



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Floor Statement of Senator Chuck Grassley
Budget Resolution Conference Report
Delivered Thursday, April 28, 2005

I urge my colleagues to support this conference report. The Budget Resolution is a “blueprint,” or outline that sets the overall level of spending and revenue for the federal government. The Budget itself does not change any law. Instead, it sets the ground rules for all of the other spending and revenue legislation that will be considered by the Senate this year. Under Senate rules, any bill that exceeds the levels set in the budget may be subject to a 60-vote point of order. By imposing a super majority requirement, the Budget encourages the Senate to stay within the overall limits, while at the same time providing the opportunity to exceed those limits when there are extenuating circumstances. The annual budget process is often the subject of much controversy. So I’d like to take a moment and focus on a number of specific provisions as they relate to the Committee on Finance.

As Chairman of the Finance Committee I have the responsibility for all of the legislation that affects Medicaid and Medicare, and the income tax code. The Budget Resolution conference report provides reconciliation instructions for the Finance Committee to achieve \$10 billion in program savings and \$70 billion in tax relief. While these instructions do not actually require the Finance Committee to enact any specific policy, there are a number of policies that are assumed within these numbers. The budget provides for \$10 billion in savings from the Finance Committee. I will commit the Finance Committee to make every effort to work in a bipartisan fashion where we keep in mind principles that guide us in producing a better Medicaid program.

The Finance Committee will look at proposals that produce shared savings for the federal government and the states. The Finance Committee will look at proposals that emphasize state flexibility through voluntary options for states. The Finance Committee will do this while making a commitment not to eliminate coverage for Medicaid beneficiaries. I look forward to taking action to improve Medicaid. Doing nothing is far worse for Medicaid. If we don’t eliminate wasteful practices; if we don’t provide states the necessary flexibility; if we don’t provide states relief, they are simply going to cut people off the rolls to make their budget ends meet. Doing nothing is far worse for Medicaid beneficiaries than a rational, reasoned approach to protecting and strengthening the program. That is what we will do in meeting our instructions.

Mr. President, I turn now to the tax relief portion of the budget. I’d like to comment on three aspects: The amount of relief for the budget period; The amount of relief for fiscal year 2006; and The use of reconciliation for tax relief. Before I start with the number, let me put the revenue side of the budget in context. Some have argued that bipartisan tax relief has gutted the revenue base permanently. They argue that this change is a reason to raise taxes by not extending tax relief. The

facts, according to the Congressional Budget Office (“CBO”), show otherwise.

I have chart here. It is CBO data. The chart shows the volatility of revenue and its relationship to economic performance. When we suffer economically, revenue goes down. When the economy grows, revenue grows. In the first four years of the Bush Administration, we had an inherited recession, 9-11, and the after-effects of the stock market “bubble” and corporate scandals. The uptick in the economy started late in the Bush Administration and continues today. As CBO shows, revenue is coming back. Let’s not confuse cause and effect. Tax reduction has helped the economy recover and the Treasury is benefiting. So, let’s be clear, under-taxation of the American People is not the source of our budget problems.

Now, let’s start with the basic number. When the Senate Budget Committee considered the resolution a few weeks ago, Republicans laid out a plan for reconciled tax relief. This plan was the product of discussions with members of our caucus. Our objective now is to preserve current law levels of tax relief. The plan centers on a seamless extension of tax relief provisions that began with President Bush’s first term. It is critical that these provisions be rationalized with a common sunset date.

Assuring taxpayers of the continuity of promised tax relief should be one of our highest priorities. Taxpayers should not face a reversal of the level of tax relief that we have delivered. This objective is critical with respect to the widely-applicable provisions dealing with capital gains and dividends, small business expensing, low-income savings, the alternative minimum tax (“AMT”), and college tuition deductibility. Millions of taxpayers from all walks of life rely on these expiring tax relief provisions. Now, some on the other side have been critical of the \$70 billion in reconciled tax relief. As with Social Security reform, we get a lot of complaining. We don’t get a lot of answers. We don’t get problem solving and a constructive dialogue.

Where is the Democratic plan for tax relief? Has anyone seen it? All we hear are criticisms. How many times have we heard about the AMT problem? Answer: plenty of times. Mr. President, there is an AMT problem. I’ve got a couple of charts that tell the story. Let’s look at the baseline.

The AMT is a part of the individual income tax. Historically, individual income taxes have been at about 8 to 9 percent. The AMT and regular tax balloon proportionately under current law. According to CBO, this balloon effect is due to sunset of the bipartisan tax relief and the AMT. Now, let’s focus a little bit closer. Take a look at the next chart. This chart shows that extension of the bipartisan tax relief still leaves individual income taxes at record levels. The chart also shows that fixing the AMT leaves individual income taxes at record levels. So, Mr. President, we do have an AMT problem and fixing it will not gut the revenue base over the long-term. It’s common sense that a unfair tax like the AMT that is out of control should be fixed without regard to offsets. That common sense plays out on the budget side as well.

We’ve even heard incorrect assertions that this budget doesn’t address the AMT problem. Well, guess what? In this budget, there is room for extending the current patch or hold-harmless for millions of families facing the AMT. Where is the Democratic plan for AMT relief? Where’s the response for the current period? I’ve been looking for it and can’t find it, Mr. President. Mr. President, this budget contains a plan for tax relief. The reconciliation instruction gives us the resources to maintain current law tax relief. Put another way, the reconciliation instruction is our best means to protect against a tax hike on millions of American taxpayers.

Now, Mr. President, I turn to the second aspect of the tax relief portion of the budget. We'll hear a lot of criticism against the use of reconciliation for tax relief. It was not an easy choice. I prefer regular order, but recent tax legislative history in the Senate suggests the reconciliation option is an important tool to have at our disposal.

With partisan obstructionism on the part of the Democratic Leadership, many regular order tax relief packages have been stalled in the Senate. Even tax relief packages that the Democratic Leadership claims to support encounter obstruction. Members will recall that several cloture votes were required for the bipartisan FSC-ETI legislation.

Likewise, we were unable to go to conference with the House on the CARE Act and other popular tax relief packages because of Democratic Leadership objections. The situation has only become worse this year. The climate may be still more difficult if the Democratic Leadership acts on its threats to "shut down the Senate" if the controversy over judicial nominations is brought to the forefront. From a practical standpoint, there is a significant risk that reconciled tax relief may be the only tax relief vehicle that can pass the Senate in this environment. I hope that is not the case, but it is prudent to consider it a possibility.

Because of this hostile partisan environment, a reconciliation bill may be the only known path to preserve the tax relief provided during the last four years. For this reason, our caucus viewed the reconciliation number as a comprehensive blueprint for preserving current law levels of tax relief. There is \$36 billion of tax relief for regular order tax relief. This amount is meant to cover packages such as the comprehensive energy bill we passed several times. What it comes down to Mr. President is this: we need to take care of legislative business and continue the tax relief promised to the American People. But we're better off with a plan that prevents tax hikes. I'm pleased we have the plan. So, once again, I urge my colleagues to support the budget resolution conference report.