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Senator Gregg's Opening Remarks at Budget Hearing on the Status of the U.S. Economy
August 3, 2010
(unofficial transcript)

I appreciate the Chairman holding this hearing and I especially appreciate this very exceptional panel that has been put together and I look forward to hearing from them. I also want to commend the Chairman for putting forth some stark numbers that are accurate and once again pointing out that the path we are on is simply not sustainable as a nation.

I asked my staff what the Greek debt to GDP ratio is – of course Greece having basically defaulted and then been saved – and they said it was about 100%. I'm not sure if that's their public debt or their gross debt, but anyway, the Chairman's number of 400% for a debt to GDP ratio is a staggering number; we know our public debt is already approaching 100% of GDP by the end of the decade.

And let me just take a more global view of the issue. I know our witnesses will take more of a micro view; let me take more of a macro view. If we look at what's happening here, we're seeing a "new normal" – the term used by Mohamed El-Erian – in the way we work as a nation and the way we function as a nation. I'm not sure it's a good new normal, because basically we're moving away from American exceptional-ism, which I believe has always been uniquely founded on the basis of fiscal responsibility, individual entrepreneurship, and the capacity of the country to grow as a result of people taking risks and creating jobs, which required access to capital and access to credit which was reasonably available at a fair price.

And we have contracted all of this. We're contracting it because the government is growing so fast – the government has gone from 20% of GDP just two and a half years ago to now 24% of GDP and it is projected to go to 26%, to 27% of GDP. Historically it has always managed to be in the range of 19%-20% of GDP since the end of World War II.

Even if our revenues recover to their historic levels, and it appears they will, in fact under the President's budget, they look like they will exceed our normal levels, normal levels of revenue being about 18.2%. The President is projecting they will go to 20% of GDP. We cannot fill this gap, simply because the government is growing too much.

And the question is how do we bring the size of government back down, and how do we do it in a way that doesn't stifle this recovery, to the extent that we're having a recovery. And that really becomes a very complicated, two-step event for us, as people who are the keepers of fiscal policy, and for the keepers of monetary policy, because if we act precipitously to try to control the deficit, do we end up stifling the recovery? But if we don't act soon enough or put in place a reasonably acceptable plan that is perceived by the markets, both internationally and domestically, as legitimate to bring down the long-term debt, then do we aggravate the capacity to get a short-term recovery also?

Because I happen to believe that a short-term recovery depends on the markets, and specifically the marketplace, Main Street, believing that we're going to get our fiscal house in order. But how do we get it in order in a way that doesn't also dampen this slow, slow recovery?

These are the complicated policy issues we face, and I'll be interested to hear from our witnesses as to what they think. What can we do in the short-term on the deficit or what should we do? And what must we do in the long-term on the deficit, in order to give ourselves viability as a nation that we are going to be serious about the fiscal insolvency of our country and therefore our recovery?

I look forward to hearing from our witnesses on these topics. Thank you.

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More information on today's hearing:
http://budget.senate.gov/republican/NewHearings&Testi.htm