BUDGET COMMITTEE
Judd Gregg, Ranking Member
http://budget.senate.gov/republican
Contact: Betsy Holahan (202)224-6011
Jeff Turcotte (202)224-2574

For Immediate Release **March 14, 2007**

U.S. Senator Judd Gregg (R-NH)
Ranking Member of the Senate Budget Committee
Opening remarks on FY 2008 Budget
March 14, 2007

Unofficial Transcript

Thank you, Mr. Chairman. I want to begin by thanking you and your staff for your courtesy. You've been very generous and kind to give us an outline of where you're going with this and we very much appreciate it and our staffs have developed a very cordial relationship and very professional relationship over the few years and that's been positive I think to the business of the committee. We look forward to having a very structured but obviously very opinionated markup where we express our differences on how we should proceed, but a professional markup. And we certainly intend to move this along in an expedited way, making sure that we get our points across as you all will want to get your points across.

The issue obviously is how you put in place a budget which is responsible in the next few years but is also going to lead to an affordable government for our children in the long run. I congratulate the Chairman for having held a whole series of very informative, substantive and appropriate hearings on the issue of the long term problems, which we confront as a nation and our children are going to have to pay for, specifically in the entitlement areas because of the retirement of the baby boom generation. So the budget in my humble opinion, not only has to be something that addresses the immediate needs of moving toward balance, and having a responsible level of spending, and a fair level of taxation, but also moves us, in the out years, to being sure we leave our children a country which they can afford and which will give them a high quality of life. So my comments are made in that context, specifically.

The Chairman has outlined his budget -- we haven't had a chance to look at it yet and that's the tradition. We'll get it after this opening statement, so the comments that I make are obviously subject to adjustment depending on what the specifics of the Chairman's budget are. But in reaction to what we have read in the papers, and what the Chairman and the staff have been kind enough to tell us, a few things are fairly obvious. I think the most obvious thing is that there is a big discrepancy or disagreement as to how to approach budgeting. If you look at the Chairman's mark, there's significant new spending in this mark, there's significant new revenue in this mark, there's significant increase in the debt in this mark, and there's virtually no effort to address the out-year entitlement concerns which I've outlined for a long time, but I specifically just alluded to – the affordability of government for our children. We think that all those issues, in varying degrees, we would adjust were we in the majority and writing the budget.

The first issue of course is the issue of spending. Let me start, however, with the first issue which is really where we're headed as a budget process over the next five years. I've said - sort of humorously and in order to get attention more than anything else – that Humpty Dumpty could balance the budget in the next five years. We know from CBO scores that the budget will go into balance in 2012, 2013 and stay in balance for a reasonable amount of time, until the demands of the baby boom generation start to put huge pressure on our system and we head toward insolvency and the decade of the 2020-2030 period. Why are we moving toward balance so aggressively? Why has the deficit dropped so precipitously from an estimated $500 billion about 3 years ago to under $240 billion this year, headed down to basically balance in 2012? It's primarily because of revenues and economic activity. We have seen a massive expansion in the revenues received by the Federal government as a result of economic activity. We have seen 21 straight months of economic activity, which is very good. We've seen unemployment drop significantly over this period and in comparison to other periods; it's been a very robust recovery -- 7.4 million new jobs have occurred during this period. We've seen real wages go up in this period. And what has driven this event? Well, in my opinion, and I think if you look at a lot of the commentary out there, I think its been driven primarily by the fact that the economy has been extraordinarily strong and as a result has created an entrepreneurial spirit where people are going out and they're investing and they're creating jobs. What's created the atmosphere that's allowed that? Well, I happen to believe a large part of that is a function of the fact that we put in place a tax policy in this policy that was essentially fair. It essentially said to the American people, if you go out and you're productive and you work hard and you take risks with your capital then you're going to get a reasonable reward on that capital investment. And as a result people took those risks and as a result jobs have been created and as a result revenues have jumped and in the last three years we've seen a dramatic increase in revenues. These revenue increases are really historically significant in that we haven't seen this type of revenue increase – over a three year period – in any time in our history, in the post World War II period. And they reflect the fact that the economy is back and revenues are up as a result of having a tax policy which encourages people to go out and do taxable events which produces income to the federal government. In fact, the revenues are up enough that we are now well above what has been the historic mean for revenues in this country.

The federal government has historically taken, as a percentage of Gross National Product, about 18.2% of GDP. You see this year about 18.4% and the numbers are going to continue to go up. That's a lot of money, that's a lot of money, and it's a function of the fact that we now have a tax law that's generating more revenue in the federal government that historically the federal government has received, and that's good for the federal government but its good for the marketplace is seen as reacting by creating quarter after quarter of growth, drop in unemployment and a better earning capacity for the American worker.

In addition, the tax cuts which we've put in place have created an interesting phenomenon, which is that under the President's tax cuts which were put in place, we now have the highest 20% of income earners in this country paying more as a percentage of their income – paying a higher percentage of the income taxes paid in this country then occurred during the Clinton years. In other words, high-income Americans are bearing more of the burden of the income tax as a percentage of the income tax paid then the bore during the Clinton years. Over 85% of revenues under the income tax now come from the top 20% of income workers. And on the other end of the curve, low-income individuals, which represents the bottom 40% of income individuals, and we're talking about income tax here, they're getting more back under the tax law then they got under the Clinton period because the EITC, Earned Income Tax Credit, has kicked in so aggressively. So you now have a tax law which is generating more than the historical norm for revenues, which has seen 3 years of extraordinary growth in revenues, and yet is more progressive on the income tax side than under the Clinton years. That's a pretty positive result.

Why are we going toward balance so aggressively? Why is the Chairman able to produce a mark that's going to balance? Why was the President able to produce a mark that's going to balance? Well, primarily all that occurs in large part because the economy has been so robust because revenues are coming in so exceptionally and I believe in large part because we put in place a tax law that works. Getting to balance is good. I congratulate the Chairman for his mark getting to balance. But obviously getting to balance shouldn't be our operative activity here because everybody can get to balance. The operative activity should be that we can get to balance while still maintaining fiscal discipline so that in the out-years we don't end up creating more problems for our children. And that gets to the spending side of this proposal.

This proposal increases next years spending over the President's level by $18 billion in non-defense discretionary spending and $26 billion, we believe, over the five years, we haven't had an chance to look at the exact views but that's what we're guessing, somewhere in that range. That's new spending, it's a lot of money and it compounds and it grows, and after this five years it grows, and grows, and grows. The Chairman, in outlining his statement was very forthright, he said, 'These are the programs we're going to spend this money on, these are programs we're going to expand spending on.' Fine, that's the position of the Democratic Party but it basically means you're adding to the spending of the federal government a significant amount of spending over the next five years in the non-defense discretionary accounts.

It also means that in order to fund this you're going to have to go into the Social Security accounts, at least it looks like from our estimate you're going to have to go into them for the next five years, but definitely for the next four years to the tune of approximately a trillion dollars to fund spending that is in this budget. Now we've had a lot of debate in this committee whether it's appropriate to do that and if I recall the Chairman's statement he has in many cases been very critical of people who've used the Social Security accounts to fund non-Social Security spending and not reduce the debt. But that event of using Social Security funds is aggravated to at least the tune of $126 billion by the terms of this budget. You could argue that the President's budget also goes into – not argue you could state that the President's budget also goes into Social Security accounts – but it goes into Social Security accounts $126 billion less than what is happening under this budget because of the expansion of non-defense discretionary spending.

Also, there's no entitlement control under this bill, so entitlements expand fairly dramatically under this bill and I'll get into that further as we discuss this.

And yes as a percentage of Gross National Product spending is going down but that's for two reasons. One, the Gross National Product is going up – we're in a growth economy, things are going well, lets hope it stays that way, we keep in place the tax cuts we have in place they will stay that way. But that percentage of Gross National Product would be a heck of a lot better if we weren't doing all this new spending in this bill. It's good to say that and it's an appropriate comment but it doesn't reflect the fact that things could be a lot better. On the revenue side of the agenda, we obviously have a bit of a disagreement on how the revenue side is going to be used. By our estimates, and I noticed the Chairman held up something that said the difference between the President's number and your number is a billion dollars and you used OMB on the President's number and CBO on your number, which is apples and oranges obvious. If you compare CBO to CBO, I'll get to that in a second. But by our estimates, the American taxpayer is going to end up, under this budget, with $916 billion in more revenue coming out of the American taxpayer, going into the federal government and being spent for something. $126 billion of its going to go to discretionary spending, some of its going to get moved around – the AMT will be fixed for two years but that means somebody wealthy gets a break and somebody less wealthy probably ends up paying in the tax. The practical effect of this however, is that over this five-year period its $916 billion of more revenue, otherwise known as taxes. You could argue that the Presidents number, if it were put up there, that the President's number would probably be around $450 billion because he also uses AMT money. So the difference is really somewhere around half a trillion dollars that's being added to the federal government which is being spent and revenue is taxes.

That is a number that is fairly significant and that number compounds as we move into the out-year. And I think the most significant point of this is that we're basically increasing the percentage of Gross National Product that is being taken out of the economy by federal taxes, from the historic 18.2%, under the proposed budget here it will go up to 20%, that's a huge increase. That 3% is a big number. 3% is a lot of money when you are talking a tax base of trillions of dollars. The practical implications of that is that the government is growing a lot but the worrisome implications of that is that you're taking up the tax burden – the amount of revenue that the federal government is going to take out of the economy – up to 20% from 18.2% without fixing the underlying problem which is the most serious problem we have that's confronting us today which is entitlement spending. Those revenues are going to be needed as part of a package to deal with entitlement spending. What they're being used for is a package to basically fund this budget that doesn't have any real significant entitlement spending controls in it.

And interestingly enough there's no real articulation in where this revenue is coming from. The Chairman has said he doesn't want to increase rates. The Chairman has said he's going to take it out of, and he listed all the different tax shelters that he was going to take it out of. But the fact is the testimony was pretty clear -- uncollected taxes are out there but collecting them is going to be a challenge and the delta between what is being collected now buy the IRS and what may be available still out there is probably no more than $20 or $30 billion dollars. That's a lot of money but its certainly not going to make up the $500 billion of new revenue. And certainly, if we could close enough loopholes, fraud events and overseas taxes to pick up $500 billion I am sure that Chairman Grassley would have done that instantaneously.

It's almost like the Wizard of Oz tax policy here. There's somebody behind the curtain, we haven't seen who it is but that person is supposedly going to have the answers as to how we're going to get this new revenue – the $400 billion. Oz wasn't from Iowa – was Oz from Iowa? Oz was from Kansas. *(Laughter)* The fact is it is a behind the curtain solution to the issue. The problem is that there is prejudice built into this. Three new enforcement mechanisms have been put into this bill which will create a huge prejudice to force rates up. The mechanisms all will require 60 votes to move any rates and as we know under the law, it's especially structured because the law is unfair and treats entitlements and taxes differently, when the tax cuts expire it will now take 60 votes to move them back up because of the three new enforcement mechanisms in this bill. So there is a clear declaration of prejudice against the tax cuts and clear implication that we are going to end up with a rate increase and the practical event is that to cover that $450-500 billion, half-a-trillion dollar increase in revenue, you're going to see a tax rate increase I would be willing to guess as versus any sort of significant collection of waste, fraud and abuse.

And the biggest issue, of course, again, is that we are jumping the revenues up to 20% of GDP and spending and using those revenues without any entitlement reform. Which brings me to the issue of entitlement reform which is, in my humble opinion, the essence of the problem before us. We all know that Social Security, Medicare and Medicaid are going to consume the entire federal budget beginning by the year 2025-2028. We know we can't afford that, we know it's not an upward path which becomes even less sustainable as we move into the out-years. We know that if we allow this to continue, because the Chairman has held hearings on this, that our children will receive a government that's not affordable, that their quality of life will be reduced, that their standard of living will be reduced, that sending their children to college will be problematic, that buying a house will be problematic because so much will be going into the cost of healthcare and the cost of retirement for the senior citizens population. We also know that if we begin to address this issue now, instead of waiting, we can make some progress on it – like that old oil filter ad, 'you can pay me now or you can pay me later'. Begin now and we can make serious progress.

The President in his proposal puts up a very reasonable suggestion on how to address the biggest problem in these accounts. We know that the vast majority of this unfunded liability, which is $66 to $75 trillion over the actuary life – that's a trillion with a 'T' – the vast majority of that is in healthcare. We know that the vast majority of the healthcare dollars is in Medicare in its president structure. The President sent up a proposal which is entirely reasonable, he suggests we do two things in the Medicare accounts. First, that we give an accurate reimbursement to providers, not the doctors with the other providers other than doctors, they would get an accurate one which would mean about a 0.65% reduction in provider payments. It is estimated that providers are gaining about 1.2% as a result of efficiency, so they are actually going to make money anyway. This 0.65% accurate adjustment in provider payments is a reasonable suggestion by the Administration that would not involve beneficiaries. Secondly, he suggested, very reasonably, that the Part D premium and the Part B premium, which are now subsidized to high-income, no longer be subsidized to people of high-income. I use the example of Bill Gates' father. Now I don't know if has got a lot of money but I suspect he does, I suspect perhaps his son gave him some stock options back in the late 1970s. There is no reason that a person working in a restaurant in Nashua, NH or a garage in Epping, NH or on an assembly line in Rochester, NH should have to subsidize the healthcare premiums for Part D – the drug program, and Part B – the physician program, or anybody else in this country who makes those types of dollars. Those should not be subsidized, but they are under present law. So the President suggested they means test them. Those two actions alone would save $8 trillion over the actuarial life of the Medicare system and would essentially reduce the out-year insolvency by essentially 25-30%. That is huge, its important and it should be done and it should be done now. Yet this proposal does nothing in that area even though we've held hearing after hearing. This shows how these savings would affect seniors, that basically 95% of seniors would not be impacted at all under these savings, only the wealthiest would be impacted.

So it really is discouraging, its more than discouraging, it's a failure to address what is the essence of the problem we confront as a country because we are going to get to balance no matter what we do around here over the next five years, the essence of the problem which is making our government affordable for our children in the out-years and this budget does not do it. The President gave us a very reasonable game plan for doing this, blueprint, it is not a partisan proposal it's a reasonable proposal, it wouldn't affect seniors. It, or nothing else like it, was included in this budget which is a problem. Debt goes up under this budget, by $650 billion is our estimate - the wall of debt chart will show another $650 billion under it. Now as percentage of Gross National Product it goes down because Gross National Product is growing dramatically. But the wall of debt goes up, it goes up quite significantly and again Social Security funds are used to address that. Social Security funds are being invaded to address that, at least beyond what the President would have done to at least $126 billion.

Now, I noticed that the Chairman said that he was putting in two year caps; I want to talk about mechanisms here. I had presumed that when we were talking two year caps it would be 2008 and 2009, now I see its 2007 and 2008. We have a cap in 2007, we don't really need another cap in 2007. So it would seem to me that we would want a 2008-

2009 cap. And the issue that I am still confused about and hopefully we will get clarification about tomorrow morning, is how the 2008 cap works because it appears to include the entire defense number in it, including the war fighting number under the cap. That will make sense if it somehow isolates the war fighting number so it can't be used for the purposes of other appropriations and we can have further discussions on that. That would be an item of some significant concern on our part to make sure that if you're going to raise the cap that much by over probably $150 billion from where it is today, that that not be available for general operation of government but primarily, only focused, for all intents and purposes, on fighting the war.

So the language of the budget as proposed by the Chairman says one thing, the substance of the budget seems to say the other. You know, fiscal restraint and then there's significant discretionary spending, no new taxes but there's revenue assumptions of approximately half a trillion dollars, entitlements will be controlled but there's no entitlement reform, and we will end up at the end of five years with a lot more debt and a lot more expenditures, a lot larger government, a lot larger taxes on our people, and in my opinion we will not have disciplined ourselves in a time when we should have been disciplining ourselves and getting to balance faster, and more effectively, and more efficiently, and with more fiscal responsibly. So obviously we will be offering amendments to try to correct these minor – that was a joke – these items and improve this piece of work which the Chairman has worked so hard on. And I do respect his efforts and I thank him for his assistance in making sure we were given some heads up here on what was happening.

-30-