



Committee On Finance

Max Baucus, Ranking Member

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Statement of U.S. Senator Max Baucus Finance Committee Hearing with Treasury Secretary Snow on the President's Budget

"I am pleased to join in welcoming U.S. Treasury Secretary Snow to address the president's budget. I support a number of proposals in the president's budget. I am heartened that the administration has acknowledged that we need to do something about the deficit, but I am concerned that a plan to balance the budget is notably absent from the president's budget.

This budget is fiscally unsound. It will leave us with a \$521 billion deficit for this year. This is almost \$150 billion more than the previous record deficit — set just last year. But of even greater concern are the continuing deficits proposed for the years ahead. These deficits will raise interest rates, slow economic growth, and leave Americans poorer. Just for one example, a recent Brookings Institution study projected that continuing to run deficits of 3 percent of the economy would raise mortgage interest rates by a full percentage point. Continuing deficits would thus increase the annual payments on a typical mortgage by about \$2,000 a year. That's the equivalent of a \$2,000-a-year tax increase on American homeowners.

The federal government's finances work something like those of a household that borrows money from a bank. If the household borrows more and more money from the bank, at some point, the bank will refuse to lend any more money, because the bank will be concerned that the household will not pay the money back.

The same can be true for a country. It can continue to borrow money from both domestic and foreign sources. But at some point, some lenders — especially foreign lenders — will begin to worry about whether the U.S. will pay all that debt back. At some point, these lenders may stop lending as much to the U.S., or demand a much high interest rate in exchange for lending to the U.S.

These higher interest rates will slow business investment, and that will slow growth. And slower growth will mean fewer and less-well-paying jobs. American people will be poorer, because of these deficits. Yes, this budget presents deficit projections for the next 5 years — through 2009 — that trend down to \$237 billion. But there are several reasons why these projections are unlikely to hold true.

First, these projections leave out any proposals to fix the Alternative Minimum Tax — or AMT — beyond a short-term fix. Under current law, about 27 million tax filers would have their taxes raised by the AMT in 2009. No one believes that the president and Congress will let that

happen. To fix this problem in fiscal year 2009 would cost \$58 billion in that year alone. But the president's budget does not include that funding.

Second, the president's estimate of the 2009 deficit allows total discretionary spending to increase by only 4 percent a year. This is unrealistic, given expected and needed growth in military spending and homeland security for many years in the future. Allowing total discretionary spending to grow by even 5 percent a year would add approximately \$50 billion to the budget deficit for 2009.

If we plan for the AMT and increased discretionary spending, we would see a deficit in 2009 of approximately \$350 billion, more than \$100 billion above the administration's prediction. This is almost three-quarters of the deficit in 2004, not half, as the president promised. Even as a share of the economy, it would account for 2.4 percent of GDP, still larger than the half that the president promised.

But of much greater importance, running a 2009 deficit of \$350 billion is reckless, when the baby boom generation will begin to retire in 2008, just 4 years from now. To cope with the pressures from the baby boom's retirement, we need to put the government on a glide path to a balanced budget. That would be fiscally responsible.

But rather than propose a balanced budget for 2009, the president's budget proposes a deficit of \$237 billion, which translates to \$350 billion with the adjustments necessary to reflect what will more likely happen. And the budget's glide path in 2009 is going in the wrong direction. Using CBO numbers and adjustments similar to those I made for 2009, the president's proposed deficit for 2014 rises to \$530 billion — 3 percent of GDP. It is moving in the wrong direction.

One of the reasons that the president's budget would lead to a \$530 billion deficit in 2014 is that the administration wants the Congress to make all of the 2001 and 2003 tax cuts permanent. It would be more responsible to wait to make decisions about the permanence of these tax cuts until we know the state of the economy when these tax cuts are closer to expiring. In addition, when the economy is this deep in the red, we should ensure that any additional spending and tax cuts are paid for. I encourage the president to take another look at our deficit before pushing for an unpaid, permanent extension of the tax cuts.

In addition to making the tax cuts permanent, the president has also proposed programs that will significantly add to the deficit and not directly aid our economy. The administration proposes to put people on Mars and an outpost on the moon. This will cost hundreds of billions of dollars — hundreds of billions of dollars that we do not have.

In addition, the president — in his State of the Union address — proposed the partial privatization of Social Security. Any such proposal would likely keep in the current Social Security system all workers who are age 55 or older. There would thus be huge “transition costs” to the federal government over the next several decades to maintain the benefits for those beneficiaries who are still in the current system. The “Economic Report of the President” released this week verifies the magnitude of these “transition costs.” By the year 2041, these costs would require an increase in the Federal debt held by the public of \$4.7 trillion — in today's dollars. That's an increase that would be larger than the entire \$4.1 trillion of debt held by the public today.

And the budget includes a proposal to create new Lifetime Savings Accounts and Retirement Savings Accounts for individuals. While this proposal would have small budgetary

costs between now and 2014, it would have continually increasing costs beyond that year. One estimate puts the annual cost in 2030 at \$30 billion — one-half a percent of GDP.

Faced with the retirement of the baby boom generation, these three proposals alone show a surprising lack of fiscal discipline. In contrast, when previous administrations of both parties were faced with high deficits, they made it a priority to reduce them. They may not always have succeeded, but they tried. This administration seems to have simply thrown in the towel.

I am also very concerned that this budget does little to help those who need it most. For example, the budget proposes tax cuts that are supposed to help low- and moderate-income individuals who have no health insurance from their employers. Unfortunately, this proposal would likely leave people to face the costly individual insurance market without providing them with sufficient assistance to purchase the coverage that they need. Moreover, the tax cuts would subsidize the individual insurance market even though it tends to provide insurance to only the young and the healthy.

At the same time, this budget does little for workers who do not have jobs. In particular, it does not provide tax relief to the manufacturing industry, which has lost jobs for 42 straight months now. In contrast, Senator Grassley and I have aggressively pushed a domestic manufacturing tax package that has passed the Finance Committee and is headed to the floor.

The budget also does not provide enough money for constructing new highways, even though highway construction creates jobs. For every billion dollars that goes into the highway program, 47,500 jobs are created. Yet the president's budget provides for only \$201 billion over 6 years for new highway construction, whereas the Finance Committee reported a bill that provides for \$255 billion over that period.

And so, I have serious concerns with the administration's budget. I want to see more fiscal discipline, and more dedication of funding to grow our economy and strengthen health care for all Americans. That being said, I have proved time and again that I am a strong believer in working together. That is the only way to reach our goals. I look forward to hearing Secretary Snow's thoughts about my concerns and his ideas on how we can work together."

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