United States Senate
Committee on Finance

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Floor Statement of Sen. Chuck Grassley on Tax Relief and the Budget
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Within the past few weeks a series of events has occurred that can help shed light on how tax relief enacted in the past seven years has impacted the budget of the United States. On September 27, the Senate voted to increase the debt limit so that the Treasury would be able to borrow enough to meet our nation's obligations. At the time, I made a statement that this was necessary. The proper place to take a stand for fiscal responsibility is when we are considering bills that spend money and actually create our debt. Unfortunately, some of my colleagues feel that the only answer to our budget woes is to increase taxes, but I believe this point of view is misguided and would prove destructive to our budget in the long term.

Especially over the past seven years, discussion of an increase in the debt limit has prompted excitable statements from my colleagues across the aisle on the current administration's fiscal record. I'm sure I do not have to say that these statements from across the aisle are not positive.

Another event I want to mention is the release on October 5, 2007, of the "Monthly Budget Review" from the Congressional Budget Office. The CBO Budget Review forecast that the deficit for fiscal year 2007 would be significantly smaller than the deficit for 2006, and the Final Monthly Treasury Statement published by the Treasury's Financial Management Service confirmed that. According to the U.S. Treasury, the federal deficit for fiscal year 2007 was $162.8 billion. The deficit for 2006 was $248.2 billion.

The deficit for 2007 is around $85.4 billion less than it was last year. This chart, taken from the Treasury document, shows how this decrease in the deficit has been driven by a 6.7 percent estimated increase in total receipts over fiscal year 2006.

If you are determined to show that tax relief has led to less revenue for the federal government, then this data is difficult to explain. Of course, the conventional criticism offered against tax relief was that it was going to be directly responsible for massive increases in the deficit. This argument implies that, as a result of tax relief, the federal government would collect less money in taxes.

On May 23, 2003, the Senate voted to agree to the conference report to accompany the "Jobs and Growth Tax Relief Reconciliation Act of 2003." The vote was close. The conference report was agreed to only after the Vice-President cast a tie-breaking vote in favor of the report. Anyone who reviews the Congressional Record of that debate would see that the roll call vote was preceded by a very contentious discussion.

Many of my colleagues had very strong criticism for the bill, which, among other things, reduced the rates on capital gains and dividends. Tax policy generally is not seen as something that attracts a lot of excitement, but the floor debate of May 23, 2003, could have given a listener the impression that the sky was falling.

This chart, of Chicken Little reporting that the sky is falling, illustrates the tone of some of the criticisms made by my colleagues.

One senator claimed, “The tax base of the Federal Government is being destroyed.” This same senator referred to the bill as “one of the most dangerous, destructive, and dishonorable acts of Government that I have ever seen.” Another of my colleagues claimed that the bill “is about helping the elite few with large tax cuts, while burdening the majority of Americans with a huge debt.” Here again you see the implication that the 2003 tax relief was going to diminish revenues collected by the federal government.

A third colleague exclaimed, “This bill I call the policy of the three Ds. This is a policy of debt, deficits, and decline.” This comment is especially interesting when examining a statement made by this very same senator on September 27 of this year during discussion on increasing the statutory limit on the public debt. The same senator said at that time that “revenue has been basically stagnant in this country for 6 years.” According to my colleague and CBO, revenues in 2000 were $2.03 trillion, while revenues in 2007 are calculated by Treasury to be around $2.12 trillion in 2000 dollars. First, I want to point out that “stagnant” is a far cry from “debts, deficits, and decline” that tax relief was supposed to inflict on the nation. I am not saying that we don’t have a massive national debt fed by successive budget deficits, but the specific tax relief enacted in 2003 and generally within the past seven years is not the cause of this.

As my esteemed colleague pointed out, even accounting for inflation, the revenues of the federal government are projected to be greater in 2007 than they were in 2000. This certainly shows that our tax base wasn’t gutted by tax relief as was originally asserted. I also would like to say that I do not think that $90 billion is a trifling amount of money. Maybe it is to some people in some places, but it certainly sounds like a lot to an Iowa farmer.

To offer a different perspective, let’s consider this year’s appropriations bills. The Democratic leadership wants to spend $23 billion more than the President’s budget on appropriations. That same group is preparing to force a showdown with the President over $23 billion. That’s one-fourth of the amount I’m talking about here. So, when it comes to spending, every extra dollar counts.

But, extra revenue from lower levels of taxation is to be belittled no matter what the number is. My excitable colleagues here in the Senate are not the only ones who predicted gloom and doom that never came because of tax relief. In August of 2003, the Congressional Budget Office published a document titled “The Budget and Economic Outlook: An Update”. The bill reducing rates on capital gains and dividends had become law at the end of May, so the CBO was able to take tax relief into account as they conjured their budget projections. This chart illustrates the discrepancy between what was forecast in the summer of 2003 and what actually transpired.

In August of 2003, CBO projected that the federal government would collect about $1 trillion, $770 billion in revenues. According to historical budget data, also from CBO, revenues in 2003 were actually about $1 trillion, $783 billion. That difference is $13 billion. $13 billion may be peanuts to some people but I think it is a good start. In August of 2003, CBO projected federal revenues for 2006 to be $2 trillion, $276 billion. Actually, in 2006, federal revenues were about $2 trillion, $407 billion. The federal government collected $131 billion more in 2006 than originally forecast in the dark days of 2003 when several of my Democratic colleagues thought tax relief was poised to destroy the tax base.

Revenues actually collected were higher than projected even when considered as a percentage of gross domestic product. In August of 2003, CBO projected that revenues in 2006 would be 18.2 percent of GDP. Actually, revenues collected in 2006 were 18.4 percent of GDP. In 2005, they were 17.6 percent; in 2004, they were 16.3 percent, and in 2003, they were 16.5 percent. After a small downturn in 2004, federal revenues, taken in proportion, increased faster than GDP. Speaking of it's 2007 projections, in the October 2007 "Monthly Budget Review," CBO states "revenues rose to 18.8 percent of GDP, which is slightly higher than the average of 18.2 percent over the past 40 years." Even with lower taxes the federal government is collecting, on average, a greater percentage of GDP in revenues year-by-year than it has over the past four decades. Incidentally, in 2003, CBO projected that revenues would equal 18.3 percent of GDP in 2007.

Next, I want to compare the four year period after the 2003 tax relief plan went into effect with the four year period after tax increases were enacted in 1993. The "Omnibus Budget Reconciliation Act of 1993," as signed into law by President Clinton in August of 1993, increased taxes on corporations and individuals while increasing taxes on gasoline and raising the taxable portion of Social Security benefits. I think this may be counterintuitive to some people, especially to those who believe that the well-being of our nation is directly proportional to our ability to seize income from taxpayers, but, as a percentage of GDP, federal revenues increased faster after tax relief than they did after tax increases.

To set the stage, in 1993, federal revenues were 17.5 percent of GDP, and in 2003, federal revenues were 16.5 of GDP. By the way, all of these numbers are Congressional Budget Office numbers, and until I get to 2007, they are not projections. If you look at this chart, you can see that, as a percentage of GDP, federal revenues increased faster in the four years after the 2003 tax relief than they did after the 1993 tax increase. For 1997, federal revenues were 19.3 percent of GDP. Between 1993 and 1997, federal revenues increased by 1.8 percent of GDP. Now, in 2007, federal revenues are projected by the Congressional Budget Office to be 18.8 percent of GDP. If this is the case, then over the past four years federal revenues will have increased by 2.3 percent. 1.8 subtracted from 2.3 leaves half a percent.

The tax relief enacted in 2003 grew federal revenues by half a percentage point more than the Clinton tax hikes of 1993 in the four years following each. What is also apparent is that, as a percentage of GDP, revenues were higher in 1997 than they will be this year. In my opinion they were too high. The point I am making is that the rate of change in revenues as a percentage of GDP has, so far, been greater after tax relief than after a tax hike. I think this is a very important point, especially for those who reflexively believe that the only way for the federal government to raise more money is to confiscate more income from taxpayers. Clearly that view is absolutely false.

To conclude, let me summarize the current budget situation. Right now, taxes are lower than they would have been under Democratic rule. I want to make it clear that I am not saying that no Democrats supported any tax relief. Some Democrats voted for the 2003 tax relief plan and many more voted for the 2001 tax relief plan. However, I am skeptical that a Democratic Congress or White House would have allowed taxpayers to keep so much of their own money. The budget deficit is shrinking and federal revenues are increasing. Anyone who finds fault with this situation is determined to find fault. They would probably be unable to enjoy a sunny day because they would constantly be on the look-out for storm clouds regardless of what the forecast said.

There is a problem with debt and federal budget deficits, but tax increases are the wrong way to approach that problem. We have federal budget deficits because the federal government spends too much money, and the best way to get rid of deficits is to spend less. Consequently, raising taxes makes the situation worse by punishing the overall economy and making conditions more difficult for the economy -- the source of federal revenues – to function efficiently. We have to remember that our economy supports the government and not the other way around. The budget data I have discussed today shows how we can increase revenues and reduce deficits by removing impediments to economic efficiency and allowing our economy to flourish.