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Statement of Sen. Chuck Grassley
Budget Committee Hearing, Wednesday, Jan. 23, 2002

With today's announcement that the federal government is once again facing near-term budget deficits, we're going to hear a lot of talk from the critics about the need to postpone or even repeal last year's bipartisan tax cut.

The critics say we should revisit the tax cut for two reasons. First, they claim the tax cut is responsible for our return to budget deficits. Second, the critics claim the tax cut will jeopardize our long-term economic growth. Let's consider each of these claims in turn.

According to the Congressional Budget Office's projections, the tax cut is responsible for less than 15 percent of the reduction in this year's surplus and less than 40 percent of the reduction in surpluses over the next ten years. The slowdown in our economy and the additional spending enacted last year are responsible for most of the deterioration in our budget outlook.

The second criticism is that the tax cut will reduce the surplus, thereby exerting upward pressure on interest rates, and thus reduce future economic growth. A recent report by the Joint Economic Committee, however, concludes there is no evidence to support this criticism. According to the JEC, "empirical studies on interest rates have uniformly failed to find any statistically significant relationship between interest rates and the budget balance of the U.S. government." This result is likely due to the fact that the deficits we have seen in the past were not large enough to affect interest rates given the overall size of our financial markets.

If the tax cut is not responsible for rising deficits and higher interest rates, why do the critics still complain? One reason they want to delay or repeal the tax cut is because they want to spend the money. Some critics have already announced their plans to spend the tax cuts. As more of their spending plans become public, it will become obvious their cries for "fiscal discipline" are nothing more than crocodile tears.

In addition to the critics who want to spend the tax cut, there are also critics who insist we cannot afford the tax cut because our long-term budget projections show federal spending will exceed revenue by 25 percent within 50 years.

To argue we cannot afford a modest tax cut today because we will need a huge tax increase in the future is to ignore the obvious. Congress cannot provide more government than taxpayers are willing to pay for. Throughout our country's history the federal government has never taken more than one-fifth of our nation's income in taxes. If we are not willing to pay 25 percent more for government, why should we expect our children and grandchildren to do so? Our challenge today is to get beyond the rhetoric and begin to make government affordable once again.

