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Senate Budget Committee Ranking Member Judd Gregg (R-NH)

Senate Floor Speech
on the Fiscal Year 2008 Budget Resolution

(Unofficial Transcript)
Tuesday, March 20, 2007

Mr. **Gregg**: I appreciate the Senator's brief explanation of his budget. I look forward for the longer version. We always appreciate his charts which are well done. I congratulate his staff. Let me start by thanking him and his staff for their courtesy during this procedure. It has been professional, cordial and very enjoyable to work with he and his staff on trying to pull this together in a way that's fair and honest and everyone gets their two cents in. Obviously, there are philosophical differences here but I greatly admire the Chairman's commitment to governing fairly and making sure that everyone has a good chance of getting their points across. I admire his ability and his effectiveness as Chairman of this committee. I enjoy working with him.

There's a lot to talk about here and it's really hard to know where to start. I may not be as "brief" as my colleague, in fact, because there is so much to talk about although I try to be usually terse and concise. Let's begin with where we are. We are now functioning under economic policies put in place by President Bush and the Republican Congress which have produced really extraordinary results for the American people. We came out of the 20th Century, unfortunately, with the biggest bubble in the history of the world bursting, the internet bubble of the late 1990's, followed, of course, by the attack of 9/11 which threw our economy into a tailspin. Those two events combined should have thrown us into a severe depression or recession. We had a recession but it was nowhere as near as severe as it might have been and obviously we did not have a depression. The reason was in the early-2000 period President Bush supported the Congress and put in place policies which created the atmosphere for economic recovery even in the face of those two devastating events -- the bursting of the largest bubble in the internet bigger than the tulip bubble and the south seas bubble; followed, of course, by 9/11 which was an extraordinarily devastating event for all of us.

As a result of the policies put in place, the economy is now expanded – has expanded for 20-plus months, which is the essence of economic recovery and the quality of life. A good job is the essence of a good quality of life. Unemployment rate is lower than it has historically been in most recoveries which is positive. The economic growth has propelled dramatic increases in revenues. I'll get back to this in more depth in a few minutes. But we have seen in the last three years, the most significant increase in federal revenues in the history of the countries over a three-year period and we now have revenues above their historic norm. They are now about 18.5% of Gross National Product. During this recovery, real wages have jumped compared to President Clinton's period which was a good time. We have had real growth which has been more significant than during that period.

To get back to the revenue issue, as a result of the tax cuts put in place by this Administration and by this Congress, we have seen a dramatic increase in revenues. That's because we have come to a point in our society, economically, where we put in place a tax law that is fair. We are saying to the American people, you go out and you be an entrepreneur and take a risk, and be a market-place oriented person, and you create jobs. If you are willing to do that, we will tax you at a fair return, at a fair return on your investment. We have, thus, as a result, dramatically increased revenues so that they are above the historic norm with the single biggest jump in revenues over the last three years in our history. We have as a government, actually seen huge inflow of revenues.

What's the effect? The effect is, the deficit has dropped dramatically. It was estimated to be $500 billion about two years ago. It is now going to be below $250 billion and it is headed down. In fact, over the next five years, using a CBO baseline the deficit will continue to go down and as a practical matter we have reached surplus in late 2011 or early 2012. I have said on a number of occasions, Humpty Dumpty could reach surplus. We are in a good time for revenues as a country. Why? Because we are in a good time economically from the standpoint of expanding economy and creation of jobs and creation of revenues.

It is important to remember if you have a tax law that says to the American people, "go out and invest and take a risk," they will do it. That's the exciting part. Americans are entrepreneurial by nature. They love to take risks if they know they can get a return on the risk but because that is the nature of the American people. And that will create jobs as a result of taking the risk. When we put in place a capital gains rate and dividends rate that say, you want to expand? You want do take a risk? We will give you a chance to do it and get a reasonable return on your dollars, they have done it and human nature produced the human revenue explosions. It is also human nature to say, well, we are going to tax you at such a rate that you will not have an incentive to invest because the government will take too much money so why take a risk? Why should you put your sweat equity into trying to build a little business, a restaurant, or maybe a small software company or something like that? Why do that if the government will take so much of your income that it doesn't make any sense to do that? So, you just don't make that type of an adjustment in your lifestyle.

We have created an economy and a tax atmosphere where people know they will be taxed fairly -- not under-taxed; taxed fairly -- and, as a result, we have seen the huge increases in revenue. In fact, because we have created such a fair tax climate, today the top 20% of American wage earners, income payers, income taxpayers -- most are wage earners – the most 20% pay more ---pay a higher percentage of American taxes to the federal government than they did during the Clinton years. Let me explain another way. During the Clinton years if you were in the top 20% of the income brackets in this country you paid less in taxes as a percent of the total federal burden than today if you are in the top 20%. So, basically, high income people are, today, paying 85% of the federal income tax. At the same time, the bottom 40% of Americans who have income tax obligations actually don't pay a lot in income tax; they actually get money back from the Earned-Income Tax benefit, almost twice as much today as during the Clinton period. So we have the highest income people, those top 20% of American people paying income taxes, paying 85%, we have the lowest bottom 40% getting about twice as much back as they did under the Clinton years. What does that mean? We actually have under this new tax law put in place, which is generating all this revenue, 21 months of economic expansion,

In other words, high-income people are paying more and low-income people are paying less and getting more back. That is progressivity and that is the way it ought to be. In light of this situation where we've seen a dramatic experience in the economy, dramatic experience in the federal revenues, a big increase in jobs for Americans, and a situation where we have a more progressive tax system, what does the Democratic budget suggest? Well, it suggests putting in place a set of policies which go in exactly the opposite direction of the policies that got us to this point. The Democratic budget as proposed will increase taxes or revenues by approximately $916 billion. It will increase non-defense discretionary spending by approximately $140 billion. It will increase the debt by $2.2 trillion. And it does nothing in the area of mandatory savings. And I want to talk about all four of these areas individually.

To begin with, and I also want to mention some of the things it leaves out. It left out long-term entitlement reform, long-term AMT relief, funding for the war beyond 2009 are left out, left out physicians, payment, and unexpected emergency funding and expending of taxes in 24 different reserve funds. We'll get into more specifics on this.

The spending, on the spending side of the ledger, this budget increases non-defense discretionary spending by $146 billion approximately. $18 billion next year. Remember, that's not in a vacuum. That's on top of a budget which the President sent up here which would increase spending by almost $50 billion next year. So you're seeing a dramatic expansion in spending. At the same time there is basically no, virtually no reduction in the amount of spending which is occurring on non-defense entitlement spending, on entitlement spending or on non-defense discretion spending. The Chairman of the committee said we need to be tough on spending, but in his budget there is no -- there are no spending cuts. None. He said that we needed to be -- we would need more revenues. So in his budget he put $900 billion of more revenues. So what you have is a budget which dramatically expands revenues but doesn't do anything to constrain spending.

And as a result, what you're going to get is a very significant increase in the debt of the federal government. It's going to be up by $2.2 trillion after this Democratic budget has gone forward. The wall of debt which we have seen many times on this floor from the Chairman of the Budget Committee is going to grow and go higher, more difficult for our children to bear and to get over. In addition, the budget as proposed by the Democratic membership will significantly use Social Security funds -- Social Security funds for the operation of the government. Almost, over $1 trillion of Social Security funds will be used to operate the federal government. Now, that is not unusual. I admit to that. Historically Social Security funds have been used to operate the federal government. But in the past we have heard from the other side of the aisle that it's not right to do that. Not right to do that. Well, if it's not right to do that for us when we were in the majority, why is it right for the Democratic side of the aisle to do it when they're in the majority, which is what they do.

In addition to building the wall of debt, they are also building the wall of spending. All sorts of expansion of program in this budget. In fact, as I listened to the Chairman's opening remarks, what I heard most, maybe because my ears are attuned to it, but I also think the majority of the time was spent on two things.

One was new spending programs. He listed them one after another after another after another. We've got to spend more money here. We've got to spend more money on agriculture. We've got to spend more money on SCHIP, more money on LIHEAP, more money on CDBG, more money on transportation, more money on the "COPS" program. Goodness gracious, the "COPS" program was put forward by President Clinton back in I think 1995. He said it was going to be a three year program. At the end of three years it was going to go away if we funded 100,000 cops on the street. This was the program. We funded 100,000 cops. Then we funded 10,000 more. Three years went by, and the program didn't go away. It's still there. It's like every other federal program. They don't go away. It is still on, even though that program was specifically designed to go away. But we see it as a high priority for new spending in this budget.

So it's spending upon spending. $146 billion in new spending in non-defense discretionary. That's a big number. It compounds. It's not like it -- it's a big number to begin with it, but when you get past five years, that number becomes the base and everything grows off that and gets bigger and bigger and bigger. It's not like it's a onetime event. The "COPS" program is a good example. It was supposed to go away. It stayed around. It's compounding. Got to add to it, got to add to it, got to add to it.

And in the end who pays this? It goes back to that wall of debt. The $2.2 trillion of new debt that's being put into this system by this bill, that goes to our children. That's a bill directly to our children. And we need to address the fact that this budget as proposed by our colleagues on the other side of the aisle is going to do nothing to give our children the opportunity to have a decent lifestyle, the type of lifestyle our generation has had. In fact, it's going to aggravate their ability to afford the government that they're going to be handed because it's going to give them all this new spending and then it's going to hit them with mandatory spending. We know that if we don't address the mandatory spending accounts in this government, we are going to bankrupt this country. We're going to send this country into a fiscal spiral. And our children are essentially going to be handed a country which they cannot afford. We know that.

Why do we know that? Well, because the Chairman has been good enough and appropriately has held probably 10 or 15 hearings on this specific point. And every major witness we've had, all the leaders from the Chairman of the Fed to the Comptroller General, all the major witnesses have said the same thing. We are headed towards a fiscal meltdown as a nation because of a demographic tidal wave that's headed towards us. The baby-boom generation is going to retire. It's going to double the size of recipients who are getting Medicare, Medicaid and Social Security. And as a result, our children are going to be overwhelmed. This chart shows it so appropriately. Three programs: Medicare, Social Security and Medicaid. The spending on those programs are going to exceed what has been spent by the federal government historically, which is about 20% of Gross National Product. And that's the black line right here. It's going to exceed that number by about the year 2025, 2028. And then it just keeps going up. So as a very practical matter, by around the mid -- about a decade and a half from now, it is going to be impossible for the federal government to function because three programs will be absorbing all the money the federal government traditionally spends.

And the practical effect will be that our children will basically have to be taxed into obscurity in order to support this. And that, unfortunately, is what's going to happen unless we address this issue. The total unfunded liability of our federal government is about $67 trillion over the next 75. $67 trillion. Try to put that term into concept, that number into concept. I don't know what $1 trillion is. Try to think of what that means, $67 trillion. Try to put it into some context, it is still unconscionable, it is such a huge number. If you take all the taxes paid in the United States since the beginning of our government, we paid in about $42 trillion. So unfunded liability, most of which is due to Medicare, some of which is due to Social Security exceeds the total taxes paid to the federal government since the beginning of time or the beginning of our country. Or put it another way, if you take all of the net worth of America -- everybody's car, everybody's house, everybody, all your stocks, all your businesses and roll them into a ball, that adds up to about $56 trillion. We have on the books today a liability that we don't know how we're going to pay for which exceeds, exceeds the total worth of America.

And, yet -- and, yet, this budget which we're presenting today does nothing about that. Even though we had hearing after hearing to talk about the need to address entitlements and the spending on entitlements, it does nothing about it. And it's not like nothing can be done. We will hear from the other side of the aisle we need to do a global settlement. I join with the Senator from North Dakota to try to accomplish that. And we can't do anything until we do global settlement. But that's a good idea and that's the way it should be done. But we've got to get started, folks. We've got to get started. And this budget was the opportunity to start. In fact, the President sent us up an idea, two ideas basically which would have accomplished very significant savings in the entitlement, in the entitlement area. His proposals would have saved $8 trillion of the $24 trillion now unfunded in the Medicare fund, or essentially 25% of the Medicare fund. 25% to 30% of the Medicare fund would have been -- of the Medicare fund insolvency would have been addressed.

How did he do it? He didn't affect beneficiaries with his proposals. They were very reasonable proposals. Essentially the way he did it was to set up two proposals. One would have calculated correctly the reimbursement cost to provider groups, not counting doctors. and the other would have required that very high-income seniors -- people making over $160,000 on their joint returns – would have to pay a higher percentage of the cost of their Part "D" premium and their Part "B" premium. So 90% of the seniors would not have been acted by the proposals he sent up here which would have made -- these proposals, remember -- would have made the Medicare trust fund, would have reduced the insolvency of the Medicare trust fund by $8 million or by about 30%.

This type of proposal should have been agreed to. There shouldn't be any debate about it. I mean why, for example, should a person, a mother, maybe a single mother working at a restaurant who has to pay taxes, why should she be supporting the premium which is being paid, which is being used to support the drug benefit for someone who has an income, a retired senior who has an income of over $160,000? Let's take, for example, a retired senator. Why should somebody who is working on a production line or in a restaurant or in a gas station, why should their general taxes have to be used to support a retired senator's Part "D" premium for drugs? Because the retired senator is going to probably be making more than the $140,000 jointly or $80,000 individually. It makes no sense at all. And just by accepting this one change, you could have dramatically reduced liability of the trust fund and made our government more affordable to our children so our children would be able to send their kids to school and not have this huge tax burden. This is another example of that. But essentially this budget as presented totally ignores the entitlement storm that's coming. The Medicare storm, the Social Security storm and the Medicaid storm. It really is a failure in policy and a failure in leadership.

It's especially unfortunate because when you put it in the context of the fact that this budget significantly increases taxes, taking the -- and we'll bet into this in a few minutes, but taking the tax burden of the American people from 18.5% of Gross National Product up to 20% of the Gross National Product, instead of using those revenues for the purposes of maybe trying to resolve this long-term crisis which is so significant that it truly will cause an economic meltdown, instead of doing that, these tax increases are just frittered away. They're frittered away. They're spent. They're used to adjust this program or that program, whereas they should have been used if they were going to be done at all, which they shouldn't be at this time, to at least address the liability of the Medicare trust fund. But they didn't. It didn't occur. And so, when the Democratic Chairman says I have said I am prepared to get savings out of long-term entitlement programs, I wish he had done that.

The practical situation here, so that -- because it is fairly complex, is that by increasing spending by $146 billion and then increasing revenues by $900 billion, and then increasing the debt by $2.2 trillion and doing nothing on the entitlement side of the ledger, this budget essentially creates almost what you could call a perfect storm of tax-and-spend. It's overwhelming the practical implications of where this is going to go because of the three -- four priorities, as they're set out here, and the way they've been dealt with. Missed opportunities on the entitlement side, dramatic expansion of revenues on the revenue side, non-defense discretionary spending that increases $146 billion. And on the revenue side -- so I want to turn to that -- no, the red chart there.

On the revenue side, this bill essentially says the revenue increase is going to be about $900 billion. Now, to put this in fairness, if you were to look at the President's budget and compare it to this budget, the President's budget would be about $400 billion or $450 billion, and that basically involves the AMT. So what essentially is being proposed here is a $450 billion to $500 billion increase in taxes over what the President might have suggested or did suggest, which is half a trillion dollars.

Now, the Chairman likes to call this 3%:“Oh, we're just 3% above the President.” He has these two graphs that go almost together. You remember when you were in junior high school and you did graphs. If you compressed the numbers enough, you could make everything go together and it's just all mushed together. That's what he's done. Three percent is real money, folks. Three percent. Even though the graphs go together, they're all crushed on this chart, three percent is half a trillion dollars. That's a lot of new money in taxes.

In fact, that represents the single largest tax increase in the history of this country. This budget reflects that. We don't know where it's coming from because we've got this representation from the majority leader that it's not going to come from increasing the tax rates. Well, that's hard to understand because he's claiming he's going to get it from the tax gap and he's claiming he's going to get it from closing loopholes. Well, we had testimony before the committee, and the Commissioner of the IRS said he might get another $30 billion to $40 billion at most over five years out of the tax gap -- and I'm giving him the benefit of the doubt here -- he was close to $20 billion actually.

And closing the loopholes? Now we've had a lot of people around here chasing loopholes for a long time. Everybody's got loopholes they chase around this place. It's sort of like one of those games where you take your kids to Chucky Cheese and they have those things with the big heads that pop up and you hit them with the club. Everybody's chasing loopholes, but they don't appear to get them very often. And when you do get them, they don't generate half a trillion dollars. They might generate $5 billion or $4 billion, but it's not half a trillion. Half a trillion is real money.

Where do you get it? You raise rates. In fact, all you have to do is read the fine print. In the fine print, there are four -- not one, not two, not three, but four new -- because I count their pay-go proposal as new -- four new points of order against taxes being allowed to stay at the present rate. There are four new points of order to keep tax rates where they are today. Remember, when we started this tax discussion we talked about all the good news as a result of getting a tax system that was finally fair and taking a risk where people would go out and get new jobs, 21 months of expansion, the best history of revenues we've had in this country. You're going to have to jump the first hurdle, the second hurdle, and the third hurdle and then the fourth hurdle with very aggressive points of order, which will require 60 votes before we maintain those tax rates. This budget, which increases taxes by $900 billion, which as a result has to be focused on driving those tax rates up because there's no place else you can get the money, is a clear attack on things like the capital gains rate, the dividends rate, the death tax rate, and rates in general, plus all the other extensions, whether they're helping kids or not.

And the practical effect of this is what you've got to worry about. We are on a path in this budget to become France. Essentially, a tax level that's a French tax level. The American people aren't going to want to work very hard and as a result, we're going to find our nation's productivity drops precipitously because of this tax proposal. Under this proposal, taxes go up to 20% of gross domestic product. Historically the tax rate has been 18.2% of Gross National Product. Today we're at 18.5%, we're actually bringing in more than the historic level. This budget assumes – assumes - that we're going to go to 20% of Gross National Product in taxes. That's a dramatic expansion in the size of the government.

And what do we get for this? Well, we get more asparagus growing, we get more COPS program, more CDBG, more agriculture payouts. We're not getting something substantive which is in the long term going to straighten out our biggest issue which is entitlement reform for expansion issues. What we're getting is more government. More government. It really doesn't make a lot of sense. In fact, not only do we have a wall of debt, the Chairman has often mentioned to us, we now have a wall of taxes. And you can see how under the Chairman's budget, the tax wall goes up and up and up. The problem with this wall is that when people try to climb over it, they run out of energy for a while and they just stop climbing. Productivity drops, people taking risks drop, jobs just dry up and people conclude maybe it's not worth working that hard because we send all the money to Washington and I'm not that confident that the government in Washington spends my money all that well.

The Chairman -- and I just have to respond to this one, because the Chairman keeps holding up this chart that says, well, our taxes are about the same as the President's taxes. What he fails to point out is that he uses one scoring mechanism and the President uses another scoring mechanism. He uses apples and the President uses oranges. So I decided to do it apples to apples, oranges to oranges. And when you score them equally, you wind up with the fact, my goodness, of $934 billion new taxes under the Democrats' program. Apples to apples, that's CBO, that's a number I think even the Chairman will acknowledge is the new revenue he's raising, and under the OMB scoring, it would be $600 billion of new taxes. Dramatic increases in tax revenues with the implications, of course, with all these new budget points of order. You know, even out of this building in -- where is it? Cayman Islands or Panama or someplace - this one little building, no matter how he squeezes that building down and crushes it into dust, he cannot get $439 billion out of it. He might get $30 billion out of it, but that still leaves him $400 billion to go or depending on the other scoring, $570 billion.

The only place you can go for this type of money is the American taxpayer. And we're not talking the rich here. We're talking Americans, trying to make a living, small business people running a small business. You know, most people who live off dividends actually are senior citizens. The senior citizens will be hit heavily by this tax increase. Capital gains, that's where people take risks. They're just not going to change their asset mix anymore, and as a result, it will dry up. This is a huge tax increase budget.

So, to summarize, although I hate to do that because I haven't taken nearly enough time, the Democratic budget raises taxes by $900 billion, raises spending on the non-defense discretionary side by $146 billion, and most acutely, in my opinion, although the tax number is obviously daunting, the most acute failure of this budget is that it passes all this debt on to our children and then further burdens them by not doing anything of any significance to address the coming tsunami, which is the entitlement costs which the Baby Boom generation is going to force on our kids, making government unaffordable for our children. So I have reservations about this budget, and as we go forward, I imagine there will be amendments to reflect those reservations. At this time, I'd like to yield to our Leader for 10 minutes, if that's all right.

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