BUDGET COMMITTEE

Judd Gregg, Ranking Member
http://budget.senate.gov/republican

Contact: Betsy Holahan (202)224-6011
Andrea Wuebker (202)224-3324

Minority Views of Ranking Republican Member
Senator Judd Gregg
April 26, 2010

Now in my final year in the U.S. Senate and as a member of the Senate Budget Committee, I would like to note that I have greatly enjoyed working with Chairman Kent Conrad over the years. His depth of knowledge on fiscal matters and his strong commitment to the budget process is unrivaled. While we often hold opposing views, I commend the Chairman for his dedication to the fiscal well-being of the nation and greatly appreciate the mutually respectful working relationship that we have enjoyed.

While both Chairman Conrad and I are committed to having a more fiscally responsible federal government, it is clear that the nation has miles to go before reaching that goal. The economy continues to be unstable, but spending by the Congress is out of control, and the resulting debt threatens to bankrupt future generations. As Chairman Conrad says, “the debt is the threat,” and he is absolutely correct in that assessment.

Unfortunately, this 2011 budget resolution – approved by the Senate Budget Committee on April 22 – is lacking in many regards. It is represented as an improvement over the President’s 2011 budget request, but that claim is based not on significant spending restraint, but on higher taxes on American families and small businesses. Simply put, this budget means more spending, more deficits, more debt, and consequently, less prosperity for our children.

At a time when most American families, businesses, and state and local governments are tightening their belts, the federal government is in the process of building a permanent spending spree on top of a fiscal outlook that we already knew was unsustainable. While spending over the past 18 months for fiscal stimulus and financial rescue has been a necessary (if sometimes misdirected) step to prevent a total collapse of U.S. output and a meltdown of the global economy, the majority appears to believe that such a fiscal surge ought to be permanent. While the federal government consumed an average of less than 21 percent of the economy annually from 1970-2009, under the President’s budget plan, the federal government is on a path to consume more than 25 percent of GDP by the end of the decade.

This committee-reported budget resolution does little to hold the line on spending and achieves only a slightly lower deficit level than the President by increasing taxes.

On the mandatory side of the ledger, despite the fact that we now face $77 trillion in unfunded mandatory obligations over 75 years, Democrats not only take no action, they pour gasoline on the fire. This budget resolution simply ignores the spending on autopilot and the totally unaffordable growth that occurs in big mandatory programs like Social Security, Medicare and Medicaid. Further, it hides $163 billion in increased mandatory outlays over five years on the revenue side of the budget. Meanwhile, the President's budget increases mandatory spending (not including interest) by $1.9 trillion, or 8 percent, over 2011-2020.

Unfortunately, when Congress and the President enacted the health care bill, the bill took trillions of dollars in Medicare savings, which should have been used to shore up Medicare and improve our debt situation, and used those savings instead to create a new entitlement. That will dramatically reduce the flexibility that decision makers have to address this problem as we move forward, either through the Fiscal Commission or by regular order.

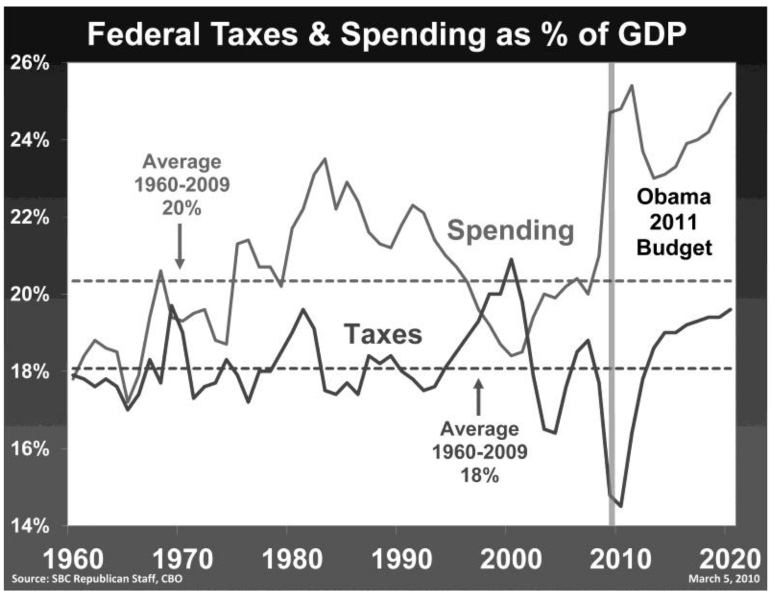
On the discretionary side of spending, the "spending freeze" included in both the President's budget and this budget resolution does not hold up under scrutiny. It still allows non-security discretionary spending to increase at nearly twice the projected rate of inflation. This budget resolution touts its marginally lower level than the President's non-defense request, but this is a weak attempt to close the barn door after the horse has gotten out, since nondefense discretionary spending enacted over the past two years increased by approximately $80 billion (20 percent).

Simply put, as a result of this budget and the policy course the Democrats have embraced, Americans are going to see their taxes increase steadily over the next five years. Relative to the taxes people now send in to the federal government, this budget will raise taxes to pay for its failure to get spending under control. Furthermore, when Republicans offered to improve the resolution by including enforceable spending caps for five years and requiring mandatory spending savings through reconciliation, the Democrats rejected our ideas.

The Senate's Pay-Go point of order, which was advertised in the 2006 and 2008 election campaigns as a major obstacle to new deficit spending, is significantly weakened by this budget resolution, which exempts certain legislation (the doctor fix for five years and the Alternative Minimum Tax (AMT) fix and the estate tax adjustment for two years) from having to be paid for. The budget resolution changes Senate Pay-Go to operate the same way that the weak and ineffective House Pay-Go rule and statutory Pay-Go operate.

Because spending is the real problem we face, our fiscal mess is not something we can solve just with higher taxes, although the Democrats do try to take that approach. Their budget assumes steep marginal rate tax increases on individuals earning more than $200,000 and couples earning more than $250,000, a move that will hit the economic engine of growth – small businesses – particularly hard.

By the end of 2020, revenues under the President's budget as a percentage of GDP are projected to be 19.6 percent of GDP – in excess of the historical average of approximately 18 percent – but deficits will still amount to 5.6 percent of the economy. Relying on tax increases alone to close the gap will completely devastate the economy.



Beyond increasing taxes, the Democrats' budgets seem content to leave our problem of deficits and debt in the hands of the President's fiscal commission, whose recommendations may or may not be acted on by Congress. Let's hope the fiscal commission, which has its first meeting tomorrow, can accomplish something, because this level of spending, borrowing, and debt is not without consequence.

The Economist magazine recently presented some sobering statistics. The budget deficit-to-GDP ratio of the United States, at 11.1 percent in 2010, ranks 41st among the 43 major economies surveyed; only the United Kingdom and Spain rank worse. Even crisis-wracked Greece, with a deficit of 9.5 percent of GDP, had a better showing. It is these annual budget deficits, occurring year after year, that inexorably add to the government debt, and the Democrats have no credible plan to address this looming crisis.

As U.S. debt mounts, there is the danger that credit ratings agencies will downgrade U.S. government debt from its current AAA status, resulting in a loss of confidence in U.S. debt around the world and interest rate hikes from the countries that finance our debt.

With the U.S. government on track to use increasing amounts of its annual revenues to pay interest on its debt over the next 10 years, it is in danger of exceeding the threshold of about 14 percent (for “General Government”, which combines the federal government with state and local governments) that some ratings agencies monitor to assess whether nations can sustain their debt load. We’re on a course to have a junk-bond government.

Meanwhile, the debt will not just disappear. Our children will have to pay back all of our debt with interest, which is absorbing a greater share of the economy each year. For example, when the President took office in January 2009, federal debt held by the public was $84,700 per U.S. child under age 18. Under his new budget plan, by 2020 each child’s share will be $248,700.

Finally, this budget resolution appears poised to aggravate our problems rather than aggressively attack them. The $2 billion reconciliation instruction to the Finance Committee is not a tool for tackling long-term debt. Rather, such an instruction is actually dangerous. Last year, the Democrats’ budget resolution included a $2 billion reconciliation instruction, and the Congress used it to spend $2.6 *trillion* on a massive expansion of health care entitlements.

Any reconciliation instruction should be a genuine instruction that seeks to reduce the deficit rather than shut out the minority and provide an excuse to expand spending. In accordance with my amendment that the Budget Committee voted to add to the reported resolution, the Finance Committee would not be able to increase spending by more than $400 million in such a reconciliation bill (which is 20 percent of $2 billion; assuming the Finance Committee could achieve gross savings of at least $2.4 billion, net deficit reduction would still be $2 billion to comply with the instruction).

As future generations struggle to pay back the debt they will inherit, their quality of life will be significantly lower than ours – instead of working to better their own lives, they will be working to pay off the fiscal irresponsibility of the current generation. Our children and grandchildren will have less money for the hallmarks of the American dream – a home purchase, a college education, a secure retirement.

The bottom line is that we are on an unsustainable path. And this budget doesn’t do anything to significantly adjust that, which is a missed opportunity for us, and for future generations.