



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Statement of Senator Chuck Grassley
Finance Committee Hearing on Administration's Budget: Revenue Proposals
Tuesday, February 7, 2006

This is the first in a series of hearings the Finance Committee will hold on the Administration's budget. Today, we focus on the revenue side of the budget. It is almost entirely in this committee's jurisdiction. Secretary John Snow is our sole witness. Mr. Secretary, President Bush, in his State of the Union address, rightly noted that all of us need to change the tone in Washington, D.C. This committee has a long history of bipartisanship, civility, and problem-solving. And, though, this is an election year, I commit myself to continuing that course. I hope that everyone here, Republicans and Democrats, can agree with me on that point. In that spirit, I'd like to start out with some positive news that every member, conservative, moderate, and liberal, Republican, Independent, and Democrat, should find satisfying. Federal revenue is up. Isn't it, Mr. Secretary? The good news is that we are way ahead of where we thought we'd be at this point last year. Revenue was up by \$274 billion for 2005 over 2004. That is a record. Back in 1993, taxes were raised and the then-Chairman, Senator Daniel Patrick Moynihan, termed it a "world-record tax increase." In fact, the revenue raised here, in terms of the year-to-year change, is much higher. The good news is the additional revenue came in without raising taxes on the American taxpayer.

A lot of times around here, folks get it backward. You've heard about the old country saying. It goes, "The tail doesn't wag the dog. The dog wags the tail." Some people think the only way to fix the budget is to raise taxes. A tax increase, they believe, will make the economy better. It's kind of like the Federal tax tail wagging the American economic dog. I've got a chart that proves the point.

If you take a look at this chart, Mr. Secretary, you'll see that Federal revenues respond fairly dramatically to the economic growth. In times of good economic growth, Federal revenues rise. In times of economic recession, Federal revenues decline.

So, in this case, when we put in place the tax relief program in 2003, economic growth started back up. Now, some protest that this was a bad move. They claim that this tax relief, especially with respect to investment income, made the budget and the economy worse. In fact, this chart shows the opposite. Growth has spiked up and so have Federal revenues

The bottom line is that everyone should be happy that the economic dog, a growing national economy, is wagging the Federal revenue tail. It means more Americans are working, investments are performing better, and more money is coming into the Federal Treasury. Everybody wins under that kind of scenario.

I'd like to bring out one other chart that I think puts the revenue side of the Federal budget

into perspective. This chart shows that over the post World War II period, Federal taxes have taken around 18 percent of our economy. It shows that we had a sharp drop in wake of the stock market bubble, 9-11, and other factors in the early part of this decade. Now, with all of the bipartisan tax relief in place, we are on a path that gets us pretty close to the historical average. If you look closely, you'll see at once the effect of the tax relief sunset, out in 2010. Not surprisingly, as a percentage of GDP, taxes will be far above the historical average. Some would like to go that way now. My concern is that the effect is that the revenue tail would be the focus. We would be taking our eye off the dog, a growing national economy.

Now, Mr. Secretary, I'm not saying there aren't problems with the budget in the mid- and long-term. Certainly, these projected deficits must be dealt with. The deficits, however, are driven by Federal spending. Federal spending is off track. It is high, as a percentage of our economy. It is trending between 1 to 2 points higher than that historical average of Federal revenues to GDP. The problem is clear. It is on the spending side. It is not on the revenue side.

The critics of the bipartisan tax relief plan come to the table with one agenda only. It is to raise taxes. The harshest critics are those who are least willing to look at the spending side of the ledger. That's where the problem is. Just look at how hard it was to get a bipartisan deficit reduction bill through the Senate.

Since today's hearing is about revenues, I wanted to put this part of the budget into context. I want us to reflect on the good news of a growing economy, a program of bipartisan tax relief, and the growing amount of Federal revenue. There is good news here. But we have tough news in that we have to get the spending side of the budget under control.

Mr. Secretary, today we will examine the Administration's budget's revenue proposals. We look forward to a constructive discussion on those proposals.