U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Opening Statement of Chairman Chuck Grassley
Hearing, "Budget Surpluses and Debt Reduction"
Thursday, March 29, 2001

The subject of today's hearing is especially timely as the Senate prepares to debate the latest congressional budget resolution. One of the key issues we face is how to divide the budget surplus among competing priorities like tax cuts, debt reduction, Social Security and Medicare.

According to the Congressional Budget Office, federal budget surpluses are projected to exceed $5.6 trillion over the next ten years. Given the size of these surpluses, it should be possible to pay down all of the federal debt held by the public and still have money left over. But, as today's hearing will show, getting to "zero" debt is not as simple as it seems.

The federal debt held by the public consists of a variety of bills, notes and bonds that range in maturity from three months to 30 years. More than $500 billion of this debt will not come due within the next ten years. Those who hold this debt may not be willing to sell it back, before it's due, at a price the government is willing to pay. More than $170 billion of the outstanding debt is held in the form of U.S. savings bonds. These bonds provide a safe and affordable investment vehicle for millions of Americans. We might want to think twice before ending this popular and successful program.

Federal debt also plays a crucial role in our nation's monetary policy, and it provides a benchmark for numerous financial transactions. There may be other alternatives, but the financial markets will need time to implement these alternatives to avoid a costly and disruptive transition.

If we resolve those issues, we will face yet another problem. Given the size of the projected surpluses, the government will run out of debt before it runs out of surpluses. According to CBO, projected surpluses will exceed the amount of debt that can be repaid by 2006. Under the President's budget, surpluses will exceed the available debt by 2009. Under the Senate Democrat's proposed budget – which would set aside the Social Security surplus, the Medicare HI surplus, and one-third of the on-budget surplus – surpluses will exceed the available debt by 2008.

Once the government runs out of debt, it will begin to accumulate enormous cash reserves. The government will have to invest these reserves in some type of financial assets, such as corporate stocks and bonds. Federal Reserve Chairman Alan Greenspan has warned that such investment could disrupt financial markets and reduce the efficiency of the economy. We cannot allow that to happen.

Even more troubling than the question of what happens when we run out of debt is the question of what happens when we run out of surpluses. The retirement of the baby boomers and the rising cost of health care will ultimately plunge the budget back into deficit. The taxpayers will not be impressed by our efforts to pay down the debt, if we simply turn around and run it back up again. Reducing the debt is a worthy goal. But, getting to "zero"regardless of the cost and without regard to what happens thereafter seems foolish and shortsighted. Today's hearing provides us the opportunity to examine these important issues.