United States Senate
Committee on Finance

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Statement of U.S. Senator Chuck Grassley of Iowa
Ranking Member of the Committee on Finance
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Mr. President, Senator Judd Gregg is the Ranking Republican on the Senate Budget Committee. Since we are on the budget resolution, Senator Gregg would usually open debate for our side. He wanted to take the lead today but has a necessary conflict in his schedule. He asked me to substitute for him today and I am pleased to do so. Senator Gregg will deliver his opening statement tomorrow.

Mr. President, I'm first going to talk about the process and recent history of Senate budget resolutions.

Mr. President, almost all of the revenue side of the budget is Finance Committee jurisdiction. Most of the spending side of the budget is Finance Committee jurisdiction. For those of us who sit on that committee, we need to pay careful attention to the budget. Chairman Conrad, along with Senators Wyden and Stabenow are Finance Committee Democrats. I, along with Senators Bunning, Crapo, and Ensign, are Finance Committee Republicans.

When I was Finance Chairman, for the periods of part of 2001 and 2003 through 2006, there was coordination regarding the fiscal resources of and fiscal demands on the Finance Committee. That coordination occurred with respect to revenue levels, spending levels, and reconciliation instructions.

Did we always agree? The answer is no. Did we compromise when we had disagreements? The answer is yes.

We did have some different priorities, but we worked through those differences during this committee's budget process. We came up with compromises that largely held together. I might add, Mr. President, those compromise levels regarding revenues, spending, and reconciliation instructions were in synch with the Administration. My point is that we hashed out the fiscal differences here in the Budget Committee and on the floor. The committee and floor debate, amendment votes - pro and con, made a very real difference. The product of that process, the resolution, made a real difference.

Mr. President, those budget resolutions, though not perfect, provided me, as Finance Chairman, with the budget resources to deal with the policy demands on the Finance Committee.

Most often, I used those resources to guide the Finance Committee, usually in a bipartisan manner, to deal with short-term, mid-term and long-term problems.

Last year was different. After the people spoke in the November 2006 elections, Democrats assumed control of the Congress and the Congressional budget.

This year we see some repetition of last year's dramatically different fiscal paths. As with the rest of the Budget Committee Republicans, I learned about this resolution for the first time when the Chairman put the markup document before the committee. Committee Democrats were consulted extensively, along with the Democratic Caucus. Most of the Republicans' knowledge, prior to markup, was derived from what we read in the press.

I don't say this to be critical of the Democratic Leadership. It is unfortunate, but perhaps necessary, that budgets are usually partisan documents.

So, I'd say, with all due respect to the Chairman, the Chairman's mark was developed exclusively by Democrats, in a partisan fashion. Republicans used the markup to educate ourselves, others on our side, and the public. We asked questions. I pursued questions about how this budget deals with the resources and demands that fall on Senator Baucus and myself as Chairman and Ranking Member of the Finance Committee.

We offered a relatively small number of amendments. Most were defeated. Some accepted. And, on reforming farm program payment limits, I'm pleased to say Senator Allard's amendment prevailed on a roll-call vote. That amendment improved this resolution though not enough to gain the support of Senator Allard, myself, or any other Republican.

Before I discuss the substance of the budget, I want to start off by complimenting the Chairman and his staff. They conducted the markup in a professional manner. The Democratic and Republican members have sharp, well-intentioned reasons for coming down in different places on the resolution. We were able to debate those differences in a full and fair manner. I know Senator Gregg would make these points if he were here.

So, Mr. President, we are at the Senate floor stage of the budget process. What I'd like to do is step back and take a look at the budget from three vantage points. It's kind of like we farmers do before planting season when look at the condition of the soil and the prospects for various crops.

The first vantage point will be looking at what the budget purports to do. From this angle, I'm going to look at what the Democratic Leadership says the budget is designed to do and whether those purposes make sense from a fiscal policy standpoint. The second vantage point will be looking at how well the budget carries out its purposes. The third vantage point will be looking at what reconciliation would mean for the Senate.

Let's start off with the first question -- what does the Democratic Leadership say this budget is designed to do? What are the consequences of that fiscal policy?

The budget's proponents claim that it is all about fiscal responsibility. There are two basic parts to the Federal ledger - revenue and spending. If we spend more than we take in, then the Treasury sells more debt. This has been the pattern for much of the Post World War II period. If we spend less than we take in revenue, then the Treasury buys back debt.

When you look at this budget over the short-term, it contains a material increase in spending. Over the next fiscal year, discretionary spending rises by 9 percent over last year's spending. How many Americans got a 9 percent raise? How many American families raised their discretionary household spending by 9 percent? On the spending side of the ledger, spending goes up. You would think proponents of fiscal responsibility would be looking at spending cuts, not 9 percent increases.

It's a different story on the other side of the ledger, the revenue side. Let me start off with the one smidgeon of good news on the revenue side. The alternative minimum tax (AMT) patch expired on the first day of this calendar year. If the patch is not addressed, 25 million families, most of them, middle income families, will pay an average of at least $2,000 in AMT this year. The Chairman reduced the revenue baseline by $62 billion which is the revenue loss from extending the patch. I thanked the Chairman in committee and thank him again on the floor for that provision. Unfortunately, pay-go still applies, so there is a Senate hurdle, built into this budget, to patching the AMT this year.

Mr. President, the rest of current law expired or expiring tax relief provisions will need to be offset with other tax increases. There are also several bipartisan tax bills that would require offsetting tax increases under this budget. That's a large tax increase over the next fiscal year. My staff calculates that tax increase to be roughly $150 billion.

The definition of fiscal responsibility under this budget, over the fiscal year, is higher spending of $22 billion and higher taxes of $150 billion.

Is that a legitimate fiscal goal, Mr. President? Is that the notion of fiscal responsibility the American people were looking for when they turned Congressional power over to the Democrats in November 2006? Did we in Congress misread the results? Did the people really want us to increase spending and raise taxes? That's not what I heard back home. What I heard from folks across Iowa was rein in the spending. Live within your means. That's what I heard.

It seems to me that if you're going to assume the mantle of fiscal discipline, you ought to treat a dollar of new tax relief the same as a dollar of new spending.

And what do I mean by new spending? I mean spending above the CBO baseline. And what do I mean by new tax relief? I mean new tax policy that loses revenue. I don't mean extension of existing tax policy.

Mr. President, we see the same pattern over the five-year period of the budget. Over five years, the tax hike and spending increases grow exponentially.

On the spending side, discretionary spending grows by $211 billion. When you throw in the special reserve funds, you can add another $300 billion in new spending on top of that.

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. 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. He'll probably be hanging around his ranch in Crawford, Texas. 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 have a couple of charts here. The charts use the analogy of a brick wall to show the ugly tax increase Americans will face.

In this chart, you see a family of four. Here's the husband, the 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 have another example. Here we have 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.

So, when you hear folks rail against the 2001 and 2003 bipartisan tax relief plans, you'll hear a lot of talk about millionaires and the death tax. You won't hear the critics talk about these two families. You won't hear these critics, almost all of whom voted against those two bills, talk about these families.

Now, those on the other side will point to the Baucus amendment as the answer to the tax increases I've pointed out. Isn't ironic that my friend, our Chairman, my partner from the 2001 tax relief bill and several other tax relief bills, is the author of the key amendment? Senator Baucus took a lot of heat for working with me in a bipartisan fashion in 2001. Many on the other side who fought him and that bill were also denying the tax increase in last year's budget. So, they now turn to his amendment, as they did last year, to try and deflect the tax increase charge.

At budget markup, we were told the Baucus amendment would contain enough revenue room, $323 billion, to accommodate extension of several components of the bipartisan tax relief plans. We were told the 10 percent bracket, marriage penalty, child tax credit, and some death tax relief would be covered.

There were provisions that were not intended to be covered. The excluded provisions were the lower rates for capital gains and dividends, and the other marginal rate reductions.

Now, some on the other side will describe this excluded group as top rate taxpayers and other high-income folks. 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 percent rate on capital gains and could pay as high as a 15 percent rate on dividends.

I've got a couple of charts to show how wide the dividends and capital gains tax increases would be. This chart deals with dividends. It shows the number of taxpayers claiming dividend income. 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. Here's a chart dealing with capital gains. Nationally, we're talking about over 9,000,000 families and individuals. 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 percent rate, which for 2007, starts at $31,850 for singles and $63,700 for married couples, would rise 3 points to 28 percent. The 28 percent rate, which for 2007, starts at $77,100 for singles and $128,500 for married couples, would rise 3 points to 31 percent. The 33 percent rate, which for 2007, starts at $160,850 for singles and $198,850 for married couples, would rise to 36 percent. The top rate would rise from its current 35 percent level to 39.6 percent. To sum up, Mr. President, 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. Of course, after the budget conference report was agreed to all talk and action around the amendment ceased. So, Mr. President, I wouldn't put much stock in the follow-through on the Baucus amendment.

Mr. President, this budget asks a lot of the taxpaying population, about $1.2 trillion worth. That's a big chunk on the revenue ledger. Compare that to what's going on the spending side of the ledger. The answer is $211 billion more spending on the discretionary side. Nothing is proposed to rein in entitlement spending.

If the definition of fiscal responsibility is higher spending, no entitlement savings, and dramatically higher taxes, then this budget is fiscally responsible. Keep in mind that while ramping up $1.2 trillion on the taxpayer, the budget spends $775 billion of the Social Security surplus and grows the gross Federal debt by $2 trillion. For those on our side, this budget is not fiscally responsible. We don't agree that the definition of fiscal responsibility is higher spending, no entitlement savings, and dramatically higher taxes. For those of us on this side of aisle, you can't solve all fiscal problems with the tax side of the ledger.

Now, I'd like to go to the second part of my discussion and analyze the tax side of the budget. I'm looking at how this budget will carry out its objectives.

Let's take a look at the short-term. By short-term, I'm referring to the first fiscal year of the budget. I have a chart. A lot of folks from farm country get their water from wells. When the well water is low, you can either dig it deeper, cut back water use, or pay to have the water trucked in. This well shows the extra demands on the revenue side of the budget. That's the bucket. The bucket shows demands of $152 billion. These demands reflect the extenders for this year and next year. The bucket contains next year's AMT patch. The bucket also covers pending bipartisan tax legislation. All of these items are listed on the chart.

The water in the well represents known specified and scored revenue raising proposals supported by the Senate Democratic Caucus. Included are $32 billion in Finance Committee-approved offsets and $29 billion that have been approved elsewhere. That total reaches $61 billion. When you net the offsets against the demands, you find an offset shortfall of $91 billion. The upshot of the analysis in this chart is that known offsets cover only about 40 percent of the revenue needed to carry out pending time-sensitive tax legislation.

Some on the other side will probably respond with three counterpoints.

The first will be that the committee tax staffs will find the additional $91 billion. The second will be a claim that off-shore shelter activity is a vast easily tapped revenue source. The third counterpoint will be that closing the tax gap can yield the necessary revenue.

On the first point, I'd refer everyone to the track record of the tax staffs from the period of 2001 through 2006. During that period I chaired for four and one-half years and Senator Baucus chaired for one and one-half years. During that period, we changed the tax shelter rules and closed numerous corporate loopholes. If you don't believe me, ask the K St. crowd. During that six year period, an active Finance Committee tax staff was able to achieve $51 billion in enacted revenue raisers. That figure should give everybody some perspective on what is doable.

Secondly, some on the other side will argue that offshore activities will produce up to $100 billion a year. The anecdotes alluded to usually refer to fraudulent activities. Of course, tax fraud is a crime now. Perhaps, we could continue to make progress on this front with more enforcement, but the figures bandied about have no Joint Tax or Treasury scoring that I'm aware of. I'll expand on this point in a separate discussion later on this week.

The third counterpoint is that the tax gap will yield a readily-available easily-tapped revenue source. As a preliminary matter, let me say the tax gap is a serious tax policy and administration issue. I have devoted a lot of time and energy to closing the gap over the last few years.

Unfortunately, as IRS officials have told us in several hearings, the tax gap number, currently estimated to be $290 billion (net) annually, is not the same thing as a revenue estimate. They have cautioned us to be careful about designing tax gap closure measures that are driven by unrealistic revenue targets in unrealistic time frames.

When we went through the tax gap discussion last year, these points were disputed by some on the other side. With a Senate Democratic Majority in place for over a year, we may have a bit of a yardstick to use. Let's take a look at the claims on tax gap revenue and how we've done.

I have three charts for this exercise. The first chart is the tax gap reality check. This chart takes the form of an inverted pyramid. At the top of the chart is the gross tax gap. That's what appeared in the budget resolution markup document. Last year, the IRS testified that the improvements in collections have brought the tax gap down by $55 billion to a net tax gap of $290 billion.

As we work our way down the inverted pyramid, we go to tax gap proposals. There are two categories of proposals. The first is Treasury tax gap strategy set of proposals. On an annualized basis, these proposals raise $3.6 billion per year.

Some of these proposals have proved controversial on both sides of the aisle. Many are complicated and wide-ranging and may need further work. It is not by accident that they are still a work in process. The second set of proposals came from the Joint Tax "white book." This pamphlet, requested by Senator Baucus and myself a few years ago, was published in late January 2005. A note of caution is in order about the chart's figure. The $40.4 billion annualized figure includes many tax expenditure reform measures. Some tax gap proponents have strongly opposed the mixing of these proposals with "pure" tax gap proposals. I will speak in more detail about these proposals later on in this week's debate. If one were to delete the tax expenditure reform proposals from this figure, it would drop considerably. For purposes of this exercise, I'm going to use the full set of Joint Tax proposals. If we do that and add them to the Treasury proposals, we come away with roughly $44 billion per year in tax gap-related proposals.

As a side note, a couple of recently-enacted tax gap proposals have run into rough sledding with the new majority. The first proposal is from the 2005 Joint Tax book. It deals with withholding on contractor payments was enacted in 2006. Ways and Means Democrats are seeking to delay it.

In addition, many House and Senate Democrats are insisting on repealing another tax gap measure, this one dating to 2004, providing for supplementary private debt collectors. If enacted, Joint Tax scores that proposal as losing revenue.

As we work our way further down the inverted pyramid that I call the tax gap reality check, we total up enacted tax gap provisions. During the first year of the new majority, we find $572 million of enacted tax gap provisions. The enacted provisions represent two-tenths of one percent of the tax gap. That's right, Mr./Madam President, two-tenths of one percent. That should give us pause.

Now, let's take a look at the demands on the tax gap revenue in this budget. I have another chart. It totals up the proposed uses of tax gap revenue. This chart is in the shape of a pyramid. Listed in the first category are annualized tax relief and spending demands in the budget that are assumed to be offset, by, among other things, tax gap revenue. You can see that they total $314 billion per year. I've accounted for the Baucus amendment's annualized impact of $65 billion. So, the net demands on the annual tax gap are $249 billion.

Mr. President, if you've been following the charts and the arithmetic, you can see that the budget uses almost all of the tax gap revenue. It uses about 85 percent.

Keep in mind, Mr. President, that the track record is that only $572 million of tax gap raisers were enacted last year. To give you perspective, you could look at the ratio of demands on tax gap revenue to revenue raised from enacted provisions.

The ratio, Mr. President, is 435 to 1. That's right, Mr. President, there are $435 of proposed tax gap uses in the budget for every $1 dollar of enacted tax gap revenue.

When you look over these numbers, it should lead to a healthy skepticism of using tax gap revenue as an instant revenue source. We ought to listen to the career Statistics of Income folks over at the IRS. When they tell us not to treat the tax gap number like a revenue estimate, they're on pretty solid ground. Doesn't mean we shouldn't be aggressive about the tax gap. We should. But the thirst for quick and dirty revenue raisers should not drive the strategy for dealing with this important problem.

Mr. President, I'd like to step back and summarize the last two major points. The first point is that this budget does represent the priorities of the Democratic Leadership. It is put forward with the stated objective of achieving fiscal responsibility. The budget dramatically raises taxes, increases spending considerably above an already-generous baseline, and does nothing about entitlements. And most experts agree entitlement spending, left unchecked, will cannibalize the rest of the budget. From the perspective of the Republican Conference, this fiscal blueprint is not fiscal responsibility.

The second point is that an examination of the budget, even from the perspective of its proponents, shows it doesn't work. There is too much pressure on raising revenue. We have raised revenue from closing corporate loopholes and anti-tax shelter measures. I'm proud of the Finance Committee's track record in that regard. We've enacted $51 billion in loophole closers and anti-shelter measures for the period of 2001-2006. There is not, however, enough loophole closers to offset the time-sensitive tax legislation that we face in the first fiscal year of the budget. We've likewise found revenue in policing off-shore shelters and other activities, but it fits under the umbrella of loophole closers and other tax shelter oversight. Finally, the tax gap is an important problem that needs to be tackled. But targeting revenue from closing the tax gap needs to be realistic. This budget anticipates revenue that is incredibly out-of-line with our track record on the tax gap.

Mr. President, 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. I have a chart that shows the revenue from the key revenue raiser from one of our colleagues on the other side. That proposal would 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.

Mr. President, we'll hear a lot of criticisms of our 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.

I have a chart that I believe helps set the basis of this larger debate. It shows the glide-path for revenue under current law. It shows that trend in the post World War II context. You'll see revenues average about 18.3 percent of the economy. You'll also see that 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 impliedly or explicitly reject our premise that the size of government needs to be kept in check. I have another chart. It is a copy of an editorial, dated October 22, 2007, from the New York Times. The lead-off 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, Mr. President. 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. I have one more chart. My last chart 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.