PREPARED STATEMENT OF
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Before the

COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

on

"Economic Recovery, Job Creation and Investment in America"

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Chairman Rangel, Congressman McCrery and Members of the Committee, I thank you for this chance to testify before your Committee.

I'm here to beg of you not to approve or advance the contemplated $150 billion stimulus package for the effects that it would ultimately have in the state that I represent, and in turn, all states across the country and the nation as a whole. I applaud the sentiment behind it and your intentions in trying to help the American public given the enormity of the financial collapse before us, and I understand the supportive position staked out by many of my fellow governors by letter from the National Governors Association this Monday as well. Still, I feel it's incumbent upon me to stand up and speak now, or perhaps forever hold my peace – and with the greatest respect I'd submit that I don't think this is the course to be taken.

I'd ask that you, as leaders at this crucial juncture in our nation's story, do three things: one, recognize that the current avalanche of bad news can be traced back several years to oftentimes poor financial decisions that snowballed out of control; two, consider that this $150 billion salve may in fact further infect our economy with unnecessary government influence and unintended fiscal consequences; and three, accept that there may be better routes to recovery than a blanket bailout, including offering states like mine more in the way of flexibility and freedom from federal mandates instead of a bag of money with strings attached.

First, the situation we're now in did not develop overnight, and in the same way it won't be cured by morning. As the old saying goes, the first step to getting out of a hole is to quit digging.

I think this certainly applies to the mountain of debt now facing our country, with overall debt growing roughly four times the rate of Gross Domestic Product (GDP) over the last 15 years. Our national debt is now over $10 trillion – more than $4 trillion higher than when I left Congress at the end of 2000. We're spending more paying interest on this debt (roughly $20 billion monthly) than we are on the War in Iraq (around $12 billion). Add to all this last month's timely illustration of Times Square's National Debt Clock actually running out of spaces as the debt passed $10 trillion. No need to worry: a new clock is being made with room for a quadrillion dollars of debt – that's a million billion dollars, or a "1" with 15 zeros. I have a feeling we'll be using those extra digits sooner rather than later, given that government spending has grown 57 percent ($1.2 trillion) this decade alone.

In fact, if this $150 billion stimulus package is passed, this year's budget deficit could top $1 trillion – adding to the over $10 trillion national debt and making it 70 percent of a roughly $14 trillion economy. That would be the highest level since the early 1950s when the nation was still paying down the accumulated costs of World War II. But back then there weren't trillions of dollars in unfunded liabilities linked to Social Security and Medicare hiding off the balance sheet.

Common sense voices from both sides of the aisle are raising red flags about our national deficit, the debt and these unfunded liabilities. Warren Buffet, Pete Peterson and Former United States Comptroller General David Walker were featured in a recent documentary called "I.O.U.S.A." Their point is that we have over $52 trillion in contingent liability, amounting to a roughly

$450,000 invisible mortgage hanging over the head of each and every American family. Walker comments that we're simply "charging the national credit card…[it's] more of the same, just in larger numbers."

We've never before in the history of our republic faced the kind of unfunded liabilities that we do now. I believe that some time in the not so distant future we're going to reach a breaking point when that $52 trillion will come due, and that our potential inability to pay will have frightening ramifications by either completely trashing the value of the dollar or creating hyperinflation which robs from every middle class worker across America.

Global equities have lost more than $10 trillion in value just in October – and global GDP growth projections for 2008 are being ratcheted down from essentially 2 percent to 1 percent by the World Bank.

But this economic storm was in part predictable, even if it wasn't completely preventable, for the simple reason that gravity always works. In other words, what goes up must come down. One could go as far back as Biblical times and look at the passage of the seven fat and seven skinny cows coming out of the Nile in Pharaoh's dream to remember that this notion of business cycles, credit cycles, the up and down of the economy, is one of the constants in history. The housing bubble is a case in point. According to the Case-Schiller home index, we've seen a decade long 235 percent run up in housing prices, from 79.6 in 1996 to a peak of 188.6 in 2006. Prices have since come down more than 20 percent to around 150. Experts warn that there's more downside on the horizon, with the median new home price this September dropping over 9 percent from September 2007 to $218,400, the lowest in four years.

Second, I'd ask you as *political* decision-makers in an overwhelmingly *economic* crisis to take the Hippocratic Oath and pledge to "do no [more] harm." I believe the macroeconomic forces at work will hardly be slowed by an additional $150 billion, and I'd strongly urge against further tampering with what in principle should be a free-market economy.

Economist Arthur Laffer put it well in Monday's Wall Street Journal when he said, "Whenever the government bails someone out of trouble, they always put someone into trouble… Every $100 billion in bailout requires at least $130 billion in taxes, where the $30 billion extra is the cost of getting government involved."

Simply throwing money into the marketplace in the hope that something positive will happen ignores the fact that the government has already put over $2 trillion into the system this year using various bailouts and stimulus packages: including $168 million in direct taxpayer rebates this past Spring; an $850 billion bailout last month that cost more than we spend on defense or Social Security or Medicaid and Medicare annually; and myriad loans and partial nationalizations of institutions like Freddie Mac and Fannie Mae, JPMorgan Chase, Bear Sterns and AIG. This doesn't even include the arguably most effective form of stimulus the country has seen over the past year, a market-based infusion of over $125 billion into the economy and taxpayers' wallets caused by falling oil prices and subsequently lower prices at the pump.

This year's $2 trillion plus in bailouts and handouts seems that much more momentous when you consider that federal tax revenues last year were only $2.57 trillion. Simple math demands we ask ourselves if $2 trillion did not ward off the crisis in confidence we're currently experiencing, then how much can $150 billion more help? Especially since we're dealing with a $14 trillion economy and a larger $67 trillion world economy, meaning that this shot in the arm represents merely one-fifth of one percent of the world economy.

I believe no matter what amount of money is thrown at the consumer, individuals and businesses will likely choose to wait to make their purchases or investments. People simply don't buy as much and as frequently when their savings are shrinking and their household equity is sinking. In fact, Americans' disposable income fell over 1 percent to just over $10,700 in July of this year, which consequently hurts demand and thus slows growth. That's no small problem in a consumer-driven economy, with Washington Post columnist George Will observing that Americans decided it was "more fun to budget like government does, matching spending to appetites." Will also elaborates on Americans' trend away from personal savings – pointing out that we saved a dime of every dollar of disposable income in the 1980s, a nickel in the 1990s, and in 2005, the savings rate went negative.

Aside from the reality that $150 billion pales in comparison to the size and scope of what's before us – and therefore would have little impact – I think that there is a much more pressing, and personal to my current position, reason that this is not the best direction.

Essentially, you'd be transferring taxpayer dollars out of the frying pan – the federal government – and into the fire – the states themselves. I think this stimulus would exacerbate the clearly unsustainable spending trends of states, which has gone up roughly 122 percent over the last 15 years, versus federal government spending growth of 108 percent over the last 15 years. It would also dangerously encourage even more growth in governmental programs like Medicaid, which in state budgets across the nation already grew 9.5 percent per year over the last decade – certainly unsustainable in our state. Moreover, the United States Department of Health and Human Services just last week projected that spending on Medicaid will grow at an average annual rate of 7.9 percent over the next 10 years – and possibly faster if this stimulus package passes. State debt across the country has also increased by 95 percent over the past decade. In fact, on average every American citizen is on the hook for $1,200 more in state debt than we were 10 years ago.

There seems to be no consequence, and indeed a reward, for unsustainable spending growth by states. In effect, sending $150 billion more to states would produce another layer of moral hazard – already laid bare at the corporate, individual and federal levels in recent years. Corporations like CountryWide overleveraged their resources on risky loans as American banks increased their stake in subprime mortgages from only five percent in 1994 to roughly 20 percent in 2005. At the individual level, some people bit off more mortgage than they could chew, with Americans' house price-to-income ratio jumping from 4-to-1 (where it had hovered for 30 years) to 8-to-1 in 2006, and over 40 percent of first-time homebuyers in 2005 not making any down payment at all. Nationally, the federal government stepped in and offered a solution that presented more risks than the problem it addressed: namely, not allowing certain companies, and even certain citizens, to fail. Yet capitalism was and is predicated on this idea of risk, and the chance for success and failure.

Bloomberg News columnist and author of *The Forgotten Man* Amity Schlaes points out that the taxpayer is the forgotten man in this equation – and you and I and all our constituents are put on the hook for more and more liabilities, many of which will certainly be passed onto our kids and their kids after them. On both a rhetorical and practical level, I'd ask you what happens when the federal government, indeed our nation, needs a bailout? Who bails out those who've bailed out everyone else?

Third and finally, I believe there are far better paths, albeit some less traveled by, to take than going and borrowing more money from the Chinese – whom we owe over an estimated $1.3 trillion plus already – to spend even more taxpayer dollars in a desperate attempt to catalyze a souring economy.

First among these preferable paths would be giving states relief from unfunded mandates – which have cost the fifty states $131 billion over the last four years, and my home state specifically around $500 million. These mandates include Real ID with its long-term $10 billion price tag for states, increasing the minimum wage costing states $200 million this year, No Child Left Behind's $12.3 billion burden this year, regulations related to prescription drug plans that will cost states $95 million in 2010, bio-terrorism upgrades costing $167 million this year, and reductions in Federal Food Stamp funding costing states $200-300 million annually.

My home state of South Carolina has not been immune to these national and global economic struggles. Still, last year alone we had over $4 billion in capital investment and are on pace for better than that this year. We've seen 147,000 more people start work since I took office in 2003, and we rank 15th in the nation in employment growth in that same time frame – well ahead of many states with lower unemployment rates, including Maryland, Massachusetts and New York. So while there are certainly opportunities for improvement from infrastructure to education in the state I represent, I'll make clear once again that federally-restricted money from Washington D.C. isn't the panacea I think some portray it to be.

In short, I'd ask members of the Committee to simply give the states more freedom. Give us more flexibility. Give us more in the way of control over the dollars we already have and less in the way of costs. Give us more options, not more money with federal strings attached.

Arthur Laffer said that "whenever people make decisions when they are panicked, the consequences are rarely pretty." If in fact this Committee has already succumbed to the financial panic of those pursuing a sensationalist story or increased governmental intervention, then, in closing, I beg of you: do not distribute this $150 billion into the economy only via the states, large corporations or another federal bailout. Give it back to the taxpayers.

Thank you for this opportunity to offer my humble perspective as it relates to the financial storm we find ourselves in, and the proposed stimulus package you may soon consider. Again, I appreciate your time and wish you all the best as you face the difficult task before you. I will be happy to answer any questions you have.