Senate Committee on Finance
U.S. Senator Orrin Hatch (R-UT), Ranking Member
http://finance.senate.gov

FOR IMMEDIATE RELEASE **CONTACT: Julia Lawless, Antonia Ferrier**
February 14, 2012 (202) 224-4515

HATCH STATEMENT AT FINANCE HEARING EXAMINING THE PRESIDENT'S FY 2013 BUDGET PROPOSAL

Treasury Secretary Geithner Testifies

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Committee on Finance, delivered opening remarks at a committee hearing examining the President's budget proposal for FY 2013. Treasury Secretary Timothy Geithner testified before the Committee this morning.

A full copy of the remarks, as prepared for delivery, follows:

Thank you for holding today's hearing, Mr. Chairman, and welcome Secretary Geithner. Let's begin by noting that total public debt outstanding is over $15.3 trillion, larger than the size of our gross domestic product. A debt-to-GDP ratio above 100 percent is clearly unsustainable and puts us in the ranks of the many European countries currently in a severe debt crisis and unable to borrow at sustainable interest rates.

The nation deserves a budget that responsibly addresses this debt crisis. Yet last year, the President delivered a budget that was unanimously rejected on the Senate floor. It did not receive a single *yes* vote, even from Senate Democrats. Yesterday the President laid out his most recent budget plan. Unfortunately, it similarly fails to address this nation's glaring fiscal crisis, and it will probably never be brought to a vote.

We haven't seen a budget resolution from the Senate Budget Committee in years, despite it being legally required. Last year, the President's budget did eventually get a vote, and there is only room for improvement on that result. But the Senate Majority Leader seems to have no inclination to debate a budget on the Senate floor, having stated that the Budget Control Act means that we don't have to debate fiscal year 2013 spending totals since they have already been determined. If so, then we don't need to discuss a large part of what the President unveiled yesterday, which should make for a quick hearing today.

Still, we have to do our due diligence, and in reviewing the budget released yesterday by the President, it is clear that his plan would only make our fiscal problems worse and harm our economy by imposing around $1.9 trillion of stifling tax hikes. Earlier this month, the President suggested at the National Prayer Breakfast that these tax hikes are divinely inspired. That certainly was an interesting take on the Bible. In the President's interpretation, *render unto Caesar the* *things which are Caesar's, and unto God the things that are God's* becomes, *just give it all to Caesar!*

Who knew that cosmic justice would be rendered by the Department of Education and HUD? Who knew that the separation of the wheat from the chaff would in fact be performed by the Obama administration, picking winners and losers in the name of fairness? Perhaps church going citizens should just cut to the President's chase and instead of tithing or putting an envelope in the basket at church, they could just send their money directly to the divinely ordained Treasury.

The fact is, this budget is politically, not divinely, inspired. This budget is a plan for a permanently larger, European-style government. It does not set our country down a sustainable fiscal path. It does nothing to change the President's unwavering devotion to tax-and-spend policies and failed stimulus schemes that have and will continue to generate historic deficits and levels of debt. It does nothing to wind down the mortgage giants Fannie and Freddie, to restore private flows of capital into our Nation's system of mortgage finance, or to remove the government's effective takeover of our housing markets. It does nothing to address our entitlement spending crisis, whistling past the graveyard as Social Security, health care, and disability trust funds are in death spirals toward bankruptcy. The President presents his budget, with its accelerated spending and class warfare, as one of fairness and compassion.

But is it fair to American workers to jeopardize economic growth through higher taxes? Is it fair to taxpayers to ignore the mortgage giants, Fannie and Freddie, which continue to drain their wallets? Is it fair to the disabled to pretend that the looming bankruptcy of the disability trust fund will not happen in 2016? Is it fair to look at Social Security and turn the other way in the interest of avoiding hard choices that might make a reelection campaign uncomfortable?

Secretary Geithner, I look forward to your testimony today on the President's plan and what it might do to the economy. I have to say, though, that I wish you would be careful in your public economic pronouncements. It is disturbing and unwarranted when you claim, for example, that Republicans' resistance to the President's stimulus proposals for more taxing, spending, and borrowing — as in his so-called jobs bill — means that they do not want to do anything to help the economy or that Republicans' resistance to wasteful stimulus somehow increases the risk of recession.

These claims are simply not true, and they are certainly not productive. Putting aside these discouraging political statements, perhaps we could be given an explanation of why the administration appears to believe that the economic recovery is vibrant enough to be hit with more taxes, despite clear warnings from the Congressional Budget Office of significant negative effects on growth, yet at the same time is not vibrant enough to stop the runaway spending of the current administration. It seems that for President Obama the recipe always calls for more taxes to fund more government.

The result is this budget, which ignores the source of our nation's fiscal challenges — a spending problem that is only getting worse. No matter what budget baseline you choose to consider, the CBO projects that federal revenues as a share of GDP will rise above the long-run average as the economy recovers, even with a continuation of current tax rates. But spending as a share of GDP is projected to indefinitely stay above historic norms, pushing our economy and the size of our government further and further down the path that several major European countries have followed to fiscal ruin.

We also know that our fiscal outlook is very sensitive to future developments, including what might happen to interest rates or inflation. CBO tells us that if interest rates run just one percent higher than assumed in their baseline budget projection, interest outlays over the next 10 years will increase by over $1 trillion. That is for just a one-percent increase. If rates spike up precipitously once our creditors lose patience with the administration's unwillingness to chart a sustainable fiscal course, we could easily face deeply painful adjustments like those currently being experienced in Europe.

On the other hand, according to CBO, if inflation turns out to be one percentage point higher each year than under its baseline, then the deficit would actually fall over the next 10 years. While the economy would suffer, the government would benefit from higher inflation, and it will be up to the Fed to avoid the temptation to inflate for budgetary gain. I certainly hope that the Fed's recent appetite for mixing monetary and fiscal policies comes to an end, and that we don't have to worry about this temptation to inflate our way out of our debt.

Our unsustainable fiscal path poses great and growing risks to the economy, and the President's budget does nothing to diminish those risks. In fact, given the riskiness of our fiscal path and the temptation to inflate away some of our debt, Warren Buffett, who the administration appears to turn to for its formulation of tax policy, weighed in with advice for investors to steer clear of currency-based investments, like U.S. Treasury securities. As Mr. Buffett says: *In God We Trust may be imprinted on our currency, but the hand that activates our government's printing press has been all too human.* On bonds like Treasuries, the Oracle advises: *Right now bonds should come with a warning label.*

Secretary Geithner, Mr. Buffett is advising investors to shy away from investments such as Treasury securities, and it will be interesting to know if you agree with this advice. My hope is that his recent musings don't become a new Buffet Rule for investors not to buy Treasuries, because if investors heed that advice in large numbers, the spikes in interest rates that I worry about will materialize, and the low-cost financing of our $15.3 trillion debt that the U.S. temporarily enjoys will evaporate in a hurry.

We need to resist the siren song of cheap financing, partly brought on by the Federal Reserve's massive purchases of Treasury securities to help push rates down. Unfortunately, the administration remains lulled in by the siren song and takes current low rates as a reason to spend more and pile up even more debt to finance a bloated, European-sized government. Secretary Geithner, I look forward to your testimony on the President's budget, which I only received late yesterday, after the deadline you were supposed to honor for submission. And, again Mr. Chairman, thank you for holding today's hearing.

###