United States Senate
Committee on Finance

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Statement of Senator Chuck Grassley:
Use of Revenue Raisers in Budget Resolution
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Mr. President, today I'm going to continue on with my discussion of the issues the Senate will face as the Democratic Leadership draws up its budget resolution.

We face an important milestone because the Democratic Leadership controls the Senate for the first time since the 2002 elections. Over the past four years, there has been a lot of passionate debate over the fiscal policy that the Republican Leadership proposed and implemented over that four-year period. In November, the voters sent a Democratic majority to Congress. The budget debate we are about to enter provides Democrats with their opportunity to chart the fiscal policy path for the nation.
As the Ranking Republican on the Senate Finance Committee and a Senior Republican on the Senate Budget Committee, I eagerly await the Democratic Leadership's budget.

The budget, as both sides say, will define the priorities of the Democratic Leadership. I hope we can find areas where we can work together. Certainly, that's the tradition of the Senate Finance Committee. Where necessary, Republicans will argue for our view of the nation's fiscal priorities. As these debates unfold, it is important for both sides to be clear on the factual basis of the fiscal policy questions we face. It means each side needs to be intellectually honest about the budget numbers. It means each side, Democrat and Republican, needs to put these numbers in context. In that way, when we disagree, the fiscal policy debate will be transparent and the American people will be able to evaluate the options we put before them.

Before the budget arrives, I've taken to the floor to re-cap and evaluate some of the consistent themes we've seen from the Democratic Leadership over that four-year period. Since the Finance Committee has jurisdiction over the nearly all of the revenue side of the budget, I've focused on the issues on that side of the ledger.

Since the position of the Democratic Leadership has been to let the bipartisan tax relief plans of 2001 and 2003 expire, I've talked about the effects of that automatic tax increase. It is a very important consideration. For the last four years, Republican budgets on Capitol Hill have made it clear that our priority was to ensure that virtually every American taxpayer would not see a tax increase in 2011. That's the year the bipartisan tax relief sunsets. The President's budget maintains that assurance to the American taxpayer. During the four-year period of 2003-2006, the Democratic Leadership was harshly critical of that basic policy objective.

That is, the Democratic Leadership opposed the fiscal policy of preventing a tax increase on virtually every American taxpayer. My first speech defined the tax increases built into that fiscal policy. My second speech highlighted some of the macro-economic risks of that wide-spread automatic tax increase.

Last week's speeches were discussions about potential omissions in the Democratic Leadership's budget. That is, the discussion was about fiscal policy that was present in prior budgets. If the Democratic Leadership's past criticisms of those budgets were carried out, the fiscal policy of continuing tax relief would end.

This week I'm going to focus on the track record of the Democratic Leadership and discuss potential problem areas from proposals that might be contained in the budget. You could say, from our standpoint, I'm examining errors of commission this week while last week I examined errors of omission.

Today I want to talk about the use of revenue raising offsets in the budget context. As any budgeteer will tell you, the budget resolution is not a law. It doesn't amend the Internal Revenue Code or Medicare law or appropriations. The budget resolution is like a blue print for a building. The actual construction of tax and spending policies will occur later in the year.

The budget resolution is, however, critical to actual tax, spending, and deficit decisions the Congress undertakes. The matter of offsets is critical in this respect. If additional spending is proposed in the resolution, without real offsets, then deficits are more likely. Likewise, if popular tax relief is proposed, but not offset with real proposals, then deficits could appear.

Though, on this last point, the track record of the last four years shows tax relief grew the economy and record levels of Federal revenue came into the Treasury. My basic point is that, if a proposed offset is not realistic and the proponent succeeds, budget discipline is undermined. In other words, phony offsets, if incorporated into the budget, can lead to deficits.

Today, Mr. President, I just going to follow the numbers. I'm not going to make any judgments or assumptions about the revenue-raising proposals. I'm going to analyze these proposals, strictly from a fiscal standpoint.

I'm going to analyze two categories of offsets from the standpoint of whether the budget arithmetic adds up. And I'm going to examine last year's record of the Democratic Leadership on offsets, but look at it as if they were in control at the time.

It's not a pretty picture, Mr. President. I'm going to take a look at proposed offsets from a series of amendments in the floor debate of last year's budget resolution.

During last year's floor debate, virtually all Democratic Members had a common theme in their purported offsets for their amendments to this resolution—they would close tax loopholes to pay for whatever popular spending program is proposed. Closing corporate tax loopholes was the common refrain to pay for spending.

I'll list the amendments and the popular spending proposal:

1. Kennedy –vocational education and Pell grants;
2. Akaka – veterans medical services
3. Murray – community block grants
4. Stabenow – emergency responders
5. Menendez – port security
6. Byrd – Amtrak
7. Reed (Rhode Island) – LIHEAP
8. Sarbanes – Corps of Engineers and other Federal Services
9. Dorgan – Native American programs
10. Stabenow – veterans health care
11. Akaka – Title I education grants
12. Lincoln – Agriculture

I ask unanimous consent to insert in the record a list of these amendments by vote and amendment number. As you can see the proposed spending is popular and has a nice political edge. Democrats could record themselves as voting for the amendment and criticize Republicans for voting against. From a political calculation perspective, these were profitable efforts on the part of the Democratic Leadership.

The fiscal consequences were another story. If Democrats had been in the majority, as they are now, the fiscal effect of these amendments would have been a big problem. Here's why. One-time spending increases, even if for one year, are built into the CBO baseline forever. This is explicitly the case for increases in discretionary spending. It is also implicitly the case with entitlement spending. If anybody disputes that point, I'd ask them to show me the last time we reversed new entitlement spending. It just doesn't happen around here.

Let's take a look at the Kennedy amendment on vocational education and Pell grants. The spending was purported to be $6.3 billion, but that was for one fiscal year. That $6.3 billion, if adopted, would be probably be extended in later years. Senator Kennedy found his offset by closing $6.3 billion in "corporate tax loopholes." The fiscal and political effect of Senator Kennedy's amendment was to identify specific popular spending and offset it with an undefined tax increase. From a realistic standpoint, Senator Kennedy's amendment identified less than 10% of the gross spending burden it would have placed on the future budgets. To the extent the unspecified revenue offset was duplicative or not realistic, the real effect was that the $6.3 billion of additional spending would have been added to the budget for that fiscal year.

All twelve of the listed amendments used the same undefined offset. Several Members referred to revenue raisers in a Democratic substitute amendment to the 2005 tax relief reconciliation bill. And they kept trying to spend that same money over and over again.

Let's look at the list of revenue raisers in the substitute amendment. I ask unanimous consent that a Joint Committee on Taxation estimate of the revenue offsets in the 2005 substitute be inserted in the record.

Now, that substitute amendment is an over-inclusive inventory of offsets. I say over-inclusive because it included the universe of revenue raisers the Democratic Caucus supported. Republicans supported many, but not all, of those offsets. Joint Tax scored those revenue raisers during last year's budget debate. According to Joint Tax, that universe of Senate offsets raised $53.6 billion over 5 years.

At that time, I noted that the budget resolution assumed several billion in revenue raisers to cover part of the reconciliation bill. Indeed, in the reconciliation conference, we used eight of the revenue raisers. They accounted for about $9 billion over 5 years. I'd hoped to use additional raisers accounting for about $7.5 billion over 5 years, but the House rejected them and we found the offsets elsewhere.

If you account for the revenue offsets left over, you can subtract out another 10 revenue raising proposals that are in the Senate small business/ minimum wage bill. Those revenue raisers included $8.7 billion over 5 years.

Of the raisers in the 2005 substitute amendment, about $18 billion of those were enacted or are in play in discussions between the House and Senate. So, if we review Senate Democratic inventory of <u>identified and scored</u> revenue raisers to and net out current law and Senate-passed tax legislation, we find 18 revenue proposals available. These are proposals the Democratic Caucus has advocated that are leftover. They raise approximately $36 billion over 5 years.

Now everyone should know that there are revenue raisers in that total I just recited that the Administration doesn't support. There are many in that total that House and Senate Republicans don't support. As we've found in the small business tax relief discussions, House Democrats aren't keen on some of these proposals either. Nevertheless, to bend over backwards and be fair to the Senate Democratic Leadership, I'm going to tally the proposals they have supported as a caucus. Let me repeat the total of corporate loophole closers and other offsets Democrats have defined. It is $36 billion over 5 years. That total provides a ceiling of offsets to compare the spending amendments to.

Let's go back and match up the spending amendments with that universe of Democratic revenue raisers. The revenue raised is a far cry from the cumulative demands of the amendments that were filed.

The amendments that have been filed that propose to use those tax loophole closers as offsets total $105 billion in new spending. So, the Senate Democrats proposed $36 billion in revenue raisers to match $105 billion in new spending. That means the spending exceeded the revenue raisers by $69 billion. I ask unanimous consent that a list of Democratic amendments to the fiscal year 2007 budget resolution be printed in the record. This list was prepared by analysts and is based on filed amendments printed in the Congressional Record. I think it is interesting that only one filed amendment on this list would decrease taxes over 5 years, and only one amendment would result in decreased spending over 5 years. The amendment decreasing spending was filed by New York's junior senator, and would reduce spending by around $1 million, or 1 thousandth of a billion.

Put another way, Mr. President, if you subtract the $36 billion from the $105 billion in new spending proposed, it means the other sides' amendments were short by $69 billion. That's $69 billion, Mr. President.

Now, that $69 billion needs to come from some place. If the other side had prevailed, it would have wiped out the tax relief in last year's budget, including the AMT patch. You can't have it both ways, Mr. President. Either the other side, if they had prevailed, would have added $69 billion in deficit spending or they would've gutted the tax relief they claim to support.

Budgets are about choices. In this case, the choices are clear. If the Democratic Leadership would've controlled the Senate last year, we would have no tax relief in that budget or we would have added $69 billion in deficit spending. Neither choice would be the right choice for the American People. Defining offsets is very important because we need real numbers if we're going to have intellectually honest budgeting. My analysis of corporate loophole closers and other revenue raising proposals shows the Democratic Caucus has supported, at most, $36 billion in specified revenue raising proposals. By the way, that's about the revenue loss for next year's AMT patch <u>by itself</u>.

Using unspecified revenue raising proposals is not realistic. If Democrats intend to live by pay-go, the Finance Committee will need those revenue raising proposals to handle <u>a portion</u> of the demands of the tax system.

There are two other categories of revenue raising proposals identified by the Democratic Leadership. One is repealing tax relief for higher income taxpayers. The other is reducing or closing the tax gap. I'll talk about the tax gap in my next speech.

When folks in the Democratic Leadership talk about raising taxes on higher-income taxpayers, it sounds like all fiscal problems could be solved by going down that road. The liberal think tanks and sympathetic voices in the East Coast media tend to echo that sentiment. As a matter of intellectual honesty in budget debates, we ought to have an idea of how much revenue is really there. Since the most popular proposal is to repeal the bipartisan tax relief for higher-income taxpayers, I've asked Joint Tax to provide updated estimates of those proposals. Like the corporate loophole closers analysis, I don't expect that the revenue would cover the spending demands.

I was pleased to see the Budget Committee Chairman make a public comment last week that seemed to address these proposals. According to the March 1, 2007, edition of Congress Daily A.M., the Chairman indicated that he intended to put forward a budget with "no tax rate increases." I'll have to see the budget resolution and hear the Chairman's explanation, but I'd read that comment to mean that the Democratic Leadership will not, at a minimum, propose to roll back current law tax rates. This would be especially interesting in light of the so-called millionaires tax amendments put forward in the past by members of the Chairman's party. The millionaires tax amendments filed for the fiscal year 2007 budget would have increased taxes by about $105 billion. Of course, those same amendments spent that money, so deficit reduction was not involved.

Mr. President, today I've examined the question of revenue raising offsets. The inventory of available defined specific revenue raising offsets is relatively small. Last year, Democratic amendments overspent the available revenue offsets by $69 billion. The Democratic Leadership has indicated a desire to apply pay-go to current law tax relief. If pay-go is to be observed with respect to AMT and other popular expiring tax relief provisions, the Democratic Leadership will need those revenue raisers and more to offset the revenue lost from those time-sensitive provisions.

When we start to examine and debate the budget resolution, we need to use intellectually honest numbers. Using undefined corporate loophole closers is fiscally dangerous. It enables even more spending in a time when government spending is at record levels. Runaway spending is at the root of our current and future fiscal problems.

Using phony revenue raising offsets sets up two negative fiscal outcomes: an undefined tax increase and/or deficit spending. Mr. President, all members, Democrats and Republicans, ought to agree to be transparent in the budget debate. I yield the floor.