United States Senate
Committee on Finance

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Opening Statement of Sen. Chuck Grassley
Senate Floor Debate, Fiscal Year 2008 Budget Resolution Conference Report
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Over the last six years, the budget resolution provided the necessary resources to allow the Finance Committee, usually in a bipartisan manner, to realistically address the demands of tax, trade, health, and welfare policy. I'm disappointed to say this year is different.

The people spoke in November, and for the first time in 12 years, the Democrats are in the majority and in control the Congressional budget process. As Ranking Republican on the Finance Committee, I was not consulted, at any point by our distinguished Chairman on this year's budget resolution. Unfortunately, after reviewing the resolution conference agreement, it is clear that it does not realistically address the needs of the Finance Committee.

Despite claims to the contrary, this budget does not provide for even one year of AMT relief, let alone two years, or even a one year extension of provisions that will expire this year. So this budget puts the burden on the Finance Committee to come up with the offsets to pay for AMT relief and extenders.

On these immediate needs, on AMT and other extenders, the Democratic Budget Committees' press release says "AMT Relief .. The Conference Agreement ***prevents*** the spread of the Alternative Minimum Tax (AMT), so that it does not impose higher taxes on middle-class families. It ensures that the number of taxpayers subject to the AMT will not be allowed to increase in 2007 – protecting some 20 million middle-class taxpayers from being subject to the tax."

Now, I've looked over the resolution and Statement of Managers and I can't find the basis for that press statement. If you look at the numbers, unlike the past six years of Republican budgets (except for 2002), you won't find tax relief room to accommodate the AMT. You won't find any tax relief room for other extenders.

The Chairman, I'm sure, will respond that the Finance Committee tax staff will find revenue raising offsets. More on that in a few minutes. Without question, however, this resolution does not provide the tax writing committees with the resources to prevent the spread of the AMT for this year or next year. It is simply not in the black and white print of this resolution.

Let’s turn to the offset point. As a farmer, I’d like to think we country folks can teach city folks a lesson or two.

The first chart involves the method a lot of us farmers use to get our water. Mr. President, you’ll see a well in this chart. Here’s the top of the well. You can see it is a long well and there’s some water way down there at the bottom. But most of the well is dry.

Now, as I indicated a few moments ago, the budget resolution doesn’t contain tax relief room sufficient to cover the revenue loss of the AMT and other time-sensitive tax extenders. What we’re told by those who drew up the budget is that the tax writing committees will find the money.

The offset well shows about $44 billion in known, identified, and scored revenue raisers the Senate Democratic Caucus supports. I used this chart about two months ago. I’ve updated it to account for $2 billion in new revenue raisers developed by the Finance Committee tax staff. That figure of $1 billion per month is in line with the historical average. How reliable is that average and can we count on it?

As a farmer, I know something about the predictability of well water. You hope you’ll get rain and it’ll give you a decent level of well water. And as a former Chairman and now Ranking Member of the Finance Committee, I know something about revenue raisers. I’ve been there and done that.

When I was Chairman of the Finance Committee, I aggressively lead efforts to identify and enact sensible revenue raisers aimed at closing the tax gap and shutting down tax shelters. And as Ranking Member, I continue to look for ways to shut off unintended tax benefits. So I consider myself to be a credible authority on what is realistic when it comes to revenue raisers. From 2001 through 2006, Congress enacted over 100 offsets with combined revenue scores of $1.7 billion over 1 year, $51.5 billion over 5 years, and $157.9 billion over 10 years. That figure is reflected on this chart.

So, if you look at recent history, we can realistically figure the tax staff will find about $1 billion a month. Right now, all we can find that is specified, drafted, and scored is $44 billion.

The revenue raising well shows about $44 billion in available defined and scored offsets. Defenders of the resolution will say a virtual cornucopia of revenue raisers are there from the tax gap and shutting down offshore tax scams. I take a back seat to no one on reducing the tax gap and shutting down offshore tax shelters. I’ve got the scars to show from my efforts over the years. But the defined and scored tax gap proposals are included. Likewise, a proposal targeted at tax haven countries and other offshore activities is included.

The well has about $44 billion of offset water. This budget anticipates Congress that will be thirsty for this limited group of offsets. On the thirst or “demand” side, you’ll see the bucket will be busy.

On the demand side, I’ve talked about the AMT patch. There’s $115 billion for the patch for this year and next year. There’s $20 billion for other extenders that run out at the end of this year. That estimate, by the way, is probably pretty low. There’s $15 billion for S-Chip expansion. There’s another $30 billion for the rest of the so-called reserve funds. Here’s a chart that lists the other 20-some odd reserve funds. Each of these reserve funds can be an arena for popular new spending and new taxes. Let's go through them.

There's a reserve fund for veterans. There's a reserve fund for Medicare improvements. There's a reserve fund for health care quality. There's a reserve fund for higher education. There's a reserve fund for the Farm Bill. There's a reserve fund for energy legislation. There's a reserve fund for county payments legislation. There's a reserve fund for terrorism risk insurance. There's a reserve fund for affordable housing. There's a reserve fund for the Bonneville Power Administration. There's a reserve fund for Indian claims. There's a reserve fund for improvements in health. There's a reserve fund for child care. There's a reserve fund for immigration reform. There's a reserve fund for manufacturing initiatives. There's a reserve fund for FDA. There's a reserve fund for Medicaid. Finally, there's a reserve fund for San Joaquin River restoration and Navajo Nation water rights.

Since we know, from almost a decade of fiscal history, that the Democratic Leadership can't propose spending cuts, we know the new reserve fund spending will be paid for with tax increases.

These figures reflect only the demands of the <u>first year</u> of the budget. Add them up. That's $180 billion in demands on the spending and tax side. As you can see, there's about $44 billion in revenue offsets. If you assume the tax staff will follow the historical average of $1 billion per month, then figure about $15 billion more, at best. So, if we assume, in a manner most favorable to the proponents of the resolution, that there will be $59 billion, then this budget is short by $121 billion for its first fiscal year alone. Let me repeat that. The demands on the tax and spending side **<u>exceed</u>** projected offsets by $121 billion for the first year of the resolution.

What's going to happen? How do we bridge the $121 billion gap? Either the tax relief and new spending is not going to happen or we'll add that to the deficit. That is a frightening proposition.

Let's take a look at the rest of the agenda to those numbers. Over the five year budget window, going out to 2012, keeping existing policies in place will have a revenue effect of about $916 billion. This includes AMT relief, extension of the bipartisan 2001 and 2003 tax relief, and extending other broadly supported expiring provisions. In the aggregate, this budget *appears* to provide $180 billion in new resources for extending these policies over the 5-year window.

Look further, and you'll find the trigger. That's the trigger I talked about last week. Senator Gregg described in great detail how the trigger will work. Suffice it to say that the trigger conditions the $180 billion in tax relief targeted for 2011 on no future spending. Does anybody really believe that this Democratic majority will not spend future tax relief if given the chance? If your answer is yes, then you're buying a pig in a poke. A pig in a poke is something you don't want to buy. If you think you're getting a pig, you're going to get cheated. And I've grown a few pigs in my day, so I know the difference between a real pig and a pig in a poke. This trigger mechanism is a pig in a poke. Don't buy it. You'll regret it.

Now, even if the trigger weren't applied, there's a huge tax increase of $736 billion in this budget. Our friends on the other side will say there is no tax increase. And members on our side have shown, that position is inconsistent with the Senate's action on the Baucus amendment. I'd like take a different tack to get to the same point.

Let's say the budget before us reduced current law non-defense discretionary spending by $736 billion over the five year budget window. Moreover, let's say the proponents of the budget argued that the appropriators would find appropriations offsets of $736 billion over the five year period. Proponents of the budget resolution would argue that there was no spending cut because they are assuming the appropriators would find the offsets. Does anybody here believe that argument would be accepted by appropriators? What would Senator Byrd say? What would Senator Cochran say?

The answer, as everyone knows, is that the appropriators would characterize a reduction in current law spending as a cut. The press would report it that way.

The exact same thing is happening here. It's just that it is happening on the tax side of the ledger. Current law tax relief is not being extended under this budget. The Statement of Managers says so. A dollar of tax relief not extended is the same as a dollar of spending cut from current law levels. To argue otherwise is to say that a dollar of spending cut is more painful than a dollar of tax increase. A dollar is a dollar is a dollar. If this additional dollar bill is required from a taxpayer in 2011, it is a tax increase. Just ask the taxpayer.