BUDGET COMMITTEE
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**Senator Gregg's Opening Statement at Budget Committee Hearing
With U.S. Treasury Secretary Timothy Geithner
On the President's Fiscal Year 2011 Budget Proposal
February 4, 2010**
(unofficial transcript)

Thank you Mr. Chairman, and thank you Mr. Geithner for being here today.

Let me associate myself with the Chairman's remarks relative to the two-prong approach. I agree 100%. The only problem is the second prong doesn't exist in this budget.

The budget, as it comes to us, as I've said on numerous occasions, and which is obvious to anybody who takes even a cursory look at it, does nothing about the long-term fiscal insolvency of our nation -- it does nothing about the fact that we are on an unsustainable course, and the fact that $11 trillion of new debt will be put into the system over the 10 years of this budget and that the deficits never fall to a level that is sustainable, and in fact, expand rather dramatically, and are continuing to expand even at the end of 10 years.

The unemployment levels under this budget take a long time to get back to the unemployment level that existed in 2008. And I think a lot of that is a function of the fact that the economy cannot be expected to recover robustly if we are putting on the economy a debt service and a debt burden which basically soaks up the capital of the nation and uses it for the government versus for the productive side of the ledger. I would argue that's exactly what we're doing with this budget because we're not putting in place the difficult decisions that need to be done in order to accomplish fiscal responsibility and pass to our kids a better nation, a more prosperous nation.

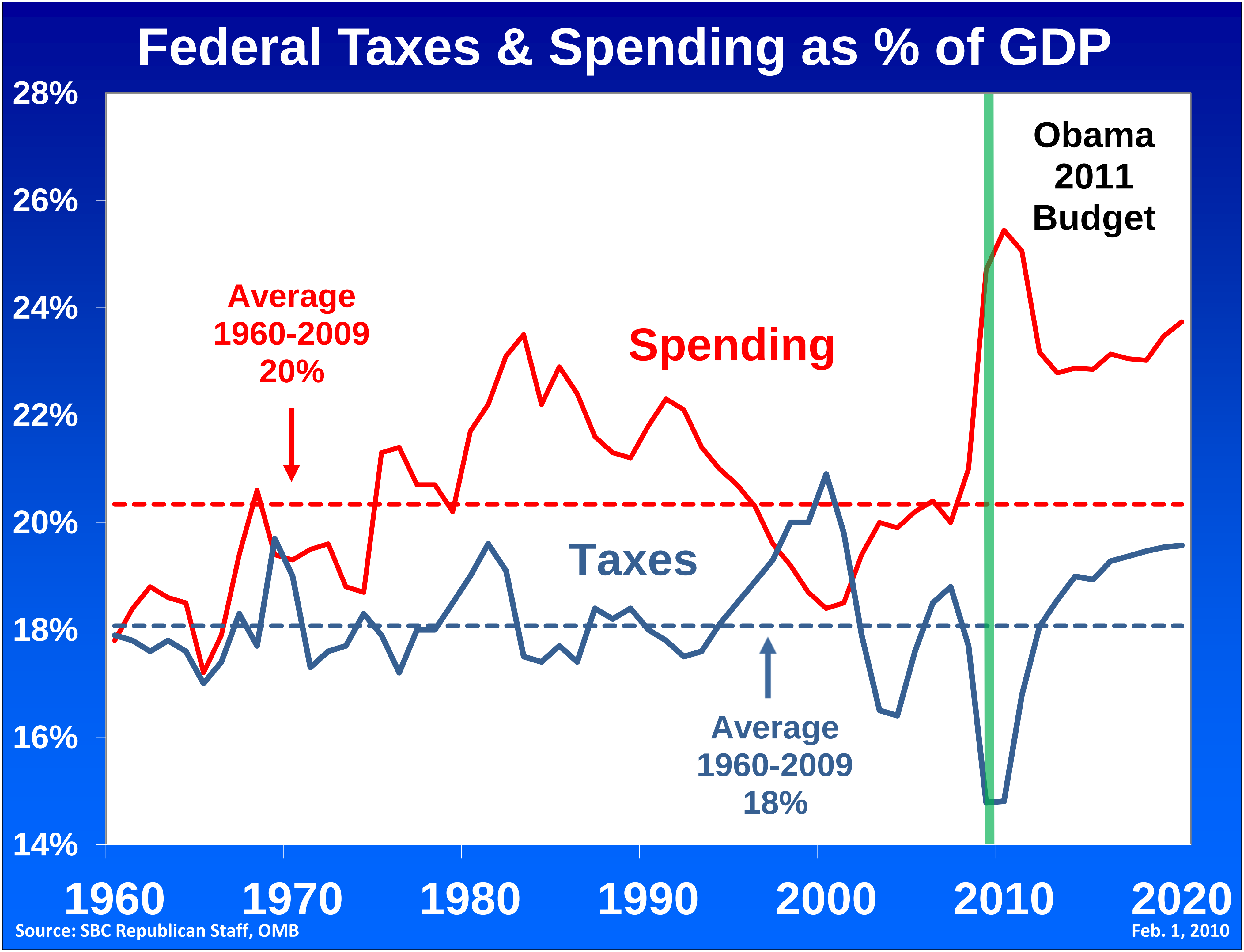
Since we have the Secretary of the Treasury here, I think we should focus a little on the revenue side of the President's budget proposal. There's $2 trillion of additional revenue in the President's request, and just to list a few of them. And obviously these are philosophical decisions that the Administration has made, which I tend to disagree with. They raised the marginal rate, from 36% to 39%; they limit tax deductions, or itemized deductions, to 28%; they reinstate the personal exemption phase out, which is basically another hit on people who itemize; they raise the capital gains rate; they raise the dividend rate; they assume significant tax increases, or fee increases -- however you want to describe those -- as a result of health care reform; there are new taxes on financial institutions, which of course have been in the public domain for awhile and discussed; and they propose a number of other tax changes, including LIFO, and IRS programs, reducing the tax gap, and increasing fossil fuel taxes. All of which add up to $2 trillion in new revenues.

So it's not as if there isn't a significant push towards generating revenues. The problem is at the same time that this bill is generating significant revenues as a result of tax increases, and taking revenues well above their historic norm -- revenues have historically been about 18.2% of GDP since 1940, and under this budget, it's presumed they'll approach 20% of GDP. At the same time, the explosion in spending is allowed to continue, and basically the size of the government grows dramatically.

And that's where the problem is *(see attached chart),* as these lines show -- the red line is government spending, the blue line is taxes. Obviously, in the short term, tax revenues have dropped precipitously and spending has gone up precipitously because of the recession. But, it's the out-years, the second step which the Chairman was talking about, where there is no serious effort to try to get those lines to converge because if you don't get them to converge, you end up with all this deficit and debt, which is going to drive our nation into a point of insolvency.

So I go back to my basic theme, which is that this budget plays small ball and bunts singles. I know the Senator from Kentucky could explain to me better what another term might be -- hit and run? Of course, he's never allowed anybody to hit singles -- but in any event, small ball is being played here. We are not taking on the big issue, and the gorilla in the room, which is very significant, is the fact that we're raising the level of debt of this country to an unsustainable level, unsustainable being the term that I believe the Secretary has even used. And so we need another approach, and that's why we've supported this Commission, and I believe it has to be statutory in order to be effective. So I look forward to hearing from the Secretary.

I also hope the Secretary will address where he sees the banking system today. This is important for us to know. Because obviously, there is a fair amount of TARP money available to the Secretary. I hope it doesn't have to be spent to continue to shore up the banking system. My hope is that instead, it can go to reduce the debt, which is what it was supposed to do. As a result of the Secretary's efforts, and the prior Administration's efforts, Secretary Paulson, and the overlapping effort of Chairman Bernanke, I hope that we have stabilized the system to a point where there does not appear to be any significant disruption in the financial system headed our way. I hope the Secretary will address that issue, of how he sees the basic health of the financial system vis-a-vis where we were in 2008 and early 2009. So I thank the Secretary for being here today.


Federal Taxes & Spending as % of GDP
28%
26%
24%
22%
20%
18%
16%
14%
Obama
2011
Budget
Average
1960-2009
20%
Spending
Taxes
Average
1960-2009
18%
1960
1970
1980
1990
2000
2010
2020
Source: SBC Republican Staff, OMB
Feb. 1, 2010