Floor Speech of Sen. Chuck Grassley
on Why Tax Increases Are a Bad Idea
Delivered Thursday, March 1, 2007

I am here today to discuss the tax relief that was passed by Congress and signed into law by President Bush in 2001 and 2003. Since that tax relief was enacted, and especially since last November, we have heard from the liberal establishment in Washington and elsewhere that this bipartisan tax relief must be ended and that taxes should be increased on millions of Americans of all income levels. Today I am going to look at what is driving the tax increase crowd, and talk about why they are wrong and why increasing taxes is a very bad idea.

The liberal establishment uses deficit reduction as the primary excuse for their craving to raise taxes, but before we applaud their efforts to balance the budget, let's think about their solution. When anyone says that we need to increase taxes to balance the budget, what they are saying is that they are unwilling to cut government spending. In actuality, the tax increase crowd wants to increase government spending.

Yesterday, I focused on what extending the bipartisan tax relief package means to nearly every American who pays income tax. Today, I want to examine tax relief and look at the impact that it has had on our economy. Regardless of whether you look at federal revenues, employment, household wealth, or market indexes, the impact of tax relief has been overwhelmingly positive.

This first chart illustrates the growth of revenues, with the red line, and the growth in GDP, with the green line. As we can see, revenues are currently increasing and are projected to increase in the near future, even before tax relief is scheduled to sunset under current law. Clearly, tax relief has not destroyed the government's revenue base. I want to point out that this chart shows percentage changes in revenues and GDP, so if the lines are flat in places it means that revenues and GDP are increasing at a constant rate.

This next chart graphs the S&P 500 equity price index over a period of several years. The lowest points of both the red line, representing the weekly S&P, and the green line, representing an average, seem to correspond closely with May of 2003, which, not coincidentally, is when dividend and capital gains tax cuts were signed into law. Aside from benefiting Americans directly invested in the stock market, this is good news for anyone with a pension that invests in the stock market as well.

According to the Federal Reserve, net wealth of households and nonprofit organizations has increased from a low of around $39 trillion in 2002 to more than $54 trillion in the third quarter of 2006. Since tax relief went into effect, our nation's households and nonprofit organizations have benefited from more than $15 trillion of new wealth.

This trend is also apparent when looking at employment. Total nonfarm employment was calculated to consist of around 130 million jobs in the summer of 2003, but is projected to be 137 million jobs in January of this year. This shows a 7 million increase in nonfarm employment since the 2003 tax relief bill was signed into law.

I have just described to you four indicators of prosperity, and all four of them have increased since bipartisan tax relief was passed by Congress and signed into law. Federal revenues are growing steadily at a rate greater than GDP. The S&P 500 ended a downward slide and began moving upward around the time the 2003 tax bill was passed. Also since the 2003 tax bill became law, household and nonprofit wealth has steadily increased and literally millions of new jobs have been created. I think it is more than a coincidence that all of these positive economic indicators are correlated with tax relief. I don't think anything short of willful ignorance could lead someone to say that tax relief has been bad for this country.

Now going back to what I was saying before, the liberal establishment wants to reverse the tax relief that has done all the good things I was just talking about in the name of deficit reduction. However, this same crowd has not expressed any interest in reducing the deficit through reduced spending. The reason for this is that this crowd, comprised of lobbyists, the big city press, and an entrenched Federal bureaucracy, wants to raise your taxes to spend your money on growing government rather than work to trim spending. In fact, the more government spends, the more power these interests are able to accumulate.

The Federal bureaucracy gets to control more money, which will lead to more people hiring high-priced lobbyists to apply pressure to take a bigger piece of the pie that taxpayers are paying for. While these interests have no trouble thinking of themselves, they are not thinking of families, seniors, small business owners, and workers across America. These people may not be able to hire lobbyists or write syndicated columns, but their welfare should be our top priority. I'm going to talk in greater detail about America's families, seniors, small business owners, and workers. But for now I want to talk some more about our economy as a whole and how rolling back the 2001 and 2003 tax relief will have dire consequences for our whole economy.

There is an old saying that goes "figures don't lie but liars can figure." This saying is especially true in Washington. Any given issue has champions on both sides of the aisle able to generate studies and research that just happens to support their position. I say this because the source for the information I am going to present now is not one of those groups, but rather The Goldman Sachs Group.

Goldman Sachs is an enormously successful and well-respected financial services firm. I don't think it is possible for any Democratic politician, liberal think tanker, or liberal journalist to accuse Goldman Sachs of being a tool of the Republican Party.

Clinton Treasury Secretary Robert Rubin served as Co-Senior Partner and Co-Chairman, and current New Jersey Governor and former Senator John Corzine served as Chairman and CEO of Goldman Sachs. Our current Treasury Secretary also enjoyed a prominent career at this firm, so I would recommend that Republicans, and especially Democrats, pay attention when a Goldman economist sends up a red flag.

In a report titled "Fiscal Policy: Marking Time until the Tax Cut Sunsets," the US Economic Research Group at Goldman Sachs projects a recession if the 2001 and 2003 tax relief is allowed to sunset. This study actually came out in November of 2006, so I'm a little surprised we haven't heard more about it.

For this report, Goldman Sachs economists used the Washington University Macro Model. To give a little background on the Washington Model, it is a quarterly econometric system of 611 variables, 442 equations, and 169 exogenous variables. The Washington Model was developed and is maintained by Macroeconomic Advisors, LLC out of St. Louis Missouri. Macroeconomic Advisors is where former Congressional Budget Office director Douglas Holtz-Eakin serves as a Senior Advisor. Plus, the firm won the prestigious 2005-2006 National Association for Business Economics Outlook Forecast Award for its accurate GDP and Treasury bill rate forecasts.

Of course, Macroeconomic Advisors and their Washington model must be accurate enough for people to pay to use, which is not true for every organization that has been modeling the effects on the economy of letting tax relief expire.

Getting back to the Goldman Sachs study, the authors assumed that Congress would let the 2001 and 2003 tax relief expire, so they reset taxes to their 2000 levels, grossed them up slightly to match the CBO's estimate of the revenue impact of letting the tax cuts expire, and allowed for an appropriate monetary response. For monetary policy, the study's authors assumed that the Federal Reserve would call for interest rate cuts when output falls below its trend and for interest rate increases when inflation rises above its comfort zone.

The study states that "In the first quarter of 2011, real GDP growth drops more than 3 percentage points below what it would otherwise be. Absent a strong tailwind to growth from some other source, this would almost surely mark the onset of a recession." If tax relief is allowed to expire, this study shows that a recession is the likely result. By not extending or making tax relief permanent, Congress will be deliberately inflicting a recession on the American people. Is a lot of hollow, high-sounding rhetoric about balanced budgets worth the job losses and business closures that would result? The study eventually predicts higher output, but notes that consumption would be lower. So that everyone has the opportunity to review this study, I ask unanimous consent that it be printed in the record, along with one of the very, very few news stories to note its findings.

The Goldman Sachs study was clearly not written by cheerleaders for tax relief; indeed the authors seem to share the point of view of many in this chamber that a cut in spending is not an option. The authors regard an eventual drop in consumption as a forgone conclusion of tax relief and equate it with the necessity to pay back what had been borrowed over the previous decade. At the very least the study says, and I quote, "The economy suffers a lot of short-term pain." Congress needs to act to extend or make permanent tax relief enacted in 2001 and 2003, or risk plunging the country into a frivolous recession. I say frivolous because the recession will be the result of vanity on the part of those who use balancing the budget as a cover for their tax-and-spend politics.

More cause for concern of the impact of tax increases comes to us from China. I'm sure everyone is aware that the Shanghai Composite Index lost 8.8 percent of its value this past Tuesday. According to various news reports, including a dispatch from the Associated Press, a factor in the drop may have been rumors that a capital gains tax on stock investments was in the works. I ask unanimous consent that the AP dispatch I am referring to be printed in the record. The same AP report notes that regulators have already denied those rumors and that Shanghai Securities News ran a front-page report to the same effect yesterday. Incidentally, the Shanghai Composite Index gained 3.9 percent yesterday.

I think the Chinese regulator's swift debunking of rumors that a capital gains tax was going to be enacted show the negative impact such a tax could have on growing markets and expanding economies.

As I have said before, what is missing from the debate on extending tax cuts and clearly missing from the reasoning of the authors of the Goldman Sachs study is the option, and necessity, of reducing government spending. The right thing to do is to let Americans keep as much of their own money as we can, and not seize it from them to promote special interests, encourage high-priced lobbyists, or give free reign to the big-city press to tell everyone else what to do.

It is often said by the Democratic leadership that "tax cuts are not free." That statement is true. Tax cuts score as revenue losses under our budget rules. What is equally true, if you listen to economists and more importantly, the American taxpayer, is that tax increases are not free either. Taxpayers have to write the check to Uncle Sam.

Tax increases change taxpayer behavior. Tax increases will affect work, investment, and other economic activities. From an economic policy standpoint, tax increases, especially those that are used to cover more government spending, have a policy cost. Tax increases are not free to the taxpayer and are not free to a growing economy.

As the Democratic leadership draws up its budget resolution, hopefully, it will keep this in mind. Tax increases have consequences to the American taxpayer and the American economy.

I yield the floor.