

MINORITY VIEWS OF RANKING REPUBLICAN MEMBER SENATOR JUDD GREGG

I recommend that the Senate reject this 2010 budget resolution reported by the Democratic majority of the Senate Budget Committee because it spends too much (\$225 billion more than current law), taxes too much (at least \$361 billion), and borrows too much -- \$1.1 trillion more than the huge amount we are already expecting to borrow under current law. As a result, it passes on to our children a government that they cannot afford.

It does nothing about the economic danger posed by unaffordable entitlement programs and does next to nothing to save any money in any mandatory programs (saves \$175 million in farm programs out of \$10 trillion in total mandatory spending, for a savings of 0.002 percent).

The budget grows the size of the non-defense, discretionary part of government in 2010 by about 9 percent (for a cumulative increase, compared to 2008, of 20 percent).

And it promises much more spending than that (\$1.3 trillion over five years) through 27 reserve funds that will work only if they raise taxes by a corresponding amount to pay for that spending increase.

Of all the budgets I have participated in, this is by far the most significant. The President has used his budget request to define very clearly where he wants to take the country. 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 of debt.

First, put in perspective what this President has inherited. He has had a difficult hand dealt to him, I don't argue with that. I've repeatedly said we are not holding him in any way responsible for the situation he confronts today or his aggressive use of the resources of the government to address the current situation. The government is the last source of liquidity, and he and the Congress have used it, along with the Federal Reserve, to try to stabilize the economic situation. I have participated in those efforts, and I respect that.

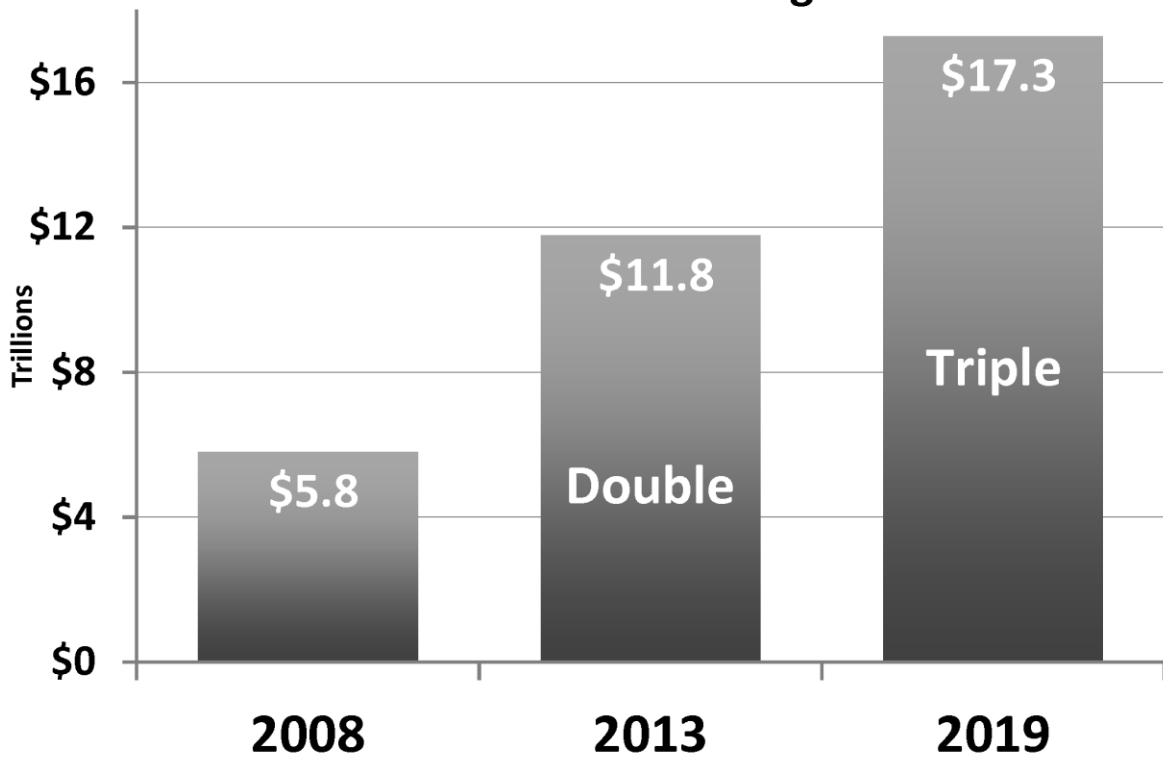
"The Debt is the Threat"

How many times have we heard the Chairman of the Senate Budget Committee say this? It has never been more true than it is now.

Yet this budget does nothing to address the debt in a serious way. Rather, 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 third or fourth year on out to the ten-year mark in the President's budget, it's apparent that the expansion of the government undertaken during this recession will not be drawn back. That supposedly temporary expansion is being used as an excuse to permanently expand the government in a way that threatens the fiscal stability of this nation.

The reported budget resolution represents only a negligible departure from where the President has proposed to take us. The President's OMB Director, Dr. Peter Orszag, has said that the Senate's budget is 98 percent the same as the President's budget. What does the President's budget do to the debt? In five years, President Obama doubles the debt. In ten years, the President triples the debt.

Debt Held by the Public Scores a Triple Double in the President's Budget



Source: SBC Republican Staff, CBO

Chairman Conrad has argued that, “President Bush doubled foreign-held debt in his eight years in office.” That’s true, but President Bush didn’t then take it to the level that this President is taking it. If you take all the debt accumulated under all previous presidents, starting with George Washington and ending with George W. Bush, President Obama is proposing to double that. Those are staggering numbers.

President Obama Would More Than Double the Federal Debt to \$14.5 Trillion

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



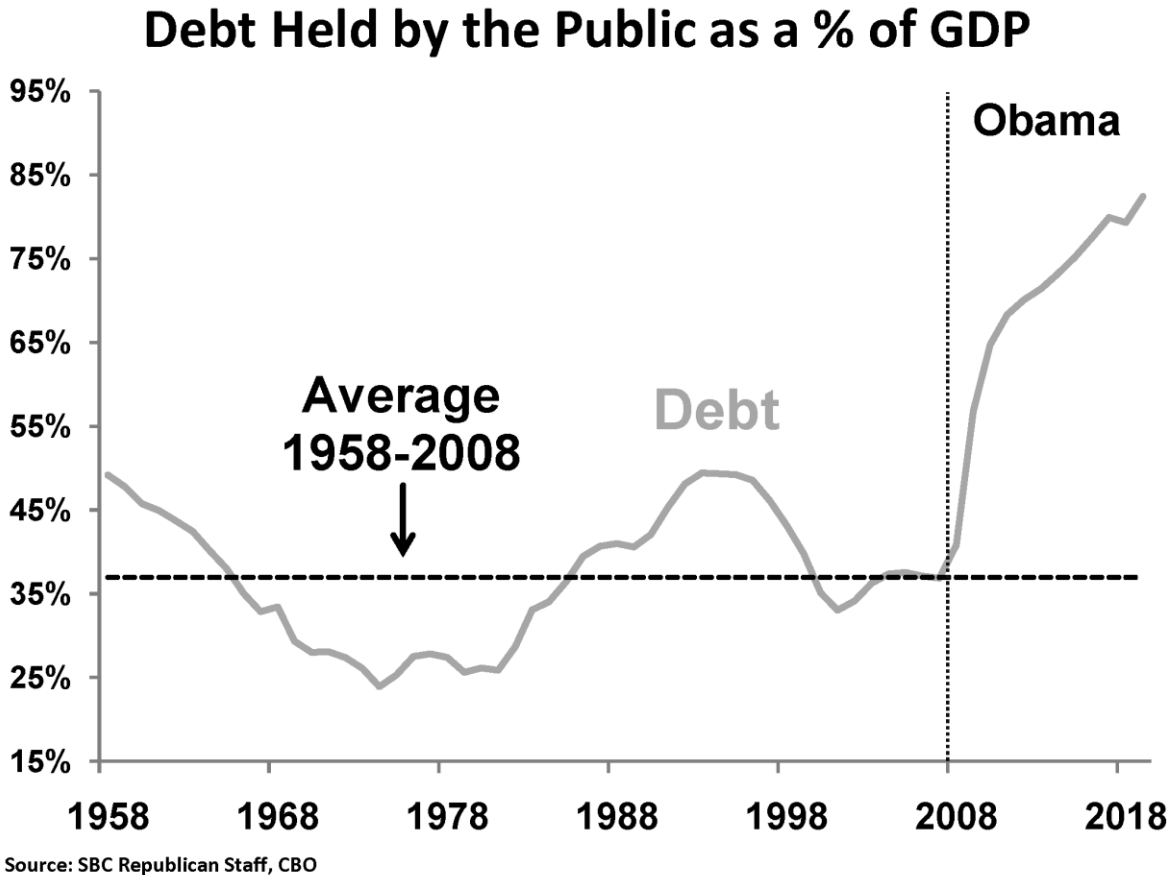
232 Years
(1776 – 2008)

Source: SBC Republican Staff, CBO



President Obama
(Proposed 2009-2016)

This massive expansion in debt raises questions about our ability as a nation to pay for this debt burden. The chart below demonstrates how, under the President's budget, the debt keeps going up unsustainable levels as a percent of Gross Domestic Product (GDP).



Most economists will tell you that an economy can handle between 30 and 40 percent of debt as a percentage of GDP. But a nation's 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 for very long. But what is being proposed in the President's budget is to move the public debt up to 80 percent of GDP and keep it there.

Shifting Standard of Fiscal Discipline

Why does the debt stay so high under the President's budget? Because, even after the recession is expected to be over, the President continues to run deficits of 4.3 percent of GDP in 2014 up to 5.7 percent of GDP in 2019. Chairman Conrad has seized on a new standard of fiscal discipline, arguing that, "many economists consider a deficit equal to 3 percent of the economy to be sustainable" and claims his budget would achieve that goal by the last year – 2014.

Only two and a half years ago (August 2006), Chairman Conrad publicly scoffed at the suggestion of well-respected economists that the U.S. economy could tolerate and sustain annual deficits amounting to 2 percent of GDP:

...what [two percent of GDP] leaves out is that the additions to the debt are more than four percent of GDP. And I think almost any economist would tell you that's an unsustainable level, especially in light of the fact the baby boom generation is about to retire. . .

I think it is completely and totally irresponsible [to suggest that deficits of 2 percent of GDP are sustainable]. I think it misleads the American people as to the true status of the fiscal condition of the country. We're in a very unusual situation where the amount of the deficit is a fraction of the increasing debt of the country, and that the debt is going to be what has to be repaid. And what's being lost in all of this is this incredible disconnect between the size of our deficits and the increase in our debt.... That is a completely unsustainable course. . . There is a huge difference between [deficits today and deficits of 2 percent of GDP] in the past, because you didn't have this incredible disconnect in the past between the size of the deficit and the growth of the debt [and] we did not in the past face the imminent retirement of the baby boom generation. So I will tell you, I thought it was one of the most irresponsible statements ... I have seen in a long time.

The costs of the Baby Boom generation have only drawn closer over the past two and a half years since Chairman Conrad made this statement. The only conclusion one can draw from his statement is that both his reported budget resolution and the President's budget are irresponsible budgets since they both far exceed the **lower** deficit (2 percent) and debt to GDP ratios that Chairman Conrad has long argued **were already unsustainable** for the economy.

So Why Are the Deficits and Debt in These Budgets So High?

Simply, it's because of all the spending that is involved. In the President's budget, the spending is so aggressive that it adds \$1 trillion dollars to the debt, on average, every year for the next ten years. He produces deficits totaling \$9.2 trillion dollars over this period, taking spending from 20 percent of GDP up to 25 percent of GDP, with the practical effect that the government grows at a rate that the revenues can't keep up with, and thus the debt explodes.

This reported budget resolution claims it makes hard choices to spend less than the President. On the mandatory side, there is little evidence of hard choices, since spending would remain on the same unsustainable course as under current law.

On the discretionary side, the reported resolution moves in the right direction by reducing the President's request for non-defense activities in 2010 from a 12 percent increase over 2009 to a 9 percent increase, but it is only a token baby step.

The Administration spills barrels of ink claiming how disciplined its budget is in non-defense discretionary spending after 2010. The reported resolution also claims to be disciplined, but only after one more year of a huge increase. The claims of “low growth in the out-years” are not worth the paper they are printed on.

When I offered an amendment during the committee markup to lock in (with discretionary spending limits) just the first two years (2011 and 2012) of the discretionary levels – which the Chairman claims are “proof” of his fiscal discipline – the Chairman argued against my amendment, and the majority voted it down. The Chairman said he didn’t need limits because he promised “we would be right here” over the next two years to write the discretionary levels for 2011 and 2012. You can be sure that when “next year” gets here, the level provided in the next two budget resolutions for 2011 and 2012 won’t be as disciplined as this reported resolution claims they will be.

Compounding the spending problem in this budget is the tax problem. The President is proposing the largest tax increase in history, much of it aimed at taxing small business people who have been over the years the best job creators in our economy. The budget also proposes a massive new national sales tax on your electric bill, so that every time you turn on a light switch you will be hit with a tax that averages more than \$3,000 per American household. The reported resolution includes mechanisms that would smooth the parliamentary path for enactment of some of these tax increases. But even the tax increases cannot keep pace with the higher rate of spending increases, so the debt piles up.

Misuse of Reconciliation

As senators, we should all be affronted by what is happening in this year’s budget process on reconciliation. The reported resolution doesn’t even have reconciliation instructions in it, but we know where the reconciliation instructions are. They’re over in the House budget. The House doesn’t need reconciliation; it has the Rules Committee. So the only reason reconciliation instructions are in the House budget is so they can be forced 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 U.S. Senate for how to consider such a significant piece of legislation that would essentially redesign the entire healthcare system in our country. This goes to the institutional significance of what the Senate is. 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 healthcare, it’s unfathomable that we would allow the House to take charge of our rules and direct us in this way.

Senator Byrd often reminds us about the history of reconciliation and what its purposes are. Reconciliation was never conceived to be used to rewrite the entire health care delivery system of the United States. Reconciliation allows only 20 hours of debate, essentially without any amendments and allowing only one up or down vote on the whole question. We should not undertake a public policy initiative of this size in this type of a scenario because it reduces the Senate’s role in the Constitutional process.

Missed Opportunity – Ignoring the Entitlement Crisis

With the Baby Boomers having already begun to retire, our nation is on the cusp of a huge demographic shift. The over-65 population is estimated to double before 2050, and as the number of Americans over 65 rises, there will be an increasing burden on working class families. The ratio of the number of workers available to support each retiree will continue to decline from 5.1 to 1 in 1960, to 3.3 to 1 today, to just over 2 to 1 in 2035.

Congress has had warnings in recent years about our impending fiscal crisis which have been ignored. In each of the last three years, the Medicare Trustees have notified Congress that within seven years more than 45 percent of Medicare outlays will be paid for by the general fund. This event has now triggered two Medicare Funding Warnings mandating a Presidential submission to Congress of a legislative proposal to address the problem. A year ago, President Bush submitted a proposal that the majority failed to bring to a vote. This year, the Administration has yet to submit a proposal as required by law. If this warning is not enough, the Trustees also have told us that in 2019 the Medicare Trust Fund will be exhausted.

Our fiscal problems are not limited to health care programs. In 2017, the Social Security system will begin to pay more in benefits than it takes in each year in payroll taxes. This will put incredible pressure on other federal programs. At the current growth rates, Medicare, Medicaid and Social Security alone could exceed 20 percent of GDP by 2040 crowding out all other federal spending on things like roads, defense, infrastructure and the environment.

Taken together, the unfunded obligations of the federal government exceed \$67 trillion. In other words, the federal government has promised pensions, health care and other benefits equal to \$67 trillion more than has been set aside to pay those obligations. To put this in perspective, if we wanted to put aside enough today to cover the Medicare, Medicaid and Social Security promises alone, it would take \$218,000 for each and every American, or just over \$603,000 per American household.

President Obama's budget included some effort to restrain Medicare and Medicaid growth, but unfortunately his budget then spent these savings on new mandatory spending. This reported budget resolution includes no savings in any of these mandatory programs.

Health Care Reform Reserve Fund

The cost of health care in this country is spiraling out of control – our nation now spends nearly 17 percent of its GDP on health care, yet an estimated 45 million Americans are left without health insurance. This is significantly more than every other country in the world. For example, in 2006, the United States spent more than 15 percent of GDP on health care, while the next highest health-care-spending country, Switzerland, spent 11 percent.

Especially in this challenging economic climate, many Americans face a crisis when it comes to making sure their families are covered or can receive care. Republicans agree that all Americans

should have access to quality insurance they can afford and that we must put in place measures to help drive innovation and reduce costs to make the system more efficient and reduce spending. Despite broad agreement that Congress must act to address the rate of growth in health care spending and the growing number of the uninsured, there is little consensus on whether further increases in health care spending are needed in order to achieve reforms.

The Administration proposed major increases in mandatory spending and included a “down payment” of \$606 billion in a health reform reserve fund in its budget blueprint. This down payment would be funded through reductions in Medicare and Medicaid spending and by increases in taxes. If this down payment is only half of the eventual cost of health care reform over the next 10 years, then without additional mandatory savings, the federal government is likely to add at least \$1 trillion in new mandatory spending paid for almost entirely by tax increases.

The reported resolution includes a deficit-neutral reserve fund. The reserve fund would allow the Finance Committee to report health reform legislation that increases spending while paying for it with tax increases.

Unfortunately, unlike all of the other deficit-neutral reserve funds in the resolution, the health reform reserve fund must only be deficit neutral over 11 years, not the standard 6 and 11 years applied under the current law PAYGO test. Waiving the six year PAYGO test is a troubling sign of the level of commitment by the Majority to reform the health care system in a fiscally responsible and sustainable manner.

Summary

I believe that you run a sound and affordable government **not** by running up the national debt to unsustainable levels while overtaxing working Americans and spending as if there is no tomorrow, but rather by working to limit the growth of government in a manner that is affordable not only today but for the next generation through limiting spending and addressing core issues like the cost of entitlements.

Our nation has an extraordinary history of one generation passing on to the next generation a more prosperous and stronger country, but that tradition is being put at risk. The dramatic move to the left and the massive increase in the size and cost of the government proposed by the budget of President Obama will lead to a national debt that not only threatens the value of the dollar and puts at risk our ability to borrow money to run the government, but will also place our children at a huge disadvantage as they inherit this debt, which will make their chances of success less than those given to us by our parents. It is not right for one generation to do that to another generation.

I believe that if you properly steward the responsibilities of the government, if you do not spend too much, tax too much and borrow too much, then we can leave our children a better nation where they will have even greater opportunities for prosperity, peace and freedom.