Testimony of Senator Phil Gramm

Tuesday, July 28, 2020

Senate Homeland Security and Government Affairs Committee

Oversight of COVID-19 Financial Relief Packages

It's an honor to be asked to testify before the Senate Homeland Security and Governmental Affairs Committee today, and I thank Chairman Johnson and Ranking Member Peters for their kind invitation. It is also telling that I left the Senate so long ago that there are only two members of this committee that I served with during my quarter of a century in Washington. Let me reciprocate on your kindness by keeping my opening statement short and to the point.

When the coronavirus shutdown occurred, the economic shock was so great that the government rushed to try make it possible for American society to shelter in place while minimizing the economic destruction that would have been caused in the absence of any additional government assistance.

Resources were provided at a level never before contemplated in U.S. history. In all $2.9 trillion was provided, an amount equal to 100% of all private sector wages and salaries for the last four months of 2019, an amount equal to all gross private domestic investment in 2019, and an amount that would have funded giving each of the 22 million Americans who lost their jobs at the peak of the shutdown a check for $131,818. Of the $2.9 trillion authorized to be spent in the four emergency bills already passed, only $1.7 trillion has actually been spent to this point. $1.2

trillion has been authorized but not yet spent. If Congress and the President agreed, most of that $1.2 trillion could be reprogrammed to meet present needs without any net new spending.

With the annual deficit already set to hit 12.9% of GDP, sending the national debt up by 18% of GDP and surpassing, perhaps forever, 100% of GDP, should you consider the impact of additional spending on the national debt? At today's historically low interest rates the cost of servicing that debt appears manageable, but it is important I think to look at what the debt servicing costs would be if interest rates simply returned to their postwar norm prior to the financial crisis of 2008, 4.9%. When all the $2.9 trillion of authorized appropriations has spent out by the end of 2021, if interest rates return to their postwar norm, the cost of servicing the federal debt would exceed a trillion dollars. That cost would reoccur in perpetuity and compound upward if the money to pay it were borrowed and added to the debt. That trillion dollars would exceed spending for Medicare, defense or total nondefense spending. Another, even more menacing, way of looking at the danger is to note that with the federal debt over 100% of GDP, unless the economy achieves a rate of growth higher than the interest rate paid on the federal debt, the entire growth of the economy would be absorbed paying interest on the national debt.

Any degree of realism must force us to recognize that anything like a return to normal circumstances would necessitate excruciating painful decisions by the federal government as it sets the future levels of spending and taxes to accommodate the cost of servicing the national debt. A normalization of interest rates would require slashing defense spending, slashing nondefense discretionary spending, and reforming entitlements sooner and more extensively than would've been necessary to address the entitlement crisis that existed long before the coronavirus shutdown. A vote for more spending is a vote for more taxes, not now but soon and forever.

In deciding whether or not to pass another emergency spending bill, Congress and the President have to make a hard decision based on the expected benefits of additional spending and the cost that spending will entail not just today but in the future. I also think some weight should be given to the fact that historically stimulus spending has been largely ineffective in generating economic growth and the burden of debt created by that spending has been real and permanent.