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Opening Statement of Senator Chuck Grassley
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Mr. Chairman, we've seen a lot of hand-ringing and hyperventilating over the latest projections from the Congressional Budget Office. According to some people, we are on the verge of a crisis because the $5.6 trillion surplus projected in May is now only $3.4 trillion. But, before we join the Chicken Little chorus and proclaim "the sky is falling," we should take a look at what happened to the surplus.

First, the bipartisan tax relief plan enacted this spring reduced federal revenue by $1.3 trillion. I believe this was necessary to reverse the rising tide of taxes; to respond to current economic conditions; and to avoid excessive federal spending. Over the past two years, federal taxes have risen to the highest level since World War II [20 percent of GDP]. Individual income taxes have risen to the highest level ever recorded. [10 percent of GDP]. Without tax relief, federal taxes would continue to rise due to the progressive nature of the tax code. Despite tax relief, federal taxes will remain well above the average level we've seen since World War II.

Critics have denounced the bipartisan tax relief plan as reckless and irresponsible. But, I would remind my colleagues on the other side of the aisle that 48 out of 49 Democratic senators voted for the Daschle/Carnahan amendment that would have provided $1.2 trillion in tax relief. It seems those who voted for the Democratic alternative have developed amnesia. Or, perhaps they never really supported tax relief in the first place.

The second reason the surplus is smaller than projected is the economic slowdown that began last year. According to CBO, our economy will grow only 1.7 percent this year. Slower growth, and other technical revisions, have reduced the surplus by nearly $500 billion. If we had not already passed a tax relief plan, we would certainly want to pass one now to stimulate the economy. If the economy continues to slow, we'll not only be glad we cut taxes, we might even wish we had done more. But, one thing is certain, no one can seriously believe we should be raising taxes, or repealing the tax cut, given the current state of our economy.

The bipartisan tax relief plan will not only stimulate the economy in the near-term by putting more money in the pockets of consumers, but it will improve the economy in the long-term by reducing marginal tax rates, thereby improving the incentive to work, save and invest.

The final reason the surplus has declined is interest on the national debt. Before the bipartisan tax relief plan was enacted, CBO assumed all of the surplus would be used to reduce the national debt. Now that the tax plan has been enacted, CBO assumes there will be less debt reduction and thus $400 billion in additional interest payments.

However, bigger surpluses do not automatically translate into more debt reduction. Back in 1997, Congress agreed to strict limits on discretionary spending in an effort to balance the budget by 2002. When favorable economic conditions balanced the budget five years ahead of schedule, spending discipline broke down. Congress exceeded the discretionary spending limits every year, adding more than $1.7 trillion to projected discretionary spending over the next ten years. It seems pretty clear to me that bigger surpluses lead to higher spending.

Senator Conrad claims federal spending as a percentage of GDP is now at the lowest level since 1966, but I would point out that – excluding defense – all other federal spending has increased by 50 percent. That's hardly a record of frugality.

Finally, I would like to remind my colleagues that no one is "raiding" the trust funds. When Social Security and Medicare collect more than they spend, the surplus is credited to the trust funds in the form of government bonds. These bonds can only be redeemed to pay for Social Security and Medicare. The balance in the trust funds will be exactly the same – with or without the tax cut.

Many people claim that using the Social Security and Medicare surplus to pay down the national debt will reduce government interest payments and alleviate the Social Security and Medicare shortfall. But these interest savings will cover less than 5 percent of the long-term deficit in Social Security and Medicare. If the government borrowed from the public to cover the rest, it would take only 10 years to run the debt back up again to its current level. Debt reduction will not save Social Security and Medicare. We need real reform.

Once we get done with all the hand-ringing and hyperventilating, I'm hopeful we can all sit down and work together to develop a plan that will truly address the long-term problems facing Social Security and Medicare. Until then, we all need to calm down and recognize the "sky is not falling."