STATEMENT FOR THE RECORD OF
THE HONORABLE MARK SANFORD
GOVERNOR OF SOUTH CAROLINA

for the

COMMITTEE ON APPROPRIATIONS
UNITED STATES HOUSE OF REPRESENTATIVES

on the

"Economic Recovery Bill"

December 11, 2008

It’s in the holiday spirit that I write to humbly yet firmly ask you once again not to advance the growing list of bailouts and nationalizations I believe will do little more than stuff the next generation’s stocking with trillions in IOUs. While this certainly is the season for giving, I’d respectfully point out to you the Committee, and more importantly to you as fellow Americans, that when government gives with one hand, it takes with another.

Taxpayers deserve more. Indeed we all deserve more than seeing our hard-earned tax dollars parachuted into uncompetitive industries, unprofitable companies and unsustainable government programs – a surefire recipe, I believe, for only one thing: unmitigated failure.

My frustrations with the bailout mentality now pervading Washington are no secret. I’ve said repeatedly that these taxpayer-funded bailouts will infect our economy with unnecessary government influence and unintended fiscal consequences. So as yet another bailout train prepares to leave the station, I’d offer the following counterpoints to the proposed “economic recovery plan,” and especially the kitchen sink bailout of everything from states and cities to auto manufacturers, homeowners, infrastructure, classrooms, credit card companies and Medicaid.

First, I think we should look to history lest we fall into the same dangerous ruts. Our country faces an economic crisis the likes of which we have not seen since the Great Depression. In the early 1930s, President Hoover’s policies worsened the severity and length of the Depression, yet regrettably, it appears that some of those same mistakes are being pursued or contemplated today. In the initial stages of that earlier Depression, President Hoover raised taxes, initiated huge public works spending projects that grew the government’s role in the economy, and backed trade protectionism. President Roosevelt raised taxes further, expanded government spending much further, and significantly heightened labor union power.

Not unsurprisingly, these actions had equal and opposite reactions. Raising taxes and limiting international trade took much needed money out of the economy at a time when private capital was scarce. Expanding labor union power made it much more expensive to hire workers. And massive government spending increases displaced private investment and prolonged the downside of the business cycle. A relatively small number of individuals were helped by employment in public works projects, but the vast majority of citizens were harmed by the multi-year weakness of private sector job creation.

Second, I’d argue that at some point down the road the piper must be paid. Last month’s deficit alone came in at roughly $165 billion – the largest November deficit ever. Our national debt is now over $10.6 trillion – more than $4 trillion higher than when I left Congress at the end of 2000, and marking the highest debt-to-GDP ration we’ve had since World War II. We’re spending more paying interest on this debt (roughly $20 billion monthly) than we are on the War in Iraq (around $12 billion).

Some have claimed that infusing money into the economy – in great quantities and with great speed – is the answer, but the fact is that the federal government has already committed up to around $7 trillion, according to *Bloomberg*, in the form of bailouts, tax rebates, stimulus packages and various loans. To put this in perspective, Barry Ritholtz, in his book *Bailout Nation*, shows that the 2008 bailouts are the largest expenditure in our nation's history, even when adjusted for inflation – and now costing the American taxpayer more than the Louisiana Purchase, the Marshall Plan, NASA and the Race to the Moon, the Korean, Vietnam and Iraq Wars, the Savings and Loan Crisis, and The New Deal… combined!

From a layman's perspective, there just seems to be something strange about issuing debt to solve a problem caused by too much debt. *The Wall Street Journal* agrees, saying that "Every dollar [government] injects into the economy must first be taxed or borrowed out of the economy. No new spending power is created. It's merely redistributed from one group of people to another."

It's also startling that the United States Government just this week sold $30 billion in four week T-bills at zero percent. In fact, in a telltale sign that public confidence in our government's stimulus plan is sagging, if you were to invest in three month T-bills at today's negative discount rate, you'd actually receive less than you paid for them when they mature – in essence you'd be paying government to hold onto our cash.

Even more disconcerting is that we've got over $52 trillion in unfunded liabilities – over $450,000 per American household – that will not just evaporate with time or clever rhetoric. Former Comptroller General of the United States David Walker points out that by 2030, if we stay on the current path, the entire federal budget will be consumed by just Medicaid, Medicare and Social Security, leaving nothing for national defense or infrastructure. The options to avoid this scenario: double the tax burden; cut government spending by 60 percent, or somehow slow the increasing appetite of these three social programs.

Third, I'd urge government to turn the everyday adage on its head and 'not just do something, but stand there.' This global economic sickness surely didn't develop overnight, and in the same way it won't be cured by morning. Arthur Laffer makes the point that "whenever people make decisions when they are panicked, the consequences are rarely pretty." It's like attacking a gopher infestation in your garden with land mines and TNT – sometimes the consequences of overreaction can far outweigh the original problem. I believe it'd be prudent for those of us who are *political* decision-makers in an overwhelmingly *economic* crisis to take the Hippocratic Oath and pledge to "do no [more] harm."

Our economy was made great by a market-based system that rewarded effort, entrepreneurial spirit, and good decisions, and in turn permitted consequences for those who did the opposite. With a new taxpayer bailout of failing companies seemingly coming every week, I along with many others fear this foundation is shifting given the direction some in Washington seem to be headed. In fact, what's being proposed sends a terrible message to the real stimulus in our economy – people working hard and making prudent decisions – or for that matter the entrepreneur working in the basement on the product of tomorrow.

I am in no way disparaging Congress or President-Elect Obama's professed focus on "creating jobs," but I'd simply ask, to what end? It doesn't seem wise to inhibit entrepreneurship via increased taxation and then create jobs by simply expanding government's payroll. Nor does it seem entirely practical to look to the legion of unemployed – including accountants, salesmen and attorneys – to build the bridges and highways of tomorrow. We might as well, to paraphrase John Maynard Keynes, bury dollar bills in bottles and hire Americans to dig them up.

Economic analyst and author Larry Kudlow responds specifically to the seemingly popular push for funding ready-to-go infrastructure projects: "In 2008 alone the U.S. spent $114 billion on infrastructure… [and $500 billion over the last five years]. Didn't do much for growth did it? … An academic study from the University of Chicago argues that government spending does not stimulate jobs and growth, and in fact crowds out private investment. Infrastructure spending also doesn't create permanent new businesses, jobs, or incomes."

Fourth, and from my perspective as Chief Executive of a state, I'd maintain that "bailing out" the states is not the best course for Congress to pursue. States indeed are important to the national economy, with state and local governments making up roughly 12 percent of GDP; and states are certainly struggling financially, as more than 30 states are in the red for this year's budget. But I believe any direct stimulus to states, while helpful in the immediate, would exacerbate the state's unsustainable spending trends in the long run. Consider that state spending has gone up roughly 122 percent over the last 15 years, versus federal government spending growth of 108 percent over the same time. 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 alone than he or she was 10 years ago.

A state bailout 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 further stimulus package are approved.

Fifth and finally, I'd say we need to think more comprehensively about economic stimulus. For me that includes the following:

▪ Spending Restraint. Federal government spending grew 57 percent ($1.2 trillion) from 2000 to the beginning of 2008 – and the ongoing bailouts this past year will no doubt make the curve that much steeper. While this pace of spending growth is clearly unsustainable, it's also telling that government spending as a percentage of GDP was only nine percent back in 1930, and is now closing in on 30 percent. This pattern of government spending more and crowding out private sector dollars, I believe, will become increasingly disruptive to what has for 200 years been a fairly successful free market system.

▪ Competitiveness Issues. If we truly live in Thomas Friedman's "flat world," I think it's more important than ever that we make our products and people more competitive in the global marketplace. Eighty percent of the world's economic activity lies outside our shores, and instead of limiting international trade with protectionist policies, I think we should expand it – starting with the Columbia Free Trade Agreement. Also on the competitiveness front, the so-called "card check" legislation would repeat the expansion of labor union power that harmed job creation in the 1930s and hurt American competitiveness abroad.

▪ Lowering the tax burden on working Americans. Rather than raising taxes, we should cut them, particularly on capital gains and corporations – with our nation's current corporate tax rate putting us at or near the top globally and threatening to drive investment to other more business friendly environments. At a state level, I proposed just such a corporate income tax cut for South Carolina earlier this week.

In summary, I'm asking the Committee to do five things: 1) Take into account the lessons of past economic hardships; 2) Recognize that our nation's IOUs and unfunded liabilities will someday come due; 3) Appreciate that sometimes government involvement may actually make the situation worse, not better; 4) Rethink the plan to bail out states' unsustainable spending habits for the unintended consequences it will have on taxpayers; and 5) At least consider that there are commonsense steps we can take to bolster American competitiveness without boosting the national debt and expanding the scope and severity of government intervention in each of our lives.

Testifying in my capacity as Governor of South Carolina, I'd submit this statement for the official record. Thank you for taking your role in the next chapter of this great nation seriously, and for siding with the American taxpayer when making decisions that could affect us all. I look forward to continuing the conversation.

Sincerely,

Governor Mark Sanford
State of South Carolina