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Opening Statement from Senator Judd Gregg
(unofficial transcript)

Senate Budget Committee Hearing
Long-Term Economic and Budget Challenges

Witness: Ben S. Bernanke, Chairman,
Board of Governors of the Federal Reserve System

Thank you, Mr. Chairman for joining us today. It is very important to hear your thoughts. And the Chairman has set the table on the issue that we consider the two of us I believe, to be the primary fiscal policy issue which we face as a country, which is the out-year cost of our government to America.

It is a function, as the Chairman mentioned, of demographics, and I think this just needs to be reinforced. We are facing the largest retirement generation in the history of the country – it will double the size of the retirement generation and the practical affect of that, of course, is that you'll have fewer people working to support the retired population. The implications of this will be that three major federal programs, Social Security, Medicare, and Medicaid, will absorb what has traditionally been the historical amount of spending which the federal government takes out of the economy – 20% -- by about the year 2025. So at that point they'll be nothing else the federal government can theoretically do and maintain a 20% burden on our national economy, other than pay for Social Security, Medicare, and Medicaid. National Defense can't be done, education can't be done, and environmental protection can't be done. And the problem worsens -- as the baby boom generation goes into full retirement the number goes up, almost hits 30%, those three programs, as we head into the 2030 decade.

The practical implications of this are staggering for us as a nation, as the Chairman has outlined, and the question becomes how we address it. The issue is reflected I think in the fact that if historically we've taken 20% of the national economy in federal spending, and historically taken about 18.2% of the national economy in tax revenues, how high can the federal government go in its burden on the national economy without undermining the productivity of the economy and putting us into some sort of spiraling down in quality of life, quality of experience for our next generation? Or to put it in real terms, at what point does the cost of the retired generation get so high that the younger generation can no longer afford to have the quality of life that our generation has had?

This is reflected in the unchecked effect on federal spending -- it would go as high, theoretically, as 45% of the Gross National Product just on entitlements if it goes forward in the year 2040. And that's reflected even though we have seen dramatic increases in taxes.

Now the Chairman has pointed out that in his view tax revenues in the future, if we were to continue to maintain the tax cuts, or the tax burden, that we have in place would significantly drop. I'm not sure -- I don't happen to believe that. That's a static estimate of what tax revenues are. We have actually seen that with a fair tax rate we create more productivity in the economy, and as a result we create more revenues for the federal government. In fact in the last three years federal revenues have jumped more significantly than any other time in our history. We are seeing that we are over the historical norm – over 18.2% of the Gross National Product -- coming in, revenues are at about 18.5%, we're heading towards 19% if the estimates of the Administration are correct. And I assumed those estimates are going to be assumed in whatever budget comes out for this committee. And as a practical matter we even have a more progressive tax law today than we had during the Clinton years. So even though we've cut rates, we've actually caused higher-income people in this country to be paying ore of the tax burden, almost 85% of the tax burden versus 81% during the Clinton years for the top 20%. So I do not believe you can tax your way out of this problem.

There are basically four different approaches to this problem – increase taxes, adjust benefits, increase the number of people paying in, which would be expanding immigration I would presume, or inflating our way out of the issue. And I guess what I'm going to want to focus on with you, Mr. Chairman, is at what level does the federal government be taking too much out of the economy to be making the economy work right, and be productive? And secondly, how do we address the issue of the fact that one of the options here is inflating your way out of this problem – which would be a horrific decision on our part as a government but is potentially something the marketplace might force on us looking at this type of debt burden facing us.

So I'm going to be interested in your thoughts on this critical issue of fiscal policy for us, and hopefully you can give us some guidance. Thank you.

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