United States Senate
Committee on Finance

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Floor Statement of Senator Chuck Grassley
Promised Tax Cuts Versus Enacted Tax Hikes
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Today I'm going to follow-up on my discussion from last week. The topic is election season promises of tax relief and the post-election action on those promises.

Last week, I discussed the relationship between party control and the likelihood of tax relief or a tax hike. I used a couple of charts. This chart shows, without exception, that over the last generation, the more power our Democratic friends have, the more likely American taxpayers will face a tax increase. This relationship is borne out by the data. The largest tax increase occurring when Democrats controlled both the Presidency and Congress. The largest tax decrease occurring during the period Republicans controlled the White House and Congress. Where control is mixed, the result is mixed. Another chart shows that relationship. This tax hike thermometer shows the height of tax increases with all Democratic control. Deepest tax cuts come with all Republican control. And varying levels of smaller tax hikes or tax cuts with mixed control. The relationship is clear. The more relative power Democrats have, the higher the probability of a tax increase.

So, Americans will need to think long and hard about campaign promises of tax relief as they consider their choices in this Presidential election year. The reason is history shows very clearly, if Democrats obtain the White House and control Congress, taxes are certain to go up across-the-board.

Today I'd like to follow up on last week's discussion. This week, I want to focus on the campaign season most like this one and take a look at how the victors in that campaign used their taxing power once they were sworn in.

The period I'm thinking about is 16 years ago. Before I get into details, let me say I hope the election doesn't go the same way at the Presidential level. I'm pulling for our Republican colleague, Senator McCain, to defeat another of our colleagues, Senator Obama.

Let's turn the clock back to this time 16 years ago. I have another chart. This chart considers the story of Rip Van Winkle. Rip Van Winkle slept for 20 years. Here's a chart depicting Rip. If you round up a little, it's almost 20 years since we were in the 1992 campaign. You'll see from the chart, those events from a while ago might've led to a form of tax hike amnesia.

If we go back to the 1992 campaign, we'll find a charismatic, likeable, articulate young governor from Arkansas barnstorming across America. Bill Clinton was 46 years old and facing a 47th birthday in mid-August. He was widely acknowledged as the most talented public speaker on the Presidential scene since Ronald Reagan.

America had been in recession. Although it was not reported until after the election, the American economy started to recover in the latter half of 1992. The charismatic Democratic Presidential Candidate promised to focus "like a laser beam" on the economic ills that Americans worried about.

In a key speech on June 21, 1992, this "different kind of Democrat," laid out his economic plan. He called the plan "Putting People First." I'm going to focus in a laser-like way on then-Governor Clinton's tax agenda. In the speech, Candidate Clinton was very critical of the marginal tax rate relief that President Reagan had put into effect. To quote Candidate Clinton, "for more than a decade this country has been rigged in favor of the rich and special interests. While the very wealthiest Americans get richer, middle-class Americans pay more to their government and get less in return. For twelve years, the driving idea behind American economic policy has been cutting taxes on the richest individuals and corporations, and hoping their new wealth would 'trickle down' to the rest of us."

As a relief from this version of the "middle class squeeze," Candidate Clinton proposed middle income tax relief. Here's what he said:

"Middle class tax fairness. Virtually every industrialized nation recognizes the importance of strong families in its tax code; we should too. We will lower the tax burden on middle class Americans by forcing the rich to pay their fair share. Middle class taxpayers will have a choice between a children's tax credit or a significant reduction in their income tax rate."

The definitions of rich and middle class are always open. A person who is rich in Mason City, Iowa, might be middle class in New York City. An irony I continue to notice around here relates to this point. It seems like the politicians from the highest income, highest cost of living, highest taxed states seem to be the most obsessed with raising taxes on their Presidential candidates' definition of the rich. In this case, I'm referring to single people who make $125,000 and married couples who make $250,000. That's the dividing line between rich and other people, according to the Democratic Presidential candidate. Is $250,000 a rich family in Manhattan? Is $250,000 a rich family in San Francisco? Is $250,000 a rich family in Chicago? Is $250,000 a rich family in Boston? By the definition of Senators from those areas, I guess it is. Do those families in those cities know they're rich and that their Senators think they pay too little tax?

But I digress. In Candidate Clinton's economic plan, the rich were the top 2%. On September 8, 1992, Candidate Clinton said, "The only people who will pay more income taxes are the wealthiest 2 percent, those living in households making more than $200,000 per year." By definition, you'd think, under Candidate Clinton's plan, everybody below that level is either middle-class or low-income.

On January 20, 1993, President Clinton was inaugurated. Democrats retained their solid majority, 56-44, in the Senate. Although losing 9 seats in the U.S. House, Democrats retained a heavy majority of 258 to 176.

Once elected, the Democratic White House and Democratic Congress converted the campaign economic plan to a legislative blueprint. A key feature of the program, the middle class tax cut, was cast aside. On January 14, 2003, at a press conference, President-Elect Clinton stated: "From New Hampshire forward, for reasons that absolutely mystified me, the press thought the most important issue in the race was the middle-class tax cut. I never did meet any voter who thought that."

Now, how do you reconcile the contents of the economic plan and the shift in position after the election? Pulitzer Prize winning author Bob Woodward wrote a comprehensive book about the first part of the Clinton Administration. It was titled "The Agenda." Mr. Woodward described it this way. "While Clinton continued to defend his middle-class tax cut publicly, he privately expressed the view to his advisers that it was intellectually dishonest."

The late journalist, Michael Kelly, in an article in the New York Times, explained how the newly-elected President planned to "escape" from his middle class tax cut campaign promise. Here's what Mr. Kelly wrote in part. I quote:

"{t}he President built himself an escape hatch a little less than a month before Election Day. 'Every time Clinton said 'I'm not going to raise taxes on the middle class,' he always added the phrase 'to pay for my programs," said a chief political adviser to the President, who spoke on condition of anonymity. 'He never, never said just, 'I will not raise taxes on the middle class.' He always said
'I will not raise middle-class taxes to pay for my programs.' " I ask unanimous consent that a copy of Mr. Kelly's article appear in the record.

While the middle-class tax cut was discarded, the definition of the group subject to a tax increase, the rich, expanded. According to a distribution analysis by the non-partisan Joint Committee on Taxation, taxpayers above $20,000 in income received a tax increase. It was true that taxpayers above $200,000 go up far more than other groups. But generally, taxpayers above $20,000 saw their taxes rise. I ask unanimous consent to insert in the record a copy of the Joint Tax distribution analysis on the 1993 tax bill.

That comprehensive tax increase went into effect on the strength of Democratic votes only. You could look at it as the consequence of the confidence of the large Democratic majorities in Congress and newly-elected Democratic President. Basically, there was no check on one political party's agenda. And, if that agenda is to raise taxes and grow spending, then it isn't a surprise.

Mr. Kelly's article notes the adverse reaction of a prominent player on the left. To quote Mr. Kelly's article:

"'They campaigned on a middle-class tax cut, then four days into a new Administration the chief economic spokesman is talking about a middle-class tax increase,' said Robert S. McIntyre, director of Citizens for Tax Justice, a liberal research group. 'That's a flip-flop.'"

Most folks aren't happy about flip-flopping politicians. Fishermen may like a flip-flopping fish they've brought into their boat. That's about the only kind of flip-flopper that would be received positively. If a politician flips from a tax cut promise to a tax hike, you can bet most folks will consider that move a flop in more ways than one.

All of this happened almost 16 years ago. During almost 14 years since, Republicans have either held the White House or Congress or both. As this chart shows during that period, Congress and the President have generally reduced the tax burden. It's been a long time, about 15 years, since the American People have seen a large tax increase. As then Finance Committee Chairman Pat Moynihan termed it, "the largest tax increase in the history of public finance in the United States or anywhere else in the world."

Philosopher George Santayana said words to the effect that history repeats itself. A risk Americans face if we hand over all the reins of power to the Democratic party is a repeat of the history of 15 years ago. Because of our tax increase amnesia, we could find ourselves to be like Rip Van Winkle.

We will hear dreamy rhetoric about hope and change. It will be clothed in a slumber of middle class tax relief and tax increases on only the rich. We could awaken from that slumber. Our tax increase amnesia would probably fade. We could wake up to another world record tax increase.

I know what the folks who put in place that world record tax increase will say. They'll defend it by arguing that it cut the deficit. They'll argue that, by cutting the deficit and moving to a surplus, that interest rates dropped. While it is true that the fiscal situation went from deficit in 1992 to surplus in 1999, there were many other factors involved.

First off, supporters of the 1993 bill touted it as a dollar of spending cut matched by a dollar of tax increase. A close look at the numbers showed the bill contained $4 dollars of tax increase to every dollar of spending cut. I ask unanimous consent to insert a summary of a Senate Finance Committee Republican Staff analysis, dated June 28, 1993, in the record. I have another chart. The chart shows the sources of deficit reduction from 1990 through 2000. The tax increase represented 13% of the deficit reduction during that period. Other revenue, mainly from economic growth, and defense spending cuts made the deficit decline.

Even with the 1993 bill in effect, just two years later, the Congressional Budget Office projected President Clinton's budgets as producing significant deficits as far as the eye could see.

Several events, not related at all to the 1993 tax increase, pushed the budget towards surplus in 1999.

First off, Republicans attained control of the Congress in 1994 and made deficit reduction a priority. Year after year, Republican Congresses resisted Democratic efforts to spend over tight budget caps placed in the Republican budgets. Most often, President Clinton would extract additional spending in the end deal. Republican resistance to popular Democratic spending proposals often had political consequences for Republican members.

Secondly, revenues, especially capital gains revenues, grew after the bipartisan Tax Relief Act of 1997 was passed. The centerpiece of that bill was ironically a middle class tax cut in the form of the $500 per child tax credit. The child tax credit was a fundamental part of the Republican Contract with America. Another key component of that bill was a reduction in the top capital gains rate from 28% to 20%. As I said, there was a widely-documented significant growth in capital gain revenue after the rate reduction. Indeed, the Clinton Treasury scored the reduction as a revenue raiser and was more than vindicated.

Finally, external factors, aside from the tax policy, led to revenue growth. Free trade opened more markets to American goods and services. The internet bubble started to form. It would burst in 2000 with the collapse of the NASDAQ. And the business cycle yielded an economic expansion after the 1991 recession ended. Economist J.D. Foster has documented this data. I ask unanimous consent to insert in the record a copy of Dr. Foster's analysis.

At the end of the day, the justifications for the tax flip-flop in 1993 matter not one wit. Supporters of the 1993 tax hike can offer whatever reasons they want for the record tax increase. A flip-flop of that size is a flip-flop.

What they cannot dispute is their Presidential candidate promised a middle class tax cut. Once they had the White House and Congressional control, the other side abandoned the tax cut promise and raised taxes on Americans above $20,000 of income. That's a middle-class tax increase. Like Rip Van Winkle, taxpayers do not want to wake up to that tax increase.

At a minimum, as the Presidential campaign unfolds, Americans need to keep this very clear history in mind. We need to probe the candidates on where they want to go on tax policy. We need to be careful not to leave escape hatches on favorable sounding tax cut campaign promises.

In that vein, I will follow up on this discussion and the prior discussion with a third speech. That speech will examine where each Presidential candidate stands on tax issues. I will examine those positions in light of the history of the likelihood of each side to deliver on campaign tax policy positions.

To sum up, we are hearing from a very articulate and attractive Democratic Presidential candidate. On tax issues, like we heard 16 years ago, we are hearing a proposal to tax the rich and provide a tax cut to the middle class. The Presidential candidate on the Republican side has a different message. His message, consistent with the Republican position for almost 30 years, has been to continue pro-growth low levels of taxation. In light of history, I look forward to discussing the two competing visions of tax policy for the future. I yield the floor.