Transcript of Senate Floor Statement by Senator Kent Conrad (D-ND) on Tax Bill
May 19, 2003

Last week the Senate and House passed tax measures. I want to take a moment to comment on those tax measures. My personal belief is that they are fundamentally flawed, that they are ineffective as stimulus, irresponsible as tax policy, and ultimately unfair.

In terms of stimulus, the plan that passed the Senate last week will provide $45 billion of stimulus the first year; the House plan, $48 billion. That in an economy that is $10.5 trillion in size. Most economists say that small a measure will do virtually nothing to give a lift to the economy. The proposal by Senator Daschle, which provided $125 billion of stimulus, is the minimum size most economists say is necessary to give any serious lift to a $10.5 trillion economy.

But the bigger flaw is in the long-term cost of the proposals advanced by our colleagues in both the Senate and the House. In the Senate, the 10-year cost of the plan is $350 billion; in the House, $550 billion. But that substantially understates the true cost of these measures.

We can look at the *Wall Street Journal*, which did an analysis. They concluded: "Caution: Tax Cuts Are Bigger Than They Appear In The Budget." That is because of this phony sunset that has been adopted in both the House and the Senate to substantially understate the cost.

If the sunsets were not present, what we find is that the House bill, which is advertised to cost $550 billion, would actually cost $1.1 trillion. So when they say they have a tax measure that costs $550 billion, the true cost, without sunsets, is $1.1 trillion on the House side. In the Senate, they say they have a package that costs $350 billion. The true cost, without the sunset gimmick, is $660 billion.

Some will say: Well, a sunset may be a valid thing. They may actually end that tax cut at the end of the time. Well, let's just look back 2 years ago. Two years ago, they passed tax measures filled with sunsets, and now what are they saying? Now they are saying: If you allow them to sunset, it will be a tax increase. So they are saying, oh, no, they can't be sunset, they have to be continued.

You know, fool me once, shame on you. Fool me twice, shame on me. Look, how can any of us be fooled about what is to come? It is very clear what they are going to do. They are going to insist on eliminating these sunsets and the costs will explode. Well, what difference does that make? The difference it makes, of course, is that we are already in record deficit. With these additional tax cuts, and with the increased spending provided for in the President's budget, we are headed for deficits that are utterly unsustainable.

Not only that, this policy of sunsetting means you have a come-and-go tax policy that is bewildering and will have an adverse effect on the economy. As the chart says: "Sunset and Phase-in Gimmicks Produce Bad Tax Policy." Here is just one example. The marriage penalty comes and goes, and it comes again under the policy adopted in the Senate just last week. It is really quite stunning what they have done.

For couples who incur a marriage penalty because of the standard deduction, that marriage penalty would be eliminated when the standard deduction equals $9,500 for the year 2003. Under the plan passed last week in the Senate – and using constant 2003 dollars – we will have $9,267 this year, $9,500 next year, and then it goes down to $8,265 the year after that. That will mean a tax increase on married couples. And then it goes up to $8,740, $8,883 -- all of these standard deduction amounts over the 4 years after 2004 are below the amount necessary to address the marriage penalty. It is really a giant hoax on the American people. But look what happens in 2011 and 2012 and 2013. Then it goes down to less than $8,000 -- a significant tax increase on married couples.

This is consistent, unfortunately, throughout the package passed last week. It is true of the dividend tax measure. What a bizarre thing that is. It is phased in with a 50 percent exclusion the first year, then it goes up to 100 percent for a few years, and then it is eliminated. One prominent Republican analyst, an economist who has testified repeatedly before Congress, called it the most patently absurd tax policy offered ever. I don't know if it is the most absurd offered ever, but it is pretty farfetched. And he is not alone in that view. Here is what he said:

"Administration sources admit that dividends will likely decline relative to today under this plan between now and 2005. How can that be a harmless event given that increases in dividend payments are viewed to be so wonderful? Clearly, this proposal is one of the most patently absurd tax policies ever proposed."

Mr. President, as I say, he is not alone in that analysis. Here are two economists who say the Senate GOP dividend tax plan will not help the economy:

[Mr.] Timothy M. Koller and Susan Nolen Foushee, consultants at McKinsey & Co., noted in a recent report that as of last year owners of 61 percent of all common stock were not subject to tax, so markets are driven by investors who are not concerned with tax treatment of dividends. Thus, "the proposed tax cut" on dividends "seems unlikely to have a significant or lasting effect on U.S. share prices," [they] said. That is from the Washington Post.

What is even more bizarre is the President went around this country and told people this policy was to eliminate double taxation. His argument was that corporate profits are first taxed at the corporate level and then taxed again when they are paid out into dividends.

So in his initial proposal included a corporate accounting provision that guaranteed that taxes on profits were paid at the corporate level before those profits could be paid out to shareholders on a tax-free basis. Do you know what? Here in the Senate they took that provision out. So now you can have a circumstance where the money is not taxed either at the corporate level or when it is paid out as dividends. That is not a matter of eliminating double taxation, that is a matter of eliminating all taxation on corporate earnings.

Now, if that isn't an utterly preposterous outcome, I don't know what is. That is what this Senate passed last week. I expect a lot of Members who voted for it did not even know that provision was taken out. I expect they did not know you are going to have a circumstance in which corporations do not pay taxes at the corporate level and then get to pay the dividends out completely tax free -- well, at least for a few years until it is all restored and we face a massive tax increase on dividends that would do real damage to the economy of this country.

As shown on this chart, here is a Republican tax analyst who ridicules the Senate GOP dividend tax plan:

"I can understand the political reasons why they put it in that way, but it's such an incredibly bad idea," said Norbert Michel, a tax policy analyst at the Heritage Foundation, a conservative research group in Washington. That is from the New York Times. I think Mr. Michel had it right.

This next chart shows that economists say the Senate GOP dividend tax plan makes little sense:

Many economists say a temporary reduction of the dividend tax makes little economic sense, blunting the goal of boosting companies' stock prices and leaving them more money to invest. "Phasing something in but letting it go away doesn't have a very large economic impact," said Christopher Wiegand, economist for Citigroup Inc. This is according to the Associated Press.

The evidence is mounting that what was passed here last week makes no earthly sense. It does not make economic sense. It makes no fiscal sense because the deficits of this country are already at a record level. This year some have said it would be a small deficit. Let the American people make the judgment if they think it is small.

The deficit this year, on an operating basis, is going to be between \$500 and \$600 billion on a budget of \$2.2 trillion. Some say that is a small deficit. What would they call a large deficit? A \$500 to \$600 billion deficit on an operating basis on a \$12.2 trillion budget, and you know that is just the beginning. Once the President's plan is put in place, that increase is spent. That cuts revenue, and when we already have record deficits, you can only have one result; that is, deficits that multiply. It will also occur at the worst possible time because these deficits are coming at us right before the baby boomers retire.

When I talk about a tax plan that makes no sense, it is not just people on our side of the aisle saying that. You have Republicans saying what was passed in the Senate makes no sense. Here is another lawmaker who says he considers the bill a bad idea. It is the Speaker of the House, Dennis Hastert, who described the plan as an "all of a sudden you see it, and now you don't" idea. He went on to say:

If the dividend tax is 50 percent and then nothing, and all of a sudden it is back to 100 percent or whatever it is, my feeling is that it does not solve the problem. But he did not mention that his Chamber's bill also sunsets a half-dozen major provisions.

Rarely have we seen tax bills so riddled with gimmicks and false assumptions. This is what the Joint Committee on Taxation found when they did a "dynamic analysis" of the bill passed in the House of Representatives. They concluded that the increased deficits that will be created will eventually outweigh the benefits of tax cuts.

This is what a number of us have been saying repeatedly. These are not tax cuts offset by spending reductions; these are offsets paid for by borrowing money from the Social Security trust fund. In fact, virtually every penny of Social Security trust fund surpluses over the entire next decade are being taken to pay for these tax cuts. And people think that is a good idea.

The President says this is the people's money. He is exactly right about that. This is the people's money. But do you know what? It is also the people's debt. It is also the people's Social Security. It is also the people's Medicare. All of those are the people's. The policy he has fashioned is taking Social Security trust fund surpluses from the people in order to pay for a tax cut; taking from a circumstance in which people are paying payroll taxes -- by the way, 80 percent of American taxpayers pay more in payroll tax than they pay in income tax -- it is going to take from their trust fund surpluses and use it to give an income tax cut that flows overwhelmingly to the wealthiest among us. You talk about Robin Hood in reverse, this is it. It is not good economic policy, it is not good tax policy, it is not good fiscal policy, and it is going to put us in a deeper and deeper hole.

The Joint Committee on Taxation said this about the plan:

This stimulus is reduced over time because the consumption, labor, and investment incentives are temporary, and because the positive business investment incentives arising from the tax policy are eventually likely to be outweighted by the reduction in national savings due to increased Federal Government deficits.

That is exactly what is wrong with this plan. It is not the economic growth plan, it is a plan to borrow from the future and to take Social Security trust fund surpluses and give a big tax cut to those who are the wealthiest among us.

This plan also flunks the fairness test. The plan benefits the wealthiest in a way that is truly stunning. Taxpayers with income over $1 million will get a benefit of $73,790 in this tax year alone. The typical taxpayers -- those in the middle income in this country, the 20 percent of taxpayers who are in the middle of the income distribution -- will have an average benefit of $245.

Let me conclude by saying I hope my colleagues will take a second look at what was passed. I think it is going to prove to be a serious mistake for our fiscal future.

I thank the Chair and yield the floor.