax.

But independent of that, he cannot get this deficit under control -- or this debt under control -- with this type of spending level unless he radically increases the tax burden on all Americans to a point where productivity would drop significantly in this country and that would be a self-fulfilling event. Once productivity drops, your revenues drop and you never get back to an efficient marketplace and therefore you aggravate the deficit.

But the problem is, this huge debt that he's running up and passing on to the next generation, this tripling of the federal debt -- he says we don't pass problems on to the next generation, but this is a pretty darn big problem that's being passed on to the next generation -- is driven almost entirely by spending at the federal level, which he greatly expands because, under the proposal he's put forward as a blueprint, this budget proposal, his way of solving the health care problem is to essentially nationalize health care. His way of solving the education problem is to essentially nationalize the student loan program. His way of solving the energy problem isn't to produce more energy in America; it's basically to significantly increase the cost of energy in America, to all Americans by putting in place a carbon tax. Which is a national sales tax.

His way of addressing the issues which we confront is to significantly increase the size of government and, thus, the cost of government. And, thus, to create this huge debt, this massive debt which we aren't going to be able to finance and which is therefore going to threaten the economic strength of our nation and clearly give our children something less than what we received. And, therefore, when he says he is not going to pass the problems on to the next generation, the exact opposite is true. He's creating a huge problem for the next generation, in the way that he wants to spend this money.

Now, there's a second issue I want to address today that goes to the substance of the points made today at the press conference regarding this. Now, this could be addressed, of course, this issue of spending and those questions regarding these major public policy issues, if he wanted to reach across the aisle and approach things in a bipartisan way.

Senator Conrad, Chairman of the Budget Committee, and I have proposed an idea. A commission with fast-track authority which essentially would take on the big issues which drive this spending problem -- health care, specifically; social security also; and tax policy -- and would allow a bipartisan way to come forward and grapple with these issues and put forward ideas as to how to solve them. And how to bring under control these numbers so we don't run up this deficit and debt on our children. I am totally committed to that.

In the area of energy there are a number of initiatives which make sense. But we're now hearing that rather than proceeding on a bipartisan path to try to address these issues, they're going to think about using something called reconciliation. That's a term of art around here. Most people don't know what it means. But what it essentially means is that you say this the Senate will function as an autocracy. It will function like the House of Representatives, in that you will have the ability to bring to the floor a bill which will essentially not be amendable and which will only take 51 votes to pass.

Reconciliation was a concept enacted as part of the Congressional budget process, and its use has evolved. In other words, if the numbers on spending around here didn't meet the budget, then there would be a bill to correct that. So if the appropriation numbers weren't correct or the entitlement numbers weren't correct or the tax numbers weren't correct, there could be a bill that comes through called reconciliation which would follow the budget resolution.

Sometimes over the years it has been used in an aggressive way. It was used to adjust already existing programs, authorized programs, entitlement programs, and tax proposals. President Bush used it aggressively on taxes. In 1997, President Clinton used it aggressively along with a Republican Congress on everything -- entitlement and taxes. But it was always directed at existing policy and adjusting that policy. In other words, raising the tax rate or dropping the tax rate, changing an entitlement program in some way that already existed or not changing an entitlement program.

Reconciliation has never been used for the purposes of putting in place a dramatic new federal program which will fundamentally shift the way the government functions in this country. It has never been used in the sense as an initiating event. The carbon tax or the national sales tax on electric bills is a massive exercise in industrial policy. Totally redirecting how energy is produced in this nation and affecting everybody in this nation. Because everybody's energy bill will be increased as a result of this tax, especially in the Midwest and in the Northeast. It is a brand-new program, something that we've never seen before and a huge program. Obviously rewriting the health care system of this country is a dramatic exercise affecting absolutely everyone in this nation at all sorts of different levels, a brand-new major program. These are initiatives of significant size and import.

Reconciliation was never conceived to undertake those types of events, those types of initiatives. You can't bring to the floor of the Senate a bill which totally rewrites the way people produce and pay for energy in this nation with a brand-new national sales tax under a rule that says you'll get 20 hours of debate and no amendments and have the

Senate function as is its purpose, which is to be a place of discussion and amendment. It would function like the House of Representatives, that's true. But it would basically eliminate the Senate as a concept and go right directly at destroying the purposes of the Senate.

The same of course, is true to bring a major initiative to basically rewrite health care completely -- basically quasi-nationalize it, as far as I can see is the proposal -- but to have a massive health care initiative which would affect everything that has to do with health care brought to the floor of the Senate under reconciliation would be to fundamentally undermine the purposes of the Senate, which is to discuss, debate, and have the right to amend major public policy, and I can't think of two things which would be more significant public policy than those initiatives.

Yes, if they used this system of reconciliation they would take great risk because it would be not just the concept that they would be thinking about. This is a reflection of their willingness to ignore this concept of bipartisanship which we hear so much about.

If you're going to talk about reconciliation, you're talking about something that has nothing to do with bipartisanship. You're talking about the exact opposite of bipartisan. You're talking about running over the minority, putting them in cement, and throwing them in the Chicago River. Basically, it takes the minority completely out of the process of having a right to have any discussion, say, or even the right to amend something so fundamental as a piece of legislation of this significance. Also I would note, it takes anybody who disagrees, on the majority side even, out of the discussion. Anybody who disagrees with the actual document brought to the floor under the instructions.

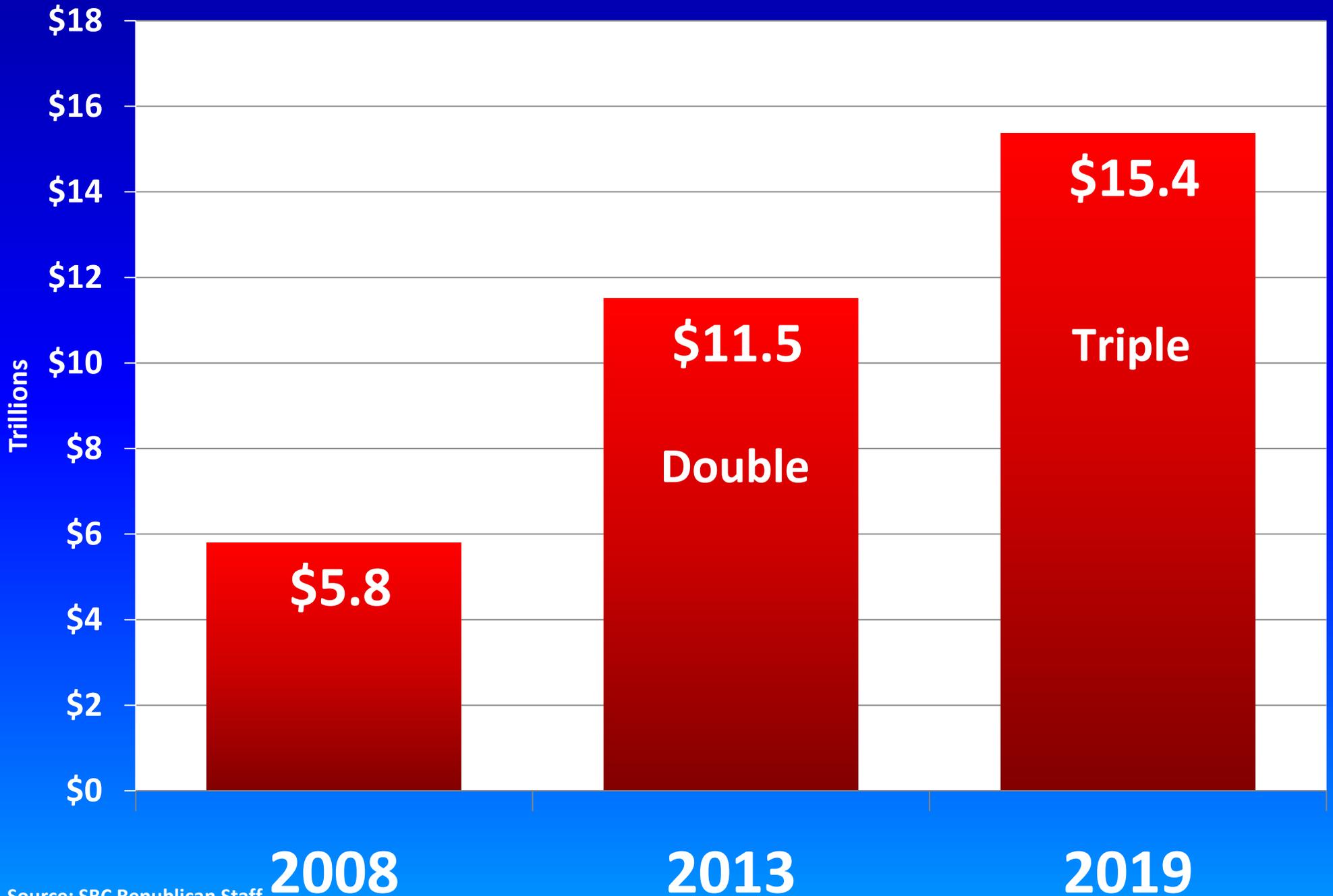
So using reconciliation in this manner on this type of an issue would do fundamental harm, *fundamental harm*, to the institution of the Senate. I mean, why have a Senate if you're going to do reconciliation on something this significant? You might as well go to a unicameral body. Be like Canada. Have one body and have it be the House of Representatives because that will be the practical effect of using reconciliation here.

It is such a dangerous precedent to set, or to even discuss, because by discussing it, you basically devalue the purposes of the Senate, which is to amend and debate and have an open forum. Whereas Washington said the hot coffee can be poured from the tea cup into the saucer. The Senate is supposed to be the saucer. It is supposed to be where we get an airing, and certainly on issues of this size we should have one.

I certainly hope we'll have no further discussion of the idea of using reconciliation for the purposes of pursuing either a national sales tax on energy called the carbon tax and the policies which would apply for the massive rewrite of health care.

Mr. President, I yield the floor.

Debt Held by the Public Scores a Triple Double



Federal Spending as % of GDP

