

**Statement of Chairman Gordon H. Smith
U.S. Senate Subcommittee on Long-Term Growth
and Debt Reduction of the Committee on Finance**

“America’s Public Debt: How Do We Keep It From Rising?”

September 28, 2006

Good afternoon, and thank you all for coming.

We’re here today to discuss a topic of growing concern in America – how to solve our budget deficit problem in light of our government’s long-term fiscal challenges. We have a balanced panel of experts with us today with differing views and backgrounds. I look forward to a constructive dialogue on how best to address this looming fiscal crisis.

We recently received good news about this year’s budget deficit. CBO now expects the 2006 deficit to total \$260 billion. This is a \$58 billion decline from last year’s deficit – and \$112 billion lower than CBO’s March estimates.

The primary reason for this decline is increased tax revenues. Receipts from individual income and payroll taxes are projected to increase this year by \$172 billion. Furthermore, receipts from corporate income taxes are expected to grow strongly for the third consecutive year.

These numbers once again demonstrate the success of the Bush tax cuts. By the end of 2006, we will have put \$1.1 trillion back into Americans’ pockets. This has resulted in a strengthened economy and increased tax revenues. The economy has created more than 1.7 million jobs over the past 12 months – and more than 5.7 million jobs since August 2003. In addition, over the first half of this year, our economy grew at a 4.2 percent annual rate. This is faster than any other major industrialized nation.

However, despite recent improvements, our nation faces a long-term fiscal challenge. We are about to experience a dramatic demographic shift as the baby boom generation begins to retire. The aging of our population, combined with rapidly rising health care costs, is likely to create an ever-growing demand for resources to finance federal spending for mandatory programs, such as Social Security, Medicare and Medicaid.

These programs have a positive effect on so many Americans’ lives. However, we need to face the reality that they simply cannot be sustained long-term in their current form. Reforming our entitlement programs is critical. And must be done in a thoughtful manner so as to not hurt those Americans who rely on these benefits the most.

These reforms may require some politically difficult decisions. But I think most of my Senate colleagues realize that we must act soon to ensure that these vital retirement income and health care programs are around to serve the next generation.

I'd like to thank our witnesses for joining us this afternoon. I look forward to hearing your testimony.