Statement of Senator Jim Jeffords
Finance Subcommittee on Taxation and IRS Oversight
Encouraging Savings and Investment: Stay the Course or Change Direction?
June 30, 2005

Chairman Kyl, thank you for calling today's hearing. And thanks to all of our witnesses for offering their views on how best to encourage savings and investment in our country.

The personal savings rate in our country is now close to zero. And perhaps even more troubling, that rate has been on a steady downward trend for the past two decades. Many households, of course, have experienced a growth in their net worth as a result of asset appreciation in stocks or real estate.

But many others are living paycheck-to-paycheck, only one layoff or illness away from financial disaster. We all want to encourage people to save and invest. But we also want to be able to help those people who lack the means to do so, and give them the foundation for success.

I supported the tax cuts in 2001. I did so because taxes had reached almost 21 percent of GDP, and we thought we had a 10-year surplus on the order of $5 trillion. In my mind, a surplus of that magnitude gave us the room both to cut taxes and bolster Social Security -- with a healthy margin of error since we knew the projections might not materialize.

Of course they didn't come true. There is no need to rehash why -- it is enough to recognize that instead of a large surplus we are looking at about a $2 trillion deficit over the coming decade. In the face of these changed circumstances, Congress must decide whether the tax cuts begun in 2001, and accelerated in 2003, still make sense today.

I suppose I'm old fashioned, but I think deficits do matter -- $400 billion here, $300 billion there, and pretty soon you are talking real money. President Bush has warned that the Social Security system is on the road to bankruptcy, because in 40 years it will only be taking in 70 cents for every dollar it is supposed to pay out.

Well, if you accept that definition of the path to bankruptcy, the federal government has already arrived. Setting aside Social Security, the federal government took in just 70 cents for every dollar it spent last year. On-budget receipts were $1.3 trillion, but outlays were $1.9 trillion, almost $600 billion of red ink. And these are the good times. The Baby Boom is in its peak earning period and has not yet begun to retire. How will we cope from a fiscal standpoint in the next 10 or 20 years if we don't regain some fiscal discipline now?

All of the provisions we will discuss today are attractive for good reasons. There is not a politician alive who doesn't like to cut taxes. But I think it is time Congress stop digging ourselves into a deeper hole. The cost of extending the provisions that are the topic of today's hearing is more than $200 billion over the next 10 years. And we'll soon be considering proposals on the AMT, extenders, and the estate tax. All told, they could easily top a $1 trillion dollar loss of revenues.

Finally, beyond the cost of all of these items are the questions of equity. The Joint Committee on Taxation estimates Americans will realize $327 billion in capital gains this year. Of that, $307 billion – almost 94 percent -- will go to taxpayers making more than $100,000. Taxpayers with incomes under $50,000 will see less than $5 billion of those gains. I think those figures speak for themselves.

All of us would like to lower tax rates. But in a time of chronic deficits, cutting taxes just dumps more debt on our children.

Again, Mr. Chairman, I thank you and look forward to today's testimony.