



For Immediate Release  
February 5, 2008

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**Hearing Statement of Senator Max Baucus (D-Mont.)  
Secretary Paulson on the President's Budget**

The French poet and filmmaker Jean Cocteau said: "True realism consists in revealing the surprising things which habit keeps covered and prevents us from seeing."

A good budget must be realistic. It must be realistic in the sense of presenting a true reflection of reality. And at the same time, a good budget must also be realistic in Cocteau's sense of revealing things that habit keeps covered.

Today, we will test President's Bush's final budget against the measure of realism. We will discuss the President's economic agenda with his chief economic adviser, the Secretary of the Treasury, Hank Paulson.

As we meet, America's economy is slowing. Secretary Paulson has been the administration's lead negotiator on economic stimulus.

Thus I begin our discussion by commending Secretary Paulson for his work to forge the stimulus bill that passed the House. And I encourage Secretary Paulson to be open to the improvements that the Senate will make to the package.

I'm thinking of improvements like extending the tax rebate to the 20 million seniors whom the House bill left out. And I'm thinking of the quarter-million disabled veterans whom the House bill left out.

I am confident that the Senate will pass these changes. And I am also hopeful that the administration will find it realistic to endorse them, as well.

Turning to the President's budget proposal, it claims to project a surplus in 2012, even while making permanent the 2001 and 2003 tax cuts that expire in 2011. A surplus would be a fine outcome, if the projections were realistic. But they are not.

The President's budget achieves surplus in 2012 only by omitting several massive costs. It provides just \$70 billion for the wars in Iraq and Afghanistan in fiscal year 2009 and nothing in any year thereafter.

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It omits all costs beyond 2008 for fixing the Alternative Minimum Tax. In my home state of Montana, about 6,000 families paid the AMT last year. Without a fix after 2008, this number would greatly multiply. And the omission of any AMT fixes in those five years unrealistically lowers the cost of extending the 2001 and 2003 tax cuts.

And the budget's growth rates for non-defense discretionary spending are unrealistically low in each of the out-years.

If these costs were not omitted, the President's budget would not be in surplus in 2012. This administration's last budget ends with the same lack of candor that characterized those that preceded it.

And the budget also proposes deep and misguided cuts for Medicare and Medicaid. The health portion of this budget is not realistic policy, but an ideological statement.

For Medicare, this budget proposes more than \$182 billion in cuts over five years. But the budget proposes no cuts to private plans in Medicare, despite extensive evidence that these plans are overpaid.

The budget also cuts Medicaid. It would reduce spending by nearly \$17 billion over five years.

All of these cuts would have devastating effects on medical care for the seniors, people with disabilities, children, and poor whom Medicare and Medicaid serve. Congress will not carry out these proposals.

On taxes, the President once again requests that Congress simply make permanent his 2001 and 2003 tax cuts. Once again, this proposal fails the test of realism.

I helped to enact the 2001 tax cuts. But we need to examine the effectiveness of each of these tax changes. And it's only realistic to acknowledge that this discussion must be part of a larger debate on tax reform.

The budget also reflects the President's lukewarm commitment to administering the tax laws effectively. Every year, \$345 billion of taxes legally owed go unpaid. Allowing this tax gap to continue is fundamentally unfair to honest, hardworking Americans who pay what they owe on time. They should not have to carry the tax burden for those who don't.

Last year, at my insistence, Treasury developed a plan to reduce the tax gap. I question the administration's commitment to see that plan through. The budget simply does not have sufficient resources to carry it out.

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And a realistic budget would reveal the surprising degree to which our economy has grown more integrated and global. A realistic budget would shed the habits that prevent us from showing our commitment to American workers, farmers, and fisherman through Trade Adjustment Assistance.

The budget rightly increases funding for the TAA for Workers and TAA for Firms programs but, astonishingly, discontinues funding for the equally critical TAA for Farmers Program.

We have the opportunity to get TAA right this year. Reformed and expanded TAA is my top trade priority. Other items on the agenda — Free Trade Agreements with Colombia, Korea, Panama — will take a back seat until a new, robust TAA is in place.

And finally, budget deficits projected for 30, 40, or 50 years from now are unsustainably large. The President's budget falls into the old habit of just blaming the three big entitlement programs — Social Security, Medicare, and Medicaid. But a realistic budget would reveal the surprising truth that the long-run problem is not an entitlements problem. It is a healthcare problem.

Healthcare costs are growing faster than the economy in the private healthcare sector as much as in government programs. We must find a way to control the growth of healthcare costs in the entire economy. The solutions for the private sector will help Medicare and Medicaid, and vice-versa.

The President's budget is wrong when it argues that we should just cut benefits in Medicare, Medicaid, and Social Security. We cannot solve the problem of growing healthcare cost on the backs of seniors, people with disabilities, and the poor.

And so, let us work together to formulate an economic policy that presents a true reflection of reality. Let us work together to formulate an economic policy that addresses challenges that habit keeps covered. And let us work together to formulate an economic policy that truly meets the test of realism.

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