Opening Statement of Sen. Chuck Grassley
Senate Floor Debate, Fiscal Year 2009 Budget Resolution Conference Report
Wednesday, May 21, 2008

For six years, for 2001, and 2003 through 2006, the budget resolution provided the necessary resources to allow the Finance Committee, usually in a bipartisan manner, to realistically address the demands of tax policy. I'm disappointed to say this year, like last year, is different.

The people spoke in November 2006, and for this year and last year, the Democrats are in the majority and in control the Congressional budget process. As Ranking Republican on the Finance Committee, like last year, I was not consulted, at any point by our distinguished Chairman on this year's budget resolution. Unfortunately, after reviewing the resolution conference agreement, it is clear that it does not realistically address the tax policy needs of the Finance Committee.

I'm going to take a look at what the budget means for American taxpayers in two time-frames. The first will be the near-term implications. The second will be the long-term implications.

I divide the near-term and long-term along the time-line of the start of the next President's term. That date, of course, is January 20, 2009. So, the near term period starts today and ends with the entry of the new Administration. The long-term period starts with the entry of the new Administration.

Let's take a look at what this budget says to the American taxpayer in the near-term.

For the hard-working American taxpayer, the news is not all bad. I compliment the distinguished chairman for preserving the un-offset AMT patch for this year in the budget. He had to concede a new point of order to the House, but my guess is that there will be 60 votes to waive it when the AMT patch is brought up.

The problem 26 million families face is the uncertainty of action on the AMT patch for <u>this</u> year. I have a chart here. It is the estimated tax voucher. Many of the 26 million families facing the AMT technically should be adjusting their withholding upward or filing this 1040 ES form with a check for a portion of the AMT they owe.

As a matter of fact, many of these 26 million families should've filed the 1040 ES over a month ago, on April 15th. That's when the first quarter's estimated tax payment was due. That's what the tax law says now.

It's all a problem because the House Democratic Leadership won't send us an un-offset AMT patch bill. Why won't the House Democratic Leadership send us an un-offset AMT patch bill?

Here's the problem. The House Blue Dog Democrats will not support an un-offset AMT patch bill. Now, why do the Blue Dogs matter? The answer is the Blue Dogs are a growing presence in the House. Most of the seats that shifted from the Republican column to the Democratic column in the 2006 election are occupied by Blue Dogs. The Democratic-leaning Washington punditry and Democratic Leadership have gloated about the "trifecta" in House Special Congressional elections this year. By trifecta, I'm referring to the three House races that have switched from Republican to Democrat this year. All three of those members have joined or intend to join the Blue Dog coalition. Lord knows, we've heard a lot of gloating from the other side about these three new so-called conservative Democrats. We've also heard from a lot of Republicans crying in their favorite beverages about this outcome.

The Blue Dogs have had a heavy hand in this budget and are the leading obstacle to getting an un-offset AMT patch bill done. So, if the Blue Dogs are representing themselves as strict agents of fiscal responsibility, it is a fair question to ask about their definition of fiscal responsibility.

So, let's take a look. I have a chart here. The chart contains a depiction of perhaps the most famous blue dog. I'm referring to Huckleberry Hound. Here he is. As the most famous Blue Dog, Huckleberry Hound is showing us the definition of fiscal responsibility from his Blue Dog perspective. Huckleberry Hound barks "fiscal responsibility." American taxpayers should beware Huckleberry Hound's bite is "higher taxes." With respect to spending cuts, all we get is a whimper. It is "no spending cuts."

Maybe I'm being too tough on Huckleberry Hound and his Blue Dog friends. But I've as yet to see the empowered Blue Dogs propose spending cuts for deficit reduction. All I've seen is higher taxes. Like their liberal brethren, Blue Dog Democrats only look to the American taxpayer to fund new spending. We're seeing it, once again, on the war supplemental bill. Why couldn't they find a spending cut to pay-for the popular vets benefits package? Why always go to tax increases?

The reason I point this out is that this group of House members is holding up our ability to pass an AMT patch bill in a form that can pass the Senate and be signed by the President. The Blue Dogs' bark of fiscal responsibility is stalling relief for 26 million AMT families. The Blue Dogs insist on getting their bite of $62 billion in new taxes as a condition to sparing these 26 million families from the AMT. I agree with the Blue Dogs on the importance of fiscal responsibility. And I stepped up to the plate over the years with plenty of revenue raisers. Just ask the K Street crowd. They'll let you know. I stepped up to the plate with spending cut reforms on the farm bill. But, the Blue Dogs whimper when it comes to spending cuts. They only look at the taxpayers for fiscal responsibility.

And this obsession with raising taxes, most pointedly advanced by the Blue Dogs, is a theme that runs through this budget.

I'm going to look to turn to the short-term tax legislative agenda and examine how the budget squares with what we need to do.

As a farmer, I'd like to think we country folks can teach city folks a lesson or two. The first chart involves the method a lot of us farmers use to get our water. You'll see a well in this chart. Here's the top of the well. You can see it is a long well and there's some water way down there at the bottom. But most of the well is dry.

Now, what we're told by those who drew up the budget is that the tax writing committees will find the money. We'll find the money, they say, to pay for all this time-sensitive tax business. These are all pending matters. They're pieces of legislation, on both sides, we say we want to get done before this session ends.

The offset well shows about $58 billion in known, identified, and scored revenue raisers the Senate Democratic Caucus supports. I used this chart about several months ago. I've updated it to assume the farm bill will become law. As a rule of thumb, the Finance Committee tax staff have developed about $1 billion per month in new offsets. That figure of $1 billion per month is in line with the historical average. How reliable is that average and can we count on it?

As a farmer, I know something about the predictability of well water. You hope you'll get rain and it'll give you a decent level of well water. And as a former Chairman and now Ranking Member of the Finance Committee, I know something about revenue raisers. I've been there and done that.

When I was Chairman of the Finance Committee, I aggressively lead efforts to identify and enact sensible revenue raisers aimed at closing the tax gap and shutting down tax shelters. And as Ranking Member, I continue to look for ways to shut off unintended tax benefits. So I consider myself to be a credible authority on what is realistic when it comes to revenue raisers. From 2001 through 2006, Congress enacted over 100 offsets with combined revenue scores of $1.7 billion over 1 year, $51.5 billion over 5 years, and $157.9 billion over 10 years.

So if you look at recent history, we can realistically figure the tax staff will find about $1 billion a month. Right now, all we can find that is specified, drafted, and scored is $58 billion.

The revenue raising well shows about $58 billion in available defined and scored offsets. Defenders of the resolution will say a virtual cornucopia of revenue raisers are there from the tax gap and shutting down offshore tax scams. I take a back seat to no one on reducing the tax gap and shutting down offshore tax shelters. I've got the scars to show from my efforts over the years. But the defined and scored tax gap proposals are included. Likewise, a proposal targeted at tax haven countries and other offshore activities is included.

The well has about $58 billion of offset water. This budget anticipates Congress that will be thirsty for this limited group of offsets. On the thirst or "demand" side, you'll see the bucket will be busy.

On the demand side, I've talked about next year's AMT patch. There's $74 billion for the patch for next year. There's $16 billion for tax provisions that ran out at the start of this year. That estimate, by the way, is probably pretty low. Then there's $29 billion for next year's extenders. There's $15 billion for the energy tax bill. Finally, there's $5 billion for the FAA re-authorization bill.

The pending, time-sensitive tax business totals $139 billion. Subtract that from the offsets and we're short about $80 billion.

I haven't even included the demands from the myriad reserve funds. Since we know, from almost a decade of fiscal history, that the Democratic Leadership can't propose spending cuts, we know the new reserve fund spending will be paid for with tax increases. It's been shown to be the case since the Democrats took power in January 2007. As I said earlier, the Blue Dogs are leading proponents of this tax and spend practice.

So, it doesn't add up. The budget plan for tax legislative business is out of balance. It's out of balance by $80 billion. Even if the Senate were to adopt some of the new tax hikes the House has come up with, we'd be substantially out of balance. I might add that I've included in the Senate offset accounting proposals the House has rejected. So, I think this is a conservative estimate.

What's going to happen? How do we bridge the $80 billion gap? Either the tax relief is not going to happen or we'll add that to the deficit. That is a frightening proposition. I'd hope that the shortfall would be confined to the short-term, but that's not the case. Over the long-term, it gets much worse.

Let's take a look at the budget's assumptions about revenue over the long-term. Over the five year budget window, going out to 2012, keeping existing policies in place will have a revenue effect of over $1.2 trillion. This includes AMT relief, extension of the bipartisan 2001 and 2003 tax relief, and extending other broadly supported expiring provisions. In the aggregate, this budget *appears* to provide $340 billion in new resources for extending these policies over the 5-year window.

Look further, and you'll find a complicated obstacle course to making any of this tax relief happen. To me, the conditional tax relief language is almost bait and switch. Senator Gregg has described in great detail how this mechanism would work. To me, it is as convoluted as a Rube Goldberg type of invention. Here's a chart. The chart shows a Rube Goldberg potato peeler invention. If you want to peel potatoes, I'd tell Rube Goldberg to use a potato peeler. If you really mean to deliver tax relief, I'd tell the Democratic Majority, write it into the resolution. Make it clear. Don't use this Rube Goldberg mechanism.

Suffice it to say that the supposed $340 billion in tax relief targeted for 2011 and beyond assumes it will not be used for future spending. Does anybody really believe that this Democratic majority will not spend future tax relief if given the chance? If your answer is yes, then I've got a few bridges in Iowa you may be interested in buying.

Under this budget $1.3 trillion in expiring entitlement spending is assumed to continue. It's right in the CBO outlook. That's right, Mr. and Mrs. Taxpayer, your taxes will go up by almost $1.2 trillion unless Congress raises taxes to offset the revenue loss. When it comes to expiring entitlement spending, it's a different story. No requirement for Congress to do any heavy lifting. This emphasis on higher taxes and higher spending is reinforced by pay-go. So, that's this budget's notion of fiscal responsibility: unrestrained spending is good; higher taxes are good.

Over the five years, the budget assumes a dramatic tax increase – at least $1.2 trillion. In 2011, the bipartisan tax relief plans will expire. Some folks will call these provisions the Bush tax cuts. I suppose that term, "Bush tax cuts," arises from polling by the campaign outfits on the other side. It is true President Bush signed both bills, but the bipartisan compromises occurred in the Finance Committee. In 2011, President Bush will have been gone from office for a couple of years. You can call this package of tax relief for virtually every American the Bush tax cuts, but for the taxpayer, it will be a tax increase.

I'd like to run through a couple of examples. The first involves a family of four. There's the husband, his wife, and their two children. This family makes $50,000 in income. That's right about the national median household income today.

For example, the Census Bureau stated that, for 2006, the national median household income was $48,200. Under the Democratic Leadership's budget, this family will face a tax increase of $2,300 per year. That's a loss in their paychecks of about $200 per month. It's a hit on their yearly budget of $2,300. Where I'm from, that's a lot of money.

I'll give you another example. This one involves a single mom with her two children. She earns $30,000 a year. In 2011, under this budget, she and her family run straight into a brick tax wall. That's a brick wall of $1,100 per year of taxes. That's almost $100 a month out of this family's budget.

Now, some on the other side will say they only excluded top rate taxpayers and other high-income folks from tax relief. Don't believe it. The facts are otherwise. Low income folks, including millions of seniors, pay no tax on their dividend or capital gain income. If this budget stands, even with the Baucus amendment, millions of these low-income taxpayers, especially seniors, will pay a 10% rate on capital gains and could pay as high as a 15% rate on dividends.

Nationally, over 24,000,000 families and individuals reported dividend income. In Iowa, for instance, over 299,000 families and individuals claimed dividend income on their returns. There are not 299,000 millionaire families and individuals in Iowa. Nationally, we're talking about over 9,000,000 families and individuals who reported capital gains income. In Iowa, we're talking about over 127,000 families and individuals.

There are many marginal rates, other than the top rate, that would rise if this budget stands, even with the Baucus amendment. The 25% rate, which for 2007, starts at $31,850 for singles and $63,700 for married couples, would rise 3 points to 28%. The 28% rate would rise 3 points to 31%. The 33% rate would rise to 36%. The top rate would rise from its current 35% level to 39.6%. To sum up, even with the Baucus amendment added to this budget, there would be marginal rate increases on millions of taxpayers. Those marginal rate increases would reach taxpayers with taxable incomes as low as $31,850 for singles and $63,700 for married couples.

Now, what I just described is accurate only if the Democratic Leadership intends to follow the letter and spirit of the Baucus amendment. If you look at last year's track record, the House neutered the effect of the amendment in the conference agreement. They created a Rube Goldberg type of mechanism to impede the amendment. As I pointed out a few minutes go, that mechanism is back. Of course, after the budget conference report was agreed to all talk and action around the amendment ceased.

So I wouldn't put much stock in the follow-through on the Baucus amendment. The distinguished chairman points out that since last year's budget, we passed tax relief of $50 billion for last year's AMT patch. He'll also point to the stimulus package passed earlier this year. The senior senator from North Dakota is correct that those tax relief packages did pass. He uses that assertion to counter the assertion from our side that there is a $1.2 trillion tax increase in this budget. The distinguished chairman omits a critical fact in his assertion, however. The un-offset AMT patch passed only because Senate Republicans and the Administration insisted that we not use the AMT problem as a money machine for current and future spending. If the Democratic Caucus had prevailed, the AMT patch would have been offset. Likewise, on the stimulus bill. There was bipartisan consensus that economic stimulus should not be a tax increase.

When you step back from the differences across the aisle on this budget, you probably won't be surprised to find similar differences among the presidential candidates. Generally, the candidates on the other side have proposed to take heavily from the taxpayer under the guise of fiscal responsibility. This is true when they're talking about ending the bipartisan tax relief plans of 2001 and 2003. It's true when they're talking about the same loophole closers for a myriad number of expansions of existing entitlements or creating new ones. Nowhere is there discussion of reining in spending. So, the tax side of the federal ledger is the only route to fiscal responsibility from the perspective of the candidates on the other side.

I'll give you one telling example. One Democratic candidate has proposed to repeal the bipartisan tax relief plans for taxpayers earning above $250,000. This proposal raises $226 billion over 5 years and 10 years. A key fact is that the source of that revenue peters out over the next few years because under current law the tax relief sunsets at the end of 2010.

Like the Democratic leadership's budget, the candidates on the other side over-subscribe the revenue sources from proposals that are popular with the Democratic base.

The deficiency can only be made up in three ways. One, other undefined sources of revenue would need to be tapped. Taxpayers should rightly be worried about that avenue. Two, the proposed spending plan would need to be abandoned or curtailed. There is not much history, on the Democratic side, of this avenue being taken. Third, add to the deficit for the cost of the new programs. Unfortunately, this avenue has been taken far too many times.

We'll hear a lot of criticisms of the Republican candidate, Senator McCain, from those on the other side. They'll argue, like the President's budget, a continuation of current law levels of taxation "costs" the Federal Government too much revenue. They'll argue that the spending increases they propose are more important than the restrained levels of the President's budget. And they'll argue that, despite the record tax hikes in their budget, entitlement reform is a matter for another day.

But, in fact, Senator McCain's plan intends to keep the revenue take where it as a share of the economy. You see revenues average about 18.3 percent of the economy. The state of the economy affects revenues more than anything else. There are dips when we have been in recession and peaks when growth was high. Our side cares about keeping the revenue line at a reasonable level. We don't see the merits of an imperative behind a growing role for government in the economy.

The other side disagrees. They implicitly or explicitly reject our premise that the size of government needs to be kept in check. That view is best expressed in an editorial, dated October 22, 2007, from the *New York Times.* The lead paragraph says it best. I quote: "President Bush considers himself a champion tax cutter, but all the leading Republican presidential candidates are eager to outdo him. Their zeal is misguided. This country's meager tax take puts its economic prospects at risk and leaves the government ill equipped to face the challenges from globalization."

The bottom line is the *New York Times* directly states the view behind this budget and the position of the Democratic candidates. From this perspective, the historical level of taxation is not appropriate as a measure. The *New York Times* implies that the Federal Government must grow as a percentage of our economy, by at least 5-8 points.

If we were to follow the path suggested by the *Times,* the government's share of our economy would grow by one-third. One-third. The Democratic Leadership's budget takes some big steps on that path. So do the campaign proposals of the Democratic Presidential candidates.

Our Republican Conference takes a different view. America is a leading market economy. American prosperity and economic strength in our view is derived from a vigorous private sector that affords all Americans the opportunity to work hard, save, and invest more of their money. A growing economy is the best policy objective. It makes fiscal sense as well. Fiscal history shows that, despite criticisms to the contrary, the bipartisan tax relief plans drove revenue back up after the economic shocks we suffered in the early part of this decade.

I'm referring to the stock market bubble, corporate scandals, and 9-11 terror attacks. Revenues bounced back when the economy bounced back. The revenue outperformed CBO projections by a significant margin.

Folks on our side, including our Presidential candidate, do not take this data lightly. We believe the bias ought to be against growing the government, not the other way around. This fall, the American People will be making a big choice about the future. Folks talk a lot about change. Voters are focusing on change.

America sits in a global economy that is rapidly changing. If, by change, Americans want to raise revenues sufficient to grow the government by one-third, then this budget sets forth the path. If, by change, Americans want to keep the size of government in check, keep taxes low, and provide our citizens with the freedom and opportunity to respond to the changing world, then this budget is not the right path. The choice is clear.