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Senator Gregg's Senate Floor Remarks on U.S. and Sovereign Debt
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(unofficial transcript)

I want to rise to discuss the issues of fiscal policy -- which we've talked about a little bit around here, but which we're not focusing on, in my opinion, with the intensity that we should -- and the fact that we're now seeing the meltdown of a major state's financial situation in Europe.

Greece has become a precursor for many other nations in the world -- industrialized nations which are finding themselves grossly overextended in terms of the amount of debt that they put on their books, and as a result are incapable of repaying their national debt, or what is known as their sovereign debt. Fortunately the European community has rallied around and tried to stabilize the situation in Greece. But the fact that the situation may be stabilized should not allow us to take much solace because this is not a unique problem to Greece.

As you look at the debt levels of a large number of nations in the industrialized West, especially, many of them are in serious trouble. Many are grossly overextended. We've seen, obviously, pressures on Ireland, Spain, Portugal, the United Kingdom, Italy, and, of course, Greece, as being so overextended that they were about to potentially default.

And what does this mean for us as a nation? Well, unfortunately, we're on the same track. And people talk in terms of default and overextension and too much debt, and their eyes sort of glaze over. What does that really mean? Well, essentially it means that if our debt gets to a certain point, we basically, as a Nation in order to pay for that debt, have to reduce the standard of living of our people.

Now, what is that point? Well, I think there's general consensus that a public debt -- that's debt owned by other countries and by the people of the nation that are running it up -- a public debt that amounts to about 35% to 40% of your gross domestic product, what you're producing as a nation, is a very good status. But as that moves up by running deficits and, remember, we're running a $1.5 trillion deficit this year, and under the President's budget we'll be running over $1 trillion deficits over the next 10 years, as that debt goes up each year, it means that you're borrowing money from mostly Americans, but also from other countries, especially the Chinese and the Saudi Arabians.

As that debt goes up, it starts to cross certain thresholds. The next most significant threshold is to have a debt-to-public production ratio of about 60%. That gets serious. In fact, that's such a high debt-to-public production ratio that in Europe, you can't even join the European Union if you've got a debt situation that's that big.

Well, unfortunately later this year, because of all the debt we put on the books just in the last three years, we're going to pass the 60% threshold as a nation. And then you start to move into waters which are more than uncharted and choppy, they're dangerous. You start to move into the waters that Greece finds itself in because when your public debt gets up around 70%, 80%, 90% of your gross domestic product, you have trouble paying it back without doing some very horrible things to your people -- things like massive inflation or massive tax increases, both of which cost Americans jobs and reduces their savings and their ability to live a better lifestyle.

Well, under the President's budget as proposed and under the scenario which is clearly in front of us -- it's like a railroad track -- it's going to be almost impossible to get off it unless we do something very significant. We hit 80% within six years, or approximately 80%. So, six, seven, eight years from now, we're basically where Greece is. And the implications for us as a society are catastrophic.

Now, what are we doing about this? Not a lot. In fact, we're aggravating it every day. Just yesterday, we passed another bill that spent $100 billion -- $100 billion -- that wasn't paid for, and that just went to the debt. And two weeks ago we passed another bill that alleged to spend $8 billion, that was offset, but buried in it were some parliamentary games which actually meant that it spent another hundred and forty billion dollars in highway funds that wasn't paid for. We spent more than $200 billion in just a few weeks. And last week, we did another bill that spent $10 billion unpaid for. Not only are we not addressing this problem, we're fundamentally aggravating the problem.

And now the House has this Senate health care bill over there. What are the fiscal implications of that? It grows the federal government by $2.5 trillion. $2.5 trillion. Now, Democrats claim it's paid for, but how is it paid for? It alleges it's going to reduce Medicare spending by $500 billion, but rather than using that money to make Medicare more solvent, it takes that money and creates two new entitlements – or expands one and creates another one. And we know from our history that entitlements are never fully paid for. And then it takes money from a fund which is supposed to be an insurance fund and it spends that money, long-term care insurance, so that when those insurance I.O.U.'s come up to be paid, there isn't going to be any money to pay them. It's called the Class Act, the classic game of pyramid accounting. In fact, if did you it in the private sector, you'd go to jail.

So the course we're on, a massive expansion in our debt leading us to a situation where our capacity to pay that debt will be virtually impossible to accomplish without huge negative implications for the standard of living of our children and our grandchildren, and even our generation, quite honestly. I mean, it's going to arrive pretty soon.

In fact, today there was a CNBC question put out: Should you continue to invest in American debt in light of what we're headed towards? How do you avoid the impending meltdown? I mean, the cost, as people start to sense this coming at us, the costs of selling our debt is just going to become extraordinarily expensive because people will have to price in either massive inflation or an economic cost through reduction in productivity due to massive taxes, which will reduce our capacity to repay this debt in any sort of reasonable way.

So this is a serious problem, and yet we do not seem to be willing to face up to it. And there's something else we need to focus on. Not only is it the sovereign nations of the world who have this debt problem, it's our states. Think about this for a moment. California's debt problem is so severe that they are represented as being close to potential default. What's the implication of that for us as a country if one of our states were to default on their debt? The domino effect would be extraordinary. And do we have enough gas in our tank, so to say, to come in and resolve this from the federal level? I doubt it. We've used up most of our running room.

You know, if we go into a fiscal cardiac arrest -- which is exactly what we're going to do, a fiscal cardiac arrest -- four or five years from now, when we reach for the defibrillators, there isn't going to be any power, there isn't going to be any power to activate them because we have used up all our resources already. We've spent it. We can't borrow anymore, and we certainly don't want to inflate our way out of it. It will be severe, and the arrest may become terminal for certain parts of our economy and certain people's lifestyle, basically regular Americans living on Main Street.

The issue is out there, and it's pretty clear. Greece is a precursor, California is an example, and our own profligate attitude here in the Congress about it is not helping the problem at all. And you don't have to listen to me on this. I just want to place in the record a very thoughtful piece *(see link below)* in the Financial Times written by Mohamed El-Erian, who's a senior member of the group known as PIMCO, which is the largest bond dealer in the world and one of the leading authorities on debt and the purchase and selling of debt in the world. And this article just hits the nail on the head about the threat that we confront as a nation, for our failure to face up to this debt situation now; we are just allowing it to continue to grow.
(http://www.ft.com/cms/s/0/c8655bdc-2c78-11df-be45-00144feabdc0.html?nclick_check=1)

It's time for to us act. It's time for us to first stop spending. That's the bottom line. You know, it's like a diet. The only way you can lose some weight is to actually stop eating the wrong way. We've got to stop spending, and then we've got to come up with some pretty aggressive ideas that if we do now, will have less negative impact on people than if we have to do that in a crisis situation, for addressing the very systemic problems we have as a country relative to the growth of our debt.

Madam President, I yield the floor.