United States Senate
Committee on Finance

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Senator Grassley Floor Statement
Sur Tax-a-lot and the Debt and Deficit Dragon
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Mr. President, we're only nine months into fiscal year 2009, and for the first time in American history, the federal deficit has reached and exceeded $1 trillion. This is not one of those "firsts" for our great nation that calls for celebration.

Unfortunately, the bad fiscal news is not yet over for the year. We are still on track for a year-end deficit of over $1.8 trillion for 2009, according to the Congressional Budget Office.

This 2009 deficit, as a percentage of gross domestic product ("GDP"), will be a staggering 13 percent, the highest rate since the end of World War II. Here's a chart that puts the deficit in context. And here's a chart that puts the debt in context.

I want to remind the Senate that I agree with President Obama that he inherited part of these deficits and debts. What isn't often pointed out is this. The deficits and debt were bequeathed on a bipartisan basis. Democrats controlled the last Congress, starting in 2007. That Congress wrote the budgets. It wrote the spending bills. That Democratically-controlled Congress wrote the financial bailout bill.

A Republican President, George W. Bush, signed those spending bills. President Bush signed the financial bailout bill. The chart shows the bipartisan deficit President Obama inherited. The chart shows the bipartisan debt President Obama inherited.

Now, today we've seen more revisionist fiscal history from many of my friends on the other side. It boils down to basic propositions. First proposition: All good economic policy and beneficial fiscal effects are due to the partisan tax hike of 1993. Second proposition: All bad economic policy and detrimental fiscal effects of this decade are due to the bipartisan tax relief plans of 2001 and 2003.

If you take this fiscal revisionism to its logical extreme, the answer of some on the other side must be to tax every dollar of income earned by the American taxpayer. There seems to be an attitude that any policy that allows Americans to keep more of their own money is automatically bad, while any policy that takes more of their money and spends it is good. I think it is fairly clear that the fiscal revisionists on the other side do not have a problem with huge deficits; rather they are threatened by the prospect of Americans deciding what they want to do with their own money.

In fact, the deficit effects of the stimulus bill, passed within a short time after Democrats assumed full control of the Federal Government, exceeded the deficit impact of the 8 years of bipartisan tax relief.

Since that stimulus package spilled a lot of red ink, let's take a look at how the economy has done. Unemployment currently stands at 9.5 percent, the highest rate in the last 26 years. The economy has shed 6.4 million jobs since this recession began, which includes 2.6 million jobs lost since President Obama took office.

Even with the passage of the massive $787 billion stimulus bill in February, and the promises of jobs, jobs, jobs that went with it, there is still no end in sight to the rise of unemployment and job losses. The President himself recently said, "My expectation is that we will probably continue to see unemployment tick up for several months."

While the short-term news is bad, the long-term news is even worse. If the Obama budget is adopted, by 2019 we will have added over $9 trillion to the national debt held by the public, and our debt as a percentage of the economy will grow in excess of 80 percent—a level that also has not been seen in this country since World War II.

The huge spike in spending that we've seen over the course of the past nine months has been advertised as temporary, but even so, the deficit as a percentage of GDP in 2019 is projected to be 5.5 percent—a level that everyone, including the President, agrees is unsustainable.

Looking beyond the ten year window paints an even bleaker picture. I have a chart here from the Congressional Budget Office that projects a terrifying rise in debt held by the public as a percentage of GDP over the next forty years.

As you can see here, from the dotted line, the highest level of debt held by the public as a percentage of GDP, 107%, occurred in 1945 at the end of World War II. In either of the two scenarios outlined in CBO's Long-Term Budget Outlook, shown by the red and green lines on the chart respectively, we are on a course to break this record sometime in the next 15 to 35 years and reach ratios of debt to GDP of up to 128% or even 321% by 2050.

In CBO's own words, "The systematic widening of budget shortfalls projected under CBO's long-term scenarios has never been observed in U.S. history."

Now some may ask, why is this a big deal? What does debt held by the public have to with my everyday life? CBO makes three points to answer this question:

If the ratio of debt to GDP continues to rise, lenders may become concerned about the financial solvency of the government and demand higher interest rates to pay for the increasing riskiness of holding government debt.

If the debt-to-GDP ratio keeps increasing and the budget outlook does not improve, both foreign and domestic lenders may not provide enough funds for the government to meet its obligations.

And if the first two points happen, no matter whether the government resolves the fiscal crisis by printing money, raising taxes, cutting spending, or going into default, it is certain that economic growth will be seriously disrupted.

And whenever economic growth is seriously disrupted, job growth is seriously disrupted as well. Clearly, a debt to GDP ratio approaching 100 percent would have a disastrous impact on people's everyday lives.

So where do we go from here? Clearly, we are well on our way to fiscal catastrophe unless we change our course. What is the best way to break out of this recession, to start creating jobs, to reverse the mountainous growth of deficits and debt, and to get the economy moving again?

In general, Democrats and Republicans seem to have opposing viewpoints when it comes to the solution for this problem, with Republicans favoring lower taxes and lower spending while Democrats favor higher taxes and higher spending. However, both Republicans and Democrats agree that health care reform is a crucial ingredient to solving the long term budget crisis.

Both Republicans and Democrats agree that health care reform needs to be paid for as well. CBO is also on the same page, asserting that "in the absence of significant changes in policy, rising costs for health care will cause federal spending to grow much faster than the economy, putting the federal budget on an unsustainable path."

Over the past few months, the rising cost of health care has been characterized by a few creative illustrations: First, we've heard the Chairman of the Budget Committee refer to the rising cost of health care as "an 800 pound gorilla." Second, we've heard the President describe the rising cost of health care as "a ticking time bomb."

Today, I want to add a third illustration: the rising cost of health care as a massive, fire-breathing Debt and Deficit Dragon.

In the King Arthur legend, the greatest knight among the Knights of the Round Table was Sir Lancelot. Sir Lancelot was also a dragon slayer. Now, in order for Sir Lancelot to strike down a dragon, he had to be equipped with a suitable weapon. The same is true today with the rising cost of health care. As Congress contemplates ways to cut down the massive, fire-breathing Debt and Deficit Dragon, it must wield the proper weapon or weapons.

A few weeks ago, House Democrats proposed a graduated surtax of up to 5.4 percent on taxpayers making over $280,000 to partially offset their health care reform bill. This small business surtax would push the top marginal tax rate up to between 43% and 46.4%, a rate that would jump to over 50% in 39 states if Medicare and state and local taxes are added in, according to the Tax Foundation. So, is this small business surtax the proper weapon to strike down the Debt and Deficit Dragon? I have a chart here that shows not Sir Lancelot, but Sur Tax-a-lot, on his way to slay the Debt and Deficit dragon with his mighty surtax.

As you can see from this chart, the surtax is a large, heavy, painful weapon, and lethal to America's job engine -- the goose that lays the golden egg -- small business America. However, it is not effective against the Debt and Deficit Dragon because it does nothing to slow the dragon's exponential growth. The costs of health care that the dragon feasts upon will continue to increase much faster than the revenues Sur Tax-a-lot can collect with his surtax.

CBO Director Doug Elmendorf testified in front of the Budget Committee two weeks ago.

Dr. Elmendorf stated none of the legislative changes looked at by CBO so far, including the House Democrats' small business surtax, "represent the sort of fundamental change of the order of magnitude that would be necessary to offset the direct increase in federal health costs from the insurance coverage proposals." Clearly, Mr. President, unlike Sir Lancelot, Sur Tax-a-lot is no dragon slayer.

Now, let's look at how the House Democrats' small business surtax works. In 2011 and 2012, singles making between $280,000 and $400,000 and families making between $350,000 and $500,000 will pay an extra 1 percent surtax.

Singles making between $400,000 and $800,000 and families making between $500,000 and $1 million will pay an extra 1.5 percent. And finally, singles making more than $800,000 and families making more than $1 million will pay an extra 5.4 percent. Then, in 2013 and after, these surtax rates go up to 2 percent, 3 percent and 5.4 percent, respectively.

The only way these rates wouldn't go up in 2013 is if one of the President's advisors, the Director of OMB, determines in 2012 that there will be more than $675 billion in realized and estimated health care savings by 2019.

That's right, Mr. President, the trigger mechanism is back. The House Democrats have made the surtax rate increase subject to a trigger, and they've left the judgment on whether or not to pull the trigger in the hands of a partisan Presidential advisor, not a nonpartisan organization like CBO.

As members of Congress, we should jealously guard our constitutional prerogative to be the one branch of government tasked with raising revenue. As the great chief justice John Marshall said almost 200 years ago, 'the power to tax is the power to destroy.' So, why would we hand such an enormous power over to the executive branch?

I recall over the last eight years, hearing from the other side of the aisle, that the executive branch was attempting to usurp congressional authority. So where is that jealous guarding of congressional authority now?

We've seen this trigger mechanism from the Democrats before, and while it's been a couple years, I've spoken at length about this trigger right here on the floor of the United States Senate. Mr. President, I ask unanimous consent that a copy of my speech from May 9, 2007, entitled "A Trigger and a Tax Hike on the American People" be included in the record.

I've got a chart here from that 2007 speech that deals with perhaps the most famous trigger.

Of course, I am referring to "Trigger," the horse belonging to cowboy actor Roy Rogers. As I have mentioned in the past, Trigger is no longer with us. Today, he is stuffed and on display at the Roy Rogers-Dale Evans Museum in Branson, Missouri. But even so, Trigger, in his current stuffed state, is still much more imposing than the House Democrats' trigger device.

While past Democratic trigger proposals were bad, the current House Democrat's trigger proposal is even worse because it is under the control of the partisan OMB Director, and it is based on the OMB Director's estimate—I repeat, estimate—of health care savings for years 2013 to 2019. I don't think anyone really expects this trigger to be pulled. Even the non-partisan Joint Committee on Taxation, in its $544 billion revenue estimate of the House Democrats' small business surtax proposal, assumes that the estimated savings targets will not be reached and the rates will go up in 2013.

Clearly, Mr. President, on the question of how to pay for health care reform, Republicans and Democrats appear to be drifting in different directions. Republicans want to pay for health care reform through changes in the health care system—mostly on the spending side but also on the revenue side—to make health care more accessible and more affordable. In contrast, the House Democrats' most recent proposal to pay for health care reform, the small business surtax, goes far outside the universe of health care.

By abandoning the universe of health care in their financing scheme, House Democrats are clearly indicating that the goal of their health care reform proposal is increased coverage at any cost. Even the New York Times, hardly a strident critic of the Democrats in Congress or the White House, cautions against this coverage at any cost approach: "If the government simply extends subsidized insurance to millions of uninsured people but fails to force fundamental changes in the delivery or financing of health care, then federal health care costs will keep escalating at excessive rates. That will drive up deficits in subsequent decades unless new taxes are imposed or new savings found."

Mr. President, we need to reform our health care system, but we need to do it right. That is why I am working with Senator Baucus, Chairman of the Senate Finance Committee, along with Senators Snowe, Enzi, Conrad, and Bingaman to reach a bipartisan solution. My Finance Committee colleagues and our staffs have been working hours and hours each day, night, and weekend to navigate through the numerous complex issues of health care reform. Has it been easy? Obviously not. However, I am very hopeful that we can reach a bipartisan deal that makes health care in America more accessible and more affordable, while at the same time protecting taxpayers and preventing the federal government from taking over health care.

President Obama, in his primetime press conference last week, expressed his agreement with these principles. While stating generally that the reform he is proposing will keep government out of health care decisions, President Obama specifically made the following promises: "I'm not going to sign a bill that for example, adds to our deficit. I won't sign a bill that doesn't reduce health care inflation so that families as well as government are saving money. I'm not going to sign a bill that I don't think will work."

I will take President Obama at his word on these promises. The President is sending a clear signal that he could not sign the Pelosi bill, the Health Education, Labor, and Pensions {"HELP"} bill, or any similar pieces of legislation. Why? Because each of those would all drastically expand the federal government's control of the health care system, increase the deficit, and fail to reduce health care inflation.

Here's the bottom line.

When the long term budget outlook warns that rising health care costs will cause federal spending to grow so fast as to put the federal budget on an unsustainable path, Congress needs to take action.

But at the same time, when our goal is to reform 17 percent of the economy while facing a nearly $2 trillion annual deficit, more than $9 trillion in new debt over the next decade, and a projected debt to GDP ratio of over 300% by 2050, we’ve got to make sure that we’re doing the job right. That’s what we’re trying to do in the Senate Finance Committee.

And when we get finished, however long it takes, I hope we can send a deficit-neutral health care reform bill to President Obama that increases access, cuts costs, and puts us back on a fiscally sustainable path for years to come.

I yield the floor.