

1 EXECUTIVE COMMITTEE MEETING

2 TUESDAY, JULY 20, 1999

3 U.S. Senate,

4 Committee on Finance,

5 Washington, DC.

6 The meeting was convened, pursuant to notice, at
7 10:15 a.m., Hon. William V. Roth, Jr., (chairman of the
8 committee) presiding.

9 Also present: Senators Chafee, Grassley, Hatch,
10 Murkowski, Nickles, Gramm, Lott, Jeffords, Mack,
11 Thompson, Moynihan, Baucus, Rockefeller, Breaux, Conrad,
12 Graham, Bryan, Kerrey, and Robb.

13 Also present: Donald Lubick, Assistant Secretary for
14 Tax Policy, Department of the Treasury; Lindy Paull,
15 Chief of Staff, Joint Tax Committee; and Mark Prater,
16 Chief Tax Counsel.

17 Also present: Franklin G. Polk, Staff Director and
18 Chief Counsel; David Podoff, Minority Staff Director and
19 Chief Economist.

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1 OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR.,
2 A U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON
3 FINANCE
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5 The Chairman. The committee will please be in
6 order. We are here today largely because of an
7 unexpected windfall of revenue. And in trying to balance
8 the budget in 1997, Congress miscalculated the revenues
9 that would be generated by the economy. Now, we need to
10 make an adjustment and return the surplus to the American
11 taxpayer.

12 This mark is a refund of excess taxes. It is the
13 Taxpayer Refund Act of 1999. And its simple purpose is
14 to return to individuals and families the revenue that
15 Congress had anticipated that it would need that are not
16 now needed to meet the requirements for which they were
17 originally intended.

18 And frankly, it is only appropriate that this revenue
19 be returned. The level of Federal taxation is at a
20 record post-World War II level. And overbearing
21 liabilities and inequities in the tax code burden middle-
22 class individuals and families, folks who are concerned
23 about retirement, education, and affordable health care.

24 Today, we can begin to address these liabilities and
25 inequities. The Senate has instructed this committee to

1 reduce revenues up to \$792 billion over 10 years. In
2 fashioning that legislation, I have asked each member of
3 this committee to provide his views. And moreover, I
4 have received a great deal of advice from other members,
5 both in writing and in oral discussion.

6 This mark is a product of that input. In drafting
7 it, I have purposely omitted several of my personal
8 preferences, such as a 10 percent across-the-board rate
9 cut which I sponsored in order to reduce as much as
10 possible the controversial content of the refund the
11 American taxpayer deserves.

12 And what we have produced in this mark is a
13 combination of many tax reforms which members of this
14 committee on both sides of the aisle have long hoped to
15 achieve, but could not because they were too expensive.
16 For example, members on both sides of the aisle have long
17 complained about the unfairness of the marriage penalty
18 and the impact of the State taxes.

19 We all agree that Americans do not save enough for
20 their retirement. We likewise agree that Americans need
21 help coping with their education expenses and the high
22 cost of health care.

23 And members of the committee know what many do not.
24 And that is while we have legislated benefits for the
25 American taxpayers, such as the child credit, the Hope

1 Scholarship, those benefits will not be enjoyed as
2 intended unless we fix the alternative minimum tax.

3 Today, we have an opportunity to get all of this
4 done. And we should. And many of my colleagues are
5 concerned that the refund in my mark is too large.

6 For those who are concerned about discretionary
7 spending, let me say that it is my understanding that
8 both the majority leader as well as the minority leader
9 continued to assert that the Senate will abide by the
10 discretionary spending cap. Moreover, it should be noted
11 that if these leaders change their mind that the mark
12 spends \$10 billion less than allowed in fiscal year 2000.

13 To those who are concerned about Medicare reform
14 making adjustments to the Balanced Budget Act of 1997 for
15 Medicare and for providing a prescription drug benefit,
16 let me say that we will dedicate the same energy of this
17 committee to those purposes that you now see in the tax
18 bill.

19 When we return after the August recess, this
20 committee's primary objective will be to achieve Medicare
21 reform with a prescription drug benefit on a bipartisan
22 basis. Contrary to what some have surmised, we will not
23 be working then on a tax bill. Reconciliation allows us
24 only one opportunity. And that opportunity is now.

25 When the tax bill is signed into law, there is up to

1 \$204 billion that could be used for Medicare reform and
2 the prescription drug benefit. And on Thursday, we will
3 hold our ninth and final Medicare reform hearing in order
4 to hear the testimony of the Secretary of HHS.

5 Yesterday, I wrote to each member of the committee to
6 solicit his view on this most important subject. And
7 again, I look forward to receiving those recommendations.
8 In short, there is no need to force a choice between
9 cutting taxes and reforming Medicare. We can do both and
10 we began today.

11 And I would say to my distinguished friend and
12 colleague, Senator Moynihan, what I thought we would do
13 today is to invite all members of the panel to make an
14 opening statement as well as to ask any questions of the
15 panel in front of us with respect to the legislation.
16 There will be an interruption for a vote, but I would
17 hope that we could complete that this morning.

18 With that, it is my great pleasure to call on my
19 colleague, Senator Moynihan.

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1 OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S.
2 SENATOR FROM NEW YORK

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4 Senator Moynihan. Thank you, Mr. Chairman. And may
5 I welcome your closing remarks about a bipartisan effort
6 to address the issues of Medicare prescription benefits
7 in the autumn which is something that this committee
8 under your leadership has done so frequently, a common
9 effort in a common good.

10 One other thing that could be missed in this measure
11 and the competing measures that we have before us is that
12 either side, we both agree to provide the whole of the
13 Social Security surplus for the next 10 years to debt
14 reduction. That amount, we will be able to cut the
15 public-held debt, reduce that debt by more than half. We
16 will have done something without equivalent in American
17 history, that amount in this short brief span.

18 I would have to say, Mr. Chairman, and with great
19 respect that the moment we find ourselves in was not,
20 sir, unexpected. It was the consequence of a decision
21 made six years ago by this committee in situations of
22 great strain to adopt a deficient reduction measure as
23 proposed by the administration which was the largest in
24 history, including a tax increase that came out of this
25 committee of an enormous and unequalled amount.

1 This was done because the deficits were piling up. A
2 previous budget director in the 1980s said that all he
3 could see is a \$200 billion deficit per year as far as
4 the eye could see. This was bringing into question, more
5 than a few observers said, our capacity to govern, our
6 capacity to govern if we could not bring our finances in
7 order.

8 We did it. I will not make the point, but this one
9 time we did it entirely with the one party and a small
10 majority that we had at the time. And now here, at
11 length we see the results.

12 It worked. It sent the right message to the economy
13 that the government was not going to continue to spend
14 more than it had, we were going to get our finances in
15 order. And this surplus has come to us as a result of
16 this earlier effort and intervening efforts.

17 Now, sir, it is our feeling in the strongest way that
18 we must be very modest in what we do, modest by present
19 standards, the prospect of dealing with a \$3 trillion
20 dollar deficit -- surplus. I said deficit because that
21 is all you say around this committee for the last quarter
22 century.

23 But the House has come forward with a measure. It
24 surpassed belief. The Washington Post this morning
25 referred to the Ways and Means Committee bill as the

1 egregious recklessness of this bill. We must not do
2 this.

3 And, sir, I have to in closing say that this matter
4 has been carefully looked at by the Treasury as Secretary
5 Lubick is here to explain. And I have a letter which
6 respectfully states from the Secretary "If a bill
7 encompassing these proposals", that is to say the
8 Taxpayer Refund Act of 1999, "were to pass the Congress
9 this year, the President would veto it."

10 So if we are to avoid that, we will have to work
11 together as we have frequently done in the past. I thank
12 you for the opportunity to speak. I look forward to
13 hearing from my colleagues.

14 The Chairman. Thank you, Senator Moynihan.

15 Next on the list is Senator Grassley.

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1 OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S.
2 SENATOR FROM IOWA

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4 Senator Grassley. Mr. Chairman, all of Washington
5 including Congress is busy slicing and dicing the
6 surplus. We are here today I hope to make sure that the
7 taxpayers do not get cut out. The taxpayers have earned
8 a slice of the pie al a mode.

9 I think that we can declare victory in the debate
10 over whether we should have tax relief for the American
11 people. The President and even many congressional
12 Democrats have now joined Republicans in supporting some
13 number of cutting taxes. I think there can be a meeting
14 of the minds.

15 The question now is not whether there should be tax
16 relief, but what kind and how much. I cannot think of a
17 better problem to have, although through this entire year
18 and some of last year, it seemed like it has been more
19 difficult politically to manage the surplus than to
20 manage the deficit.

21 With a tax cut plan before us, we are proposing to
22 finally start sending hard earned dollars out of
23 Washington and letting the taxpayers spend it because
24 there is more political freedom expressed that way, more
25 economic freedom, and it does more economic good because

1 the dollars turn over many more times in the economy if
2 you spend than if I make a decision on how to spend it.

3 Most of the provisions of this mark of what people
4 have been telling us that they want in the way of tax
5 cuts, including the marriage penalty ending, providing
6 health care tax relief, more help for education, pension,
7 and savings, long-term care, child care, the State tax
8 relief, and general relief for middle income taxpayers.

9 Nearly all of the provisions that I have mentioned
10 here are things that the chairman has included that were
11 in S.1160 that I and Senator Diane Feinstein introduced
12 earlier this year. So I commend the chairman for taking
13 the initiative and pushing for major tax cuts that people
14 really want and most importantly things that both
15 Republicans and Democrats can support.

16 Now, the President, on the other hand, has offered
17 only modest tax cuts. And, of course, and incredibly he
18 wants to raise other taxes to pay for much of it. It
19 seems like the President wants it both ways. He wants to
20 be able to take credit for a tax cut on one hand while
21 raising taxes on the other. If we let him continue to do
22 this, then we deserve whatever we get.

23 I think President Clinton ought to know that the
24 gravy train is moving through Washington. And I intend
25 to make sure that the taxpayers get more than table

1 scraps.

2 There are a number of issues in this mark that I
3 would like to touch upon. I am happy to see that the
4 retirement security income is featured so prominently in
5 the chairman's mark. An increase in pension coverage and
6 providing incentives for workers to save for their
7 retirement will put America on the right path towards
8 addressing the difficulties posed by the pending
9 retirement of the baby boom generation.

10 While I commend the chairman for his dedication to
11 pension reform, I would like to see the top-heavy rules
12 modified in order to increase pension coverage amongst
13 small employers.

14 Furthermore, I have filed an amendment to accelerate
15 the vesting schedules for employer-matching
16 contributions. This would help people who move in and
17 out of the work force. And especially this is important
18 for women because we need to have them have equality in
19 secure retirement.

20 I would also very much like to see my Farm and Ranch
21 Risk Management Account legislation included in the mark.
22 This new savings vehicle would be a new risk management
23 tool for farmers that badly need it as part of a
24 comprehensive package to help the farming sector in what
25 has become a crisis across all of agriculture all across

1 the country. I filed an amendment in regard to that.

2 On the other hand, I am very happy that a 5-year
3 extension of section 45 credit regarding wind energy
4 which I authored in 1992 is included in the mark.

5 However, I feel very strongly that the biomass portion of
6 section 45 needs to be expanded.

7 No one has been able to make use of the very limited
8 closed loop biomass provision. And it needs to be
9 expanded as I have tried to do in S.1351. Doing so will
10 not only bring about economic benefits, but most
11 importantly a tremendous boost to the economy.

12 So I want to thank the chairman overall and the
13 environment in which this debate is being conducted
14 because I think with the Democrats coming on board to
15 help make this a bipartisan proposal, having a proposal
16 of their own, and the President being for some tax relief
17 that there ought to be a meeting of minds and we can have
18 a very successful bill.

19 The Chairman. Well, thank you, Senator Grassley. I
20 too am encouraged by the fact that there is a broad
21 consensus as to the need of a tax cut. As to how much
22 and exactly what it will include, of course, is something
23 to be dealt with, but I do think some significant
24 progress has indeed been made.

25 I would like to next call on my good friend, Senator

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1 OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM
2 MONTANA

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4 Senator Baucus. Thank you, Mr. Chairman. Mr.
5 Chairman, when we stop and think about it, this is an
6 extraordinary opportunity. Never before in our Nation's
7 history have we had the prospect of a \$3 trillion surplus
8 projected over the next 10 years, never before in
9 American history a \$3 trillion surplus projected over the
10 next 10 years.

11 The question is obviously, what do we do about it?
12 What is the most prudent thing to do? What is the right
13 thing to do? If we look back at history, I think that
14 there are some lessons. The big lesson for me is in 1980
15 when Ronald Reagan was elected President of the United
16 States, he proposed and this Congress enacted a large tax
17 reduction along with pretty high spending increases,
18 particularly in defense.

19 In that proposal, there was a little asterisk. David
20 Stockman had a little asterisk that said future spending
21 cuts. The trouble is that asterisk did not materialize.
22 There was good reason why it did not, namely, it is very
23 hard to cut spending in programs that the American people
24 really want: health care, education, veterans benefits,
25 programs that are a part of the American fabric.

1 In addition, in the next year 1982, what did we do?
2 We increased taxes. Why? Because the cuts in the taxes
3 in 1981 were much too great. This country realized those
4 tax cuts were much too great. So in 1982, we passed
5 something called TEFRA. It increased taxes in 1982.

6 Still, the deficits were way too high. What did this
7 Congress and President Reagan generally agree to do
8 again? Raise taxes. We raised taxes in 1984. It was
9 called DEFRA. We raised taxes because the deficits were
10 too high. The tax cut in 1981 was too great. So we had
11 to raise taxes again in 1984.

12 My real concern here today is that we will not be
13 remembering that lesson in history, that we will be
14 enacting a tax cut today which is just too great, and
15 that we will pay the price later on because of the
16 temptation, the almost seduction of tax cuts. That is
17 immediate gratification knowing that in the future we are
18 probably going to have to pay the price.

19 So Mr. Chairman, I urge us very much to not blow it,
20 not blow the opportunity to use this surplus in the right
21 way. I think the Senator from New York has set the right
22 tone in suggesting that we be prudent, we be modest.

23 That is what the American people want. They want us
24 to be careful. They want us to be careful with this
25 surplus. They want us to be prudent with this surplus.

1 They want us to use a little common sense with this
2 surplus. And that is why they sent us back here.

3 They do not want us to be partisan. In fact, they
4 dislike it. And the more we are partisan, the more they
5 turn off their TV sets and go read the newspapers. I
6 dare say that the more we do something that is right and
7 responsible, the more they are going to start reading our
8 newspapers a little more and watching what Congress does
9 and Washington does on the TV sets a little bit more.

10 Turning more specifically to this proposal, one
11 problem I have is that although we agree to take \$2
12 trillion of the \$3 trillion, both sides of the aisle,
13 from the payroll tax, the surplus that is generated from
14 the payroll tax and dedicate that to Social Security
15 which is a good idea, the real question is what to do
16 about the \$1 trillion on budget surplus. That is where
17 the real debate is here.

18 The mark here says \$800 billion out of the \$1
19 trillion which leaves virtually nothing left to deal with
20 the very deep cuts we have made in discretionary
21 spending. In fact, the estimates if we are just to keep
22 even with inflation on discretionary spending, just even
23 inflation, we would have to about \$600 billion more over
24 the next 10 years just to keep even with inflation.

25 If we are going to use some on Medicare which, well,

1 I think we are going to finally do, that is about \$300
2 billion. So the numbers do not add up. The numbers do
3 not add up. \$800 billion, \$500 to \$600 billion
4 discretionary for inflation, Medicare, say, \$300 billion,
5 that is much more than \$1 trillion. The numbers do not
6 add up. That is number 1.

7 Number 2, they are based on mere expectations and
8 projections. The tax cuts lock into law tax reductions
9 in future years, some of them after the next presidential
10 election and at a time when half of the members of the
11 Congress will not be here. Do we want to do that? Do we
12 want to do that where the dollars to pay for these tax
13 cuts are based on projections?

14 So it is law on one side and then there is
15 expectations and projections on the other side. Is that
16 fair? I mean, is that responsible? Is that what the
17 average American would do? Most Americans would say,
18 well, it might be a rainy day. Something might go wrong.
19 Let us save a little bit and let us not just blow it all
20 right now.

21 Remembering too that projections on average are 13
22 percent off on average over 5 years, so if you take it 10
23 years and compound it, obviously it is much more than 13
24 percent off on average.

25 Let us take the projections by CBO in January of this

1 year compared with July of this year, \$220 billion off,
2 20 percent off over six months. Now, that was good in
3 our favor. Sometimes, the economy does not perform very
4 well. I can go the other way, just as easily the other
5 way as positive. So that is a big problem I have with
6 this.

7 In addition, I might add, Mr. Chairman, all these
8 cuts will cause a \$2 to \$3 trillion deficit in the next
9 10 years, not the first 10 years, but the subsequent 10
10 years. Is that what we want to do in exactly the time
11 when the baby boomers are going to want benefits when
12 they are in retirement?

13 Just think of it. The baby boomers are retiring and
14 the projection is in about 30 to 40 years from now, there
15 will be twice as many people over age 65 as today, twice
16 as many with about 30 percent fewer workers paying into
17 the Social Security Trust Fund. So is this responsible?
18 I do not think so.

19 I think this proposal runs the risk of blowing a
20 magnificent opportunity. And that is not what the
21 American people want us to do.

22 The second is Medicare. I very strongly believe that
23 we should be doing something about Medicare. This
24 proposal does not. At the appropriate time, I will be
25 offering a lock box Medicare proposal which will provide

1 that while the payroll tax surplus, the off budget
2 surpluses are all dedicated to Social Security as they
3 should that we also will reserve a third of the on budget
4 surplus locked into Medicare due to the problems facing
5 Medicare.

6 The Medicare Trust Fund is in much more dire
7 difficulty than the Social Security Trust Fund, much
8 more. And I believe therefore that it is prudent and
9 responsible to use part of this surplus, roughly a little
10 less than a third, around a third to lock in the
11 Medicare.

12 And I hope, Mr. Chairman, that after the mark and the
13 floor and so on that we have come together with a modest
14 proposal, a prudent proposal, a common sense proposal
15 that the American people really have in mind and that we
16 remember the lessons of history, not be locked into the
17 lessons of history, of course, but at least remember them
18 because they do provide some guidance as to what we
19 should do there today.

20 The Chairman. Next on our list is Senator Hatch.

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1 OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR
2 FROM UTAH

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4 Senator Hatch. Thank you, Mr. Chairman. This
5 country is now facing the longest peace time expansion in
6 its history. Yet, today's taxes are at the highest
7 percent of the gross national product since World War II.
8 American families are turning over almost 40 percent of
9 their income to pay Federal, State, and local taxes. And
10 in my opinion, this is not the way to keep our economic
11 expansion continuing.

12 Today's economic growth is contributed to the budget
13 surpluses that are forecast for the next decade. This
14 surplus is big enough to spread around. Congress can
15 protect Social Security, reform the Medicare system, and
16 still have some left over to give the American people a
17 well-deserved refund.

18 And I commend the chairman for the mark he has
19 presented here today. It has important tax cuts for the
20 American people. I do not think that this bill is
21 perfect. There are many things that I would like to see
22 change, but the bill does contain significant tax cuts
23 for the American people.

24 The chairman's mark contains tax relief for the
25 average American taxpayer by providing a cut in the 15

1 percent tax rate, reducing the marriage penalty, making
2 education more affordable, and limiting the effects of
3 the individual alternative minimum tax on families.

4 Providing serious tax relief is the most important
5 thing that we can do for the families struggling to make
6 ends meet, save for their retirement, and save for a
7 college education. Under the chairman's mark, the
8 average family of 4 in Utah will received roughly \$450
9 per year in tax savings.

10 The mark also addresses the need for increased
11 retirement savings and pension affordability. The
12 demographics of the American work place are changing.
13 And our pension laws must adapt to meet these new
14 realities.

15 By making tax-preferred retirement savings more
16 widely available, increasing pension affordability and
17 providing small business incentives, this mark will help
18 employers design and offer pension plans to meet the
19 needs of today's employees.

20 Providing adequate health care is one of the
21 challenges facing American families today. This mark
22 helps to broaden the access and affordability of health
23 care for small businesses as well as those whose employer
24 pays little or no part of their employee's health
25 insurance premiums.

1 It provides assistance for those purchasing long-term
2 care insurance or caring for an elderly relative. The
3 mark also contains some pro-growth incentives as well.
4 There is a package of international tax relief to help
5 our companies who have operations overseas stay
6 competitive.

7 The mark also provides some assistance to small
8 business owners by increasing the amount that they
9 expense every year. In addition, the mark extends for
10 five years the expiring tax credits.

11 And while I think these are very important
12 provisions, I do not think they go far enough. I would
13 like to see the research and experimentation tax credit
14 made permanent.

15 While the chairman's mark does provide some relief
16 from the estate tax, I strongly believe that we simply
17 must go further. The death tax is inefficient and
18 unfair.

19 For every dollar this tax brings in, roughly \$0.65
20 cents is spent complying and collecting the tax. Now, I
21 think this is the wrong way to use up our resources.
22 This is labeled a tax on the wealthy, but in reality this
23 tax hits small business owners and family farmers the
24 hardest.

25 I think we have to find a way to get more relief from

1 this tax. If I had my way, we would do away with it. We
2 get about \$16 billion a year in death taxes. And
3 frankly, I think if we would just allow that money to
4 work in the normal free enterprise way, we would get more
5 revenues than that. So it is a phony tax in my opinion.

6 Another important area that this mark does address is
7 capital gains tax rates. The recent DRI study, certainly
8 not a conservative group, has shown that the 1997 rate
9 cuts reduced capital costs, raised business investment,
10 and contributed to the increase in stock prices. So we
11 need to continue along the same path and continue to
12 reduce the capital gains rates. Almost every American
13 citizen who works today has some interest in the stock
14 market and in these capital gains rates.

15 I believe that the mark before us is a good start in
16 designing a balanced tax cut package that gives American
17 families a tax break, simplifies the tax code, and
18 provides pro-growth incentives to help keep the economy
19 strong and growing. So I look forward to working with
20 our chairman and ranking member and all of our colleagues
21 toward that goal. Thank you, Mr. Chairman.

22 The Chairman. Thank you, Senator Hatch.

23 We do have a vote on the floor. What we are going to
24 try to do is to get people to go down and vote and come
25 back and make their opening statement so that we maximize

1 the use of all time.

2 On the list next is Senator Breaux. Senator
3 Murkowski has gone down to vote. I think Senator Conrad
4 has gone to vote. So following him will be Senator
5 Thompson.

6 So I call on Senator Graham next then.

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1 OPENING STATEMENT OF HON. BOB GRAHAM, A U.S. SENATOR FROM
2 FLORIDA

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4 Senator Graham. Thank you, Mr. Chairman. Mr.
5 Chairman, in Ecclesiastes we are instructed that to
6 everything there is a season and a time for every
7 purpose, a time to plant, a time to pluck up that which
8 is planted. I believe this is the wrong time for a tax
9 cut.

10 We find ourselves in an unprecedented period of
11 economic prosperity. Inflation is low. Economic growth
12 has been sustained for a period unseen in modern economic
13 history. This economic strength has transformed the
14 Federal budget from one of deficits as far as the eye can
15 see to one of surplus as far as the eye can see.

16 Economic prosperity, however, masks some long-term
17 demographic and fiscal problems that our Nation must
18 face. Two of the largest Federal programs, Social
19 Security and Medicare, are unsustainable in their present
20 form. Demographic changes taking place in our country
21 will result in huge funding shortfalls for both of those
22 programs.

23 In addition, the Medicare program no longer meets the
24 medical needs of many of our citizens. Preventive care
25 procedures, prescription drugs, common aspects of most

1 contemporary health care programs are missing from the
2 Medicare benefit package.

3 Now, the chairman's mark would devote \$792 billion of
4 the projected approximately \$1 trillion surplus for tax
5 cuts. Under that approach, these tax cuts would become
6 law before the surpluses materialize and before we have
7 addressed the solvency of Social Security and
8 strengthened and modernized the Medicare program.

9 I believe the chairman's approach fails to meet the
10 standard of Ecclesiastes. The level of tax cuts included
11 in the chairman's mark also threaten our ability to
12 address the solvency of Social Security and Medicare. At
13 this level, 80 percent of the projected on-budget surplus
14 for the next 10 years would be committed to tax cuts. At
15 that level, it is doubtful that we will have the
16 resources available to address these two important
17 programs.

18 The alternatives which the Democrats will offer
19 tomorrow utilizes less than one-third of the projected
20 surplus. I believe it is more reasonable in terms of its
21 allocation of resources and provides a better opportunity
22 to accomplish our mutual goals, but I believe that it too
23 must take its place in time.

24 And the season for today is the season to focus our
25 attention on solvency of the Social Security system, in

1 my opinion, solvency for three generations or to the 2075
2 and to strengthen the Medicare program to meet the needs
3 of our older citizens.

4 As Ecclesiastes directed, this is the time for us to
5 direct our efforts towards harvesting those two important
6 programs to fertilize and provide them with the
7 sustenance necessary to sustain their long-term strength.
8 It is to those two objectives that I hope we will direct
9 our attention before we then go to till the soil of a tax
10 cut. Thank you.

11 The Chairman. Thank you.

12 Senator Thompson, would you care to proceed at this
13 stage?

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1 OPENING STATEMENT OF HON. FRED THOMPSON, A U.S. SENATOR
2 FROM TENNESSEE

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4 Senator Thompson. Thank you very much, Mr.
5 Chairman. On the issue of whether or not there should be
6 a tax cut, I think when you have a surplus and you have a
7 higher tax burden, that answers the question as far as I
8 am concerned.

9 As far as these programs that the Senator from
10 Florida mentioned, he is very right to be concerned about
11 that, but I take that more or less as an acknowledgement,
12 that is that we should not have a tax cut because Social
13 Security and Medicare is an acknowledgement that we are
14 going to have to dip into general revenues item by item
15 in order to take care of these two programs.

16 I do not think we can do that. I do not think we can
17 ever solve those problems without structural changes in
18 those with regard to those problems, such as the Medicare
19 Commission trying to do.

20 So we cannot be looking at large surpluses on the one
21 hand and say we cannot return tax dollars to the
22 taxpayers because we refuse to do anything about the
23 structural changes that we are going to have to make on
24 the other.

25 Some say we should pay down the debt. Obviously, we

1 are addressing the Social Security problem with regard to
2 the lock box. On the other hand, others point out that
3 our public debt in terms of the percentage of gross
4 domestic product is at all time low or very low
5 historically.

6 Some say paying down all the public debt would not be
7 a good idea in the first place. That is the way we use
8 our treasuries, our monetary policy. That is a
9 legitimate debate.

10 But for some people, the fact of the matter is that
11 there is never a good time for a tax cut because it is
12 more than about taxes. It is more than about money. It
13 has to do with power. It has to do with power to make
14 decisions. And that is what tax policy has to do with.

15 And there is a division with regard to where those
16 decisions should be made. And there always is in the
17 body politics. Some think more of those decisions should
18 be made here. Other people think that more people ought
19 to have the ability to make their own decisions as
20 individuals, in this case an individual taxpayer.

21 So, yes, I think it certainly is time for a tax cut.
22 The second question becomes, how much? That is a
23 legitimate debate. The fact of the matter is we do not
24 know what the future is going to hold.

25 The Senators who have made the point are indeed

1 correct that just a few months ago, we did not have that
2 extra \$1 trillion that we think we now have. And now, we
3 are operating on the assumption that for the first time
4 we have it right and we know what the future is going to
5 hold. We do not.

6 However, I think that it is easier to make
7 adjustments along the way in the future if necessary in
8 terms of tax increases if they are necessary. It is much
9 easier to do that than it is to disentitle programs that
10 we have set up or to cut back on programs that we have
11 funded.

12 We have seen how virtually impossible it is if we use
13 these surpluses for additional programs or to allow us to
14 refuse to face up to the structural needs we are going to
15 have to make entitlement programs. That would be much
16 more difficult than a tax increase in the future.

17 So Mr. Chairman, what kind of tax cut should we be
18 talking about that has to do with what we are trying to
19 accomplish? Obviously, the basic purpose for revenues is
20 to carry out the legitimate and agreed upon functions of
21 the national government. We will have other policies,
22 such as encouraging savings and all that which I think
23 are certainly legitimate.

24 But then, we get too often I think into concepts,
25 broad concepts of fairness, who deserves this, who

1 deserves that. We decide which group of interested
2 people who come up here and see us deserve a tax cut this
3 year and which ones do not.

4 We try to affect people's behavior in minute business
5 detail in business transactions. And therefore, we wind
6 up with hundreds and hundreds of items in a tax bill
7 where we are picking winners and we are picking losers
8 all too often based upon who has our ear at the time.

9 I think that as we go through this, let us please not
10 forget about the issue of having to do with complexity in
11 the tax code. Let us not forget the issue with regard to
12 simplicity.

13 It is probably too late to do anything about it this
14 time, but I would like to put down my own marker with
15 regard to that, encourage more across-the-board approach,
16 encourage more lower rates across the board.

17 Take "Washington more" out of it in trying to
18 micromanage all of these minute decisions with regard to
19 people's lives as they try to figure out thousands and
20 thousands of tax codes and tax regulations. Thank you
21 very much.

22 Senator Grassley. Thank you, Senator Thompson.

23 As the chair, I now recognize Senator Mack.

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1 OPENING STATEMENT OF HON. CONNIE MACK, A U.S. SENATOR
2 FROM FLORIDA

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4 Senator Mack. Thank you, Mr. Chairman, for giving
5 me this opportunity to talk about tax cuts, one of my
6 favorite subjects. We are about to embark on what should
7 be a very easy task, reducing the tax burden on our
8 citizens by \$792 billion over the next 10 years.

9 After all, over the next decade, the Federal
10 Government is on track to collect nearly \$3 trillion more
11 than we have budgeted for spending in this same period of
12 time. In other words, we will be overcharging the
13 taxpayers by almost \$3 trillion.

14 You would think that the suggestion to return to the
15 taxpayers a mere 27 percent of these overpayments would
16 not be controversial. What we have heard over the past
17 few months from the defenders of the status quo, the
18 advocates of big government, raise their voices in
19 criticism of our tax relief goal.

20 These critics say that tax cuts are not needed. It
21 has been suggested that the tax burdens on our families
22 has been falling. Well, the facts could not be any
23 clearer.

24 The Federal Government will tax away 20.6 percent of
25 our Nation's gross domestic product this year. That is

1 an all time, peace time record, a level that was only
2 exceeded when we mobilized to win World War II.

3 But even though the tax burden is a record high and
4 even though we will be overcharging the taxpayer by \$3
5 trillion over the next decade, every excuse under the sun
6 is being raised against tax cuts. Some of these
7 arguments are inconsistent and all are wrong.

8 Some argue from a casein and demand side perspective
9 that tax cuts will over stimulate the economy. But even
10 after a \$792 billion tax cut, the Federal Government will
11 run up over \$2 trillion in surpluses over the next 10
12 years.

13 From a casein viewpoint, \$2 trillion in surpluses is
14 not considered a stimulus. And with all of the lags, the
15 delays, and the phase-ins, the bulk of the tax cut will
16 not arrive until the years 2007, 2008, and 2009.
17 Clearly, the facts do not support the argument that our
18 tax cuts will overheat the economy.

19 Indeed, from the demand side perspective if we do not
20 cut taxes by \$792 billion, it is safe to say that
21 spending will increase by \$792 billion over the next
22 decade, spending by the Federal Government that is.

23 The rest of the arguments against our tax cut goal
24 are similarly specious. Some people argue that the money
25 is needed to retire publicly-held debt even though after

1 the tax cut, the remaining 73 percent of the surplus
2 could be used for that purpose.

3 Some people argue that a large tax cut would over
4 stimulate Alan Greenspan and the Federal Reserve. Now,
5 there is a thought. He would then overreact by
6 tightening the money supply. But a tax cut that removes
7 government barriers to savings and investment is not an
8 artificial stimulus that should worry the Fed one bit.

9 Inflation after all is caused by too many dollars
10 chasing too few goods and not too many investors creating
11 too much wealth and opportunity. And even stronger
12 economy fueled by the freedom and enthusiasm of our
13 entrepreneurs is not something to be feared.

14 It is even argued that a sizable tax cut passed now
15 makes a future economic downturn more hazardous as if tax
16 cuts are needed for an economic rebound would have
17 already been wasted by our efforts this year.

18 Of course, that argument makes the case for tax cuts.
19 Any tax cut that would succeed in getting us out of a
20 recession should keep us out of one in the first place.
21 That is why former Fed Governor Lawrence Lindsay
22 considers a tax cut a good insurance policy against
23 future economic downturn.

24 And finally, it is argued that a \$792 billion tax cut
25 leaves no money to meet some other important government

1 goals, but we still have \$1.9 trillion in Social Security
2 surpluses that will be in a lock box to retire debt and
3 shore up our citizen's retirement security and another
4 \$200 billion in non-Social Security surpluses that can be
5 used for Medicare, national defense, and other
6 priorities.

7 When you consider all of the arguments, there really
8 is no case against cutting taxes by at least \$792
9 billion. Chairman Roth, and I hope that the staff will
10 pass this on to him, I want to commend him for sticking
11 to his guns and for producing a mark that cuts taxes by
12 the full amount despite all of the pressure exerted by
13 all of the advocates of big government who would rather
14 spend the money.

15 With Federal taxes depleting a greater portion of our
16 economy resources than ever before, the question is not
17 whether we need a tax cut. The only question is what
18 taxes do we cut. Mr. Chairman, thank you.

19 Senator Grassley. Thank you, Senator Mack.

20 For the chairman, I recognize Senator Murkowski.

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1 OPENING STATEMENT OF HON. FRANK H. MURKOWSKI, A U.S.
2 SENATOR FROM ALASKA

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4 Senator Murkowski. Thank you. Let me first of all
5 commend the chairman and his staff for putting together
6 what I think is a fair and balanced tax cut plan.

7 I think we should understand one thing and that is
8 that the American people as well understand that
9 government has achieved a surplus finally, that
10 government has accumulated basically more than it needs
11 to basically run government. And those who own the
12 surplus, namely, the taxpayer want and expect the
13 government to give some of it back. And that is just
14 what the Republican and the chairman's plan does.

15 We have heard here that we should learn from history.
16 Well, some people say we have learned from history.
17 Others say not much. I have we have a unique opportunity
18 to here to address our obligation to give some of the
19 surplus back to those who own it, the taxpayer. It would
20 be a tragic mistake to fail to do that.

21 Now, I do not know that the press has really focused
22 in on how much this bill means for working Americans.
23 The lion's share of the tax cut more than \$410 billion
24 results from the reduction of the 15 percent rate and
25 almost the total elimination of the marriage penalty.

1 We talk about the baby boomers, those set to retire
2 in 11 years. Well, I strongly applaud the expansion of
3 retirement incentives and the provisions to allow
4 increased contributions by people over 50. So it does
5 address those baby boomers.

6 It has been over 20 years since we raised the \$2,000
7 IRA limit. Upping the limit to \$5,000 is long overdue.
8 The health care provisions in this mark bring a much
9 needed level of equity to the tax code.

10 Allowing the self employed to deduct 100 percent of
11 the cost of health insurance finally brings small
12 business to parity with large corporations, a very
13 important addition. I applaud the chairman's decision to
14 allow the employees who pay for their own health care
15 insurance to deduct the cost. This is truly meaningful
16 reform.

17 The chairman did not add or include anything on
18 nuclear decommissioning costs which I feel very strongly
19 the industry needs that type of incentive. Further, the
20 issue between the investor-owned and the public utilities
21 relative to the tax exempt bonds for municipal utilities
22 is not included either.

23 I recognize that the chairman and the Finance
24 Committee do not necessarily have jurisdiction over
25 electric deregulation. And there is a certain reluctance

1 to get into that. That is the responsibility of my
2 committee that I chair, the Energy and Natural Resources
3 Committee. But I would encourage the chairman to
4 consider a hearing on these matters collectively because
5 they do overlap, but perhaps we will have an opportunity
6 to talk about that a little further tomorrow.

7 The chairman has certainly gone out of his way to
8 recognize some of the unique tax issues that only face my
9 State of Alaska. And I appreciate the provisions that he
10 has included in his mark with the cooperation of the
11 professional staff.

12 In conclusion, I think that this should not be a
13 partisan debate. I would be hard pressed to find a
14 handful of provisions that our Democratic colleagues
15 could object to, but I do have a fear.

16 I fear that the debate on the floor may well be
17 directed from the White House which may want to make the
18 debate political. So we have that exposure. Perhaps,
19 this is one of the times that partisan debate is
20 appropriate.

21 Again, the question before us is, should the excess
22 revenues brought into Washington be returned to the
23 working taxpayers or should we spend it now on new
24 programs? Well, I come down on the side of returning the
25 money to the taxpayers as opposed to the positions of

1 some of my friends on the other side who want to spend
2 it. That is a fair debate between our two parties.

3 Thank you, Chairman Grassley for the opportunity to
4 make my views known. And I look forward to our meeting
5 tomorrow.

6 Senator Grassley. Thank you, Senator Murkowski.

7 And in order of arrival, it is now Senator
8 Rockefeller. Well, just a minute. In order of arrival,
9 then it would be Senator Breaux.

10 Senator Rockefeller, you are recognized.

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1 OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER, IV, A U.S.
2 SENATOR FROM WEST VIRGINIA

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4 Senator Rockefeller. Thank you, Mr. Chairman. This
5 I think is very kind of profound and yet at the same time
6 almost a circus like atmosphere around here. We have
7 never really had this kind of opportunity before.

8 One of the members of the other side of the aisle
9 said taxpayers are going to get more than table scraps.
10 And there does not seem to be an understanding that if
11 you act responsibly in American life in fiscal policy,
12 monetary policy that sometimes good things can happen.

13 There were a number of us who acted responsibly in
14 1993 and again in 1997. It was a very, very good thing
15 that happened. We retired the budget deficit. And that
16 has along with the so-called new economy and the general
17 confidence on the part of the American people, mostly
18 private sector as opposed to public sector actions, has
19 created one of the most extraordinary economies, maybe
20 the most extraordinary in the world.

21 And interest rates are good. And now we have an
22 opportunity, having retired the budget deficit to retire
23 the debt. I can remember 5 or 6 or 8 or 9 years ago
24 thinking that anybody who even suggested that was wild.
25 And yet, now we can do it in the 2014, 2015, 2016,

1 whatever it might be.

2 And I am just trying to think of what that might
3 mean. I asked Treasury Secretary Sommers yesterday at a
4 meeting what that mean to the American economy. And he
5 said it is unbounded the possibilities out there because,
6 one, we have never been there before and secondly, it
7 would be like an unleashing of the economy which there
8 would be this kind of general spiral upward, one thing
9 reinforcing another. And then, you would have reduced
10 interest rates.

11 When you have a better economy, the taxpayers gain an
12 enormous amount from that because they have lower
13 mortgage payments. They have lower interest rates. They
14 pay less for their kids to go to college, all kinds of
15 things. There is optimism about their lives, their
16 destinies, their own willingness to take risks. It
17 changes and improves.

18 We have never been there before. And we have a
19 chance to do it now. And the majority party in ways
20 which are really quite difficult for me to understand
21 want to take that away.

22 I would think it would be the majority party that
23 would be saying, and in fact they were at one point
24 saying this, what we have to do is to retire the national
25 debt, first the deficit and then the debt. Now, that

1 there is a chance to retire the debt, they say, no, let
2 us not do that. Let us, and then their sort of holy
3 grail word, give it back to the American people.

4 Well, that is fine, but it depends on what you mean
5 by giving it back. If you give it back under the wrong
6 tax package, then that means that the average West
7 Virginian who has an average for a family of four income
8 of \$30,000 gets \$180 a year.

9 I think that average West Virginian would much rather
10 see his or her interest payments reduced, mortgage
11 payments reduced, car payments reduced, education
12 payments reduced, interest in general rates reduced, and
13 the benefits of all that following so the taking off once
14 again of the American economy.

15 I think there are whole new levels of plateaus of
16 possibilities that can reach into the rural Appalachian
17 areas and create all kinds of possibilities and then do
18 so at twice that level across the rest of the country
19 which is already more prosperous where more people are
20 gathered, where more entrepreneurial structure is
21 gathered.

22 I do not understand this feeling that we take an
23 opportunity like this and just pitch it aside. I mean,
24 is it getting votes?

25 If the people are demanding it, if the people are

1 saying we really care about this, we care about this more
2 than we do about health care, we care more about it than
3 we do about Social Security or Medicare, if veterans were
4 saying, not so much as Senator Baucus veterans benefits,
5 but veterans health care which has been flat lined for
6 the last 5 years, but they are not asking for tax cuts.

7 They are asking for services not new programs, but
8 services which they currently have which are not
9 available. They are asking for Medicare which will last
10 until 2027. They are asking for Social Security which
11 will last until 2070 something. And that is reasonable,
12 all of which can be done, but which cannot be done if we
13 do what the majority party wants us to do. And I do not
14 understand that.

15 Now, I think there is some thinking around here also
16 that, well, the President will come and bail us out
17 because the Republicans will overreach in their
18 generosity.

19 I do not call it generosity because I think that when
20 you cut people off from lower interest rates and you cut
21 them off from veterans health care and you cut them off
22 from -- 600 million Americans flew last year. In 10
23 years, there is going to be 1 billion by about the time
24 the second 10 years kicks in. 1 billion is a lot of
25 people. That is a lot of infrastructure for aviation.

1 That is a sensitive subject these days. I understand
2 that, but that needs to be said.

3 I do not understand why one would assume that the
4 President is going to veto. I mean, I understand that
5 the treasurer said that. Larry Sommers said that that
6 the President is going to veto, but I am not sure that he
7 is if he gets a \$500 or \$600 billion tax package. I am
8 not so sure that the idea is a deal is not very
9 attractive to him.

10 In the past, he has enjoyed this kind of thing. I do
11 not have personally the confidence that he will not fall
12 sway to the same kinds of influences because better
13 characters have been held hostage to that. Lots of
14 things could be held hostage to that. And after all, it
15 is the Republicans who control both the House and the
16 Senate.

17 So I think this is an extremely serious decision. I
18 do not consider \$180 of tax relief to West Virginians
19 something for me to jump up and get excited about in that
20 I think they could be doing much better with a stronger
21 economy based upon retiring of the national debt,
22 something which this country never contemplated doing and
23 the economy which would follow directly from that.

24 So put me down. I was not willing to go to the
25 Democrat press conference on the tax cut because I felt

1 that \$317 billion was too high. I felt that it should be
2 \$250 billion and not a dollar more. And when Bob Graham
3 brings up his amendment, I am going to be one of the
4 first to speak for it and vote for it.

5 I think we have to do things in order here.
6 Americans, the baby boomers, what they want and what they
7 are coming to realize is that Social Security may not be
8 there for them in the way they want, that Medicare, as
9 Senator Baucus has pointed out, is a much greater
10 problem. They want that. So I think we should act
11 responsibly.

12 And we are the committee that has to do it. Let us
13 not rely on the President to do it. Let us rely on
14 ourselves to do it. If it is going to be a partisan
15 fight, then let it be a partisan fight. That does not
16 really bother me so much. It is that we come out with a
17 proper result.

18 I am extremely worried about sort of the trends that
19 I feel and hear are going around here. And I think
20 fiscal responsibility is the primary goal of the Finance
21 Committee. Thank you, Mr. Chairman.

22 Senator Grassley. Thank you, Senator Rockefeller.

23 In order of arrival, it will be Senator Breaux,
24 Senator Conrad, Senator Kerrey, Senator Bryan, Senator
25 Robb, Senator Jeffords, Senator Nickles, and Senator

1 Chafee.
2 Senator Breaux?
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1 OPENING STATEMENT OF HON. JOHN BREAUX, A U.S. SENATOR
2 FROM LOUISIANA

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4 Senator Breaux. Thank you very much, Mr. Chairman.
5 We have a number of our colleagues correctly point out
6 what a wonderful opportunity that we all have. And I
7 would agree with that unless we can collectively figure
8 out a way to turn this wonderful opportunity into a
9 terrible defeat.

10 I think that for the possibility of that occurring is
11 very real. And I think it should give all of us a great
12 deal of concern. I can envision a situation where our
13 Republicans pass their version of this tax bill both in
14 the House and the Senate, have it sent to the President
15 of the United States and have it veto that measure, and
16 then nothing happens.

17 If that is the case, then I think it is a real
18 possibility that we as a Congress and we as a Nation have
19 lost a wonderful opportunity to get something done in the
20 area of taxation, to get something done in the area of
21 saving Social Security and at the same time solving one
22 of our most pressing problems, and that is the Medicare
23 situation.

24 So I think that while we have a wonderful
25 opportunity, we also have a very great challenge. And if

1 we are not careful, we could blow it. And I think that
2 certainly the American people would have to wonder about
3 a Congress that has to not cut \$1 trillion in spending
4 which is obviously very difficult, but suddenly finds
5 ourselves with a \$1 trillion surplus and what to do with
6 it.

7 How awful it would be that we are not smart enough to
8 figure out that problem which indeed should not be a
9 problem, but rather a real opportunity.

10 I congratulate the chairman for putting together a
11 mark which I think is good in many areas. I am delighted
12 that it brings about tax savings for those in the 15
13 percent bracket by moving it down to 14 percent. I like
14 some of the things that he has done with the marriage
15 penalty and education tax incentives which I think are
16 very important.

17 And I think it has a number of things that I think
18 are very positive about the structure of what he offers
19 to this committee. However, I think it is too much of a
20 good thing.

21 I mean, I think that spending basically the entire
22 surplus on a tax cut while it is fun to do is probably
23 not in the best interest of this country because it does
24 not do anything to address the extra money that is going
25 to be needed in Medicare. It does not address the real

1 serious problem that we have with discretionary spending.

2 And I am concerned that as a result of the structure
3 of the bill that while it is good in its intent, it is
4 too much of a good thing.

5 I would suggest that our Democratic proposal which I
6 intend to vote for when it is offered is also something
7 that directs the limited degree of tax cuts in the right
8 direction, trying to help those who need the greatest
9 amount of help.

10 It addresses particularly a problem that I have been
11 interested with regard to trying to provide some tax
12 relief to encourage people who work every day but happen
13 to work for employers who do not provide health insurance
14 by giving them a tax credit to the same extent that we
15 subsidize people who work every day for someone who in
16 fact who does provide health insurance.

17 Certainly, we should be trying to help those who do
18 not have health insurance offered by their employer to
19 have the same health insurance benefits as others. And
20 our Democratic proposal does that.

21 But at the same time, I think that it does not go far
22 enough in the direction of utilizing some of the surplus
23 revenues for tax relief for the American people. It is
24 clear in mind that somewhere in between both versions is
25 something that is probably just about right in a sense of

1 having the proper balance.

2 I have talked to a number of my colleagues on the
3 committee, Senator Kerrey and Senator Chafee and Senator
4 Jeffords about trying to offer something that would be
5 something that would be balanced.

6 And I would plan to offer that at the appropriate
7 time to make a statement of what I think we should be
8 trying to achieve which would be a tax cut of about \$500
9 billion, the next to be decided. But I think both sides
10 have offered good suggestions.

11 That would allow approximately \$500 billion to be
12 used for discretionary spending and for Medicare reform.
13 If you took the President's number on discretionary
14 spending of about \$328 billion add-on, that would leave
15 \$172 billion for Medicare. We could do some wonderful
16 work in strengthening the program and bringing about a
17 realistic and viable prescription drug program for a lot
18 less than \$172 billion over 10 years.

19 So I think that while, I mean, we have this wonderful
20 opportunity, if we lock ourselves in concrete, we will
21 turn this wonderful opportunity into a terrible defeat
22 for the American people.

23 And I would think that we need to move forward with
24 the process. And I would hope that after this
25 legislation is completed, that we do not rush to try and

1 bring about the final conference, but try and start
2 working on Medicare and see if we cannot do something
3 which is a package on Medicare, Social Security
4 discretionary spending in a balanced and realistic tax
5 cut.

6 I am always optimistic that ultimately we can come
7 together because if we do not, I think we all are going
8 to look pretty bad in the process. Thank you.

9 Senator Grassley. Thank you, Senator Breaux.

10 Senator Kerrey?

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1 OPENING STATEMENT OF HON. J. ROBERT KERREY, A U.S.
2 SENATOR FROM NEBRASKA

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4 Senator Kerrey. Thank you very much, Mr. Chairman.
5 First of all, let me say I am intending to at some point
6 in this deliberation vote for a tax cut. I am impressed
7 with the Democratic proposal. I am not immediately
8 hostile to the Republican proposal. I have not made a
9 final decision whether I will vote for it or not.

10 But the idea that we cannot take a \$180 billion tax
11 cut, that we do not have room for that seems to be a
12 little difficult to support. Imagine if CBO said to us
13 over the 10 years our revenue and our expenditures were
14 equal. We were completely balanced over the 10 years.
15 And we are having a mark-up. And I offered an amendment
16 to raise taxes \$3 trillion. I mean, I do not think I
17 would get a single vote, but that is where we are.

18 We are told that we have \$3 trillion more in revenue
19 than we have expenditures and just from the standpoint of
20 rising expenditures pushing beyond that 20 percent, I
21 favor cutting taxes and intend to vote to cut taxes. And
22 I think they need to be cut as a consequence. As I said,
23 we are pushing 20 percent. It has not been that high
24 since 1945.

25 But, Mr. Chairman and members of the committee, I

1 intend to make the case that the tax that ought to be cut
2 first is the payroll tax and not just the proposal to cut
3 payroll taxes, but the proposal that I think four members
4 of this committee have endorsed.

5 Senator Breaux and Senator Thompson and Senator
6 Grassley and I have a bill in that does that fix Social
7 Security. I will vote for Senator Graham's amendment as
8 well that says we ought to fix Social Security first.

9 There is an opportunity to fix Social Security and
10 cut the tax that for 80 percent of Americans is the
11 largest tax that we have. I mean, this year, we are
12 going to collect \$893 billion in individual taxes, \$188
13 billion in corporate, and \$640 billion in payroll. But
14 for 8 out of 10 families in Nebraska, that payroll tax is
15 their largest tax.

16 And the tradeoff, especially for Democrats, is
17 whether or not we want to pay down the debt \$1 trillion
18 over 10 years or do you want take \$1 trillion and
19 transfer it essentially to the net worth of American
20 households?

21 That is what we have in our proposal. It does not
22 just cut taxes. But because it establishes savings
23 accounts, that account will generate nearly \$1.5 trillion
24 over a 10-year period. That is the transaction.

25 Do you think we ought to pay the national debt down

1 by \$900 billion? Or do you want to increase the net
2 worth of American households by \$1.5 trillion? And I
3 favor the latter.

4 And let me say as well that I am troubled by this
5 argument that the only thing that I can use the payroll
6 tax for now is to pay down the debt. I mean, the
7 transaction that occurs at Treasury is a simple
8 transaction.

9 I know there is a lot of people who say all the way
10 through the 1980s. My friend from North Dakota makes the
11 argument very compellingly, but they say in the 1980s and
12 1990s that we have been raided Social Security. It is
13 not true. What happens is that we raised the tax beyond
14 what we needed in 1983 to pay the bills. Treasury then
15 credits the Social Security Trust with a Treasury bond.

16 And indeed, one of the things that has happened since
17 that point that an increasing fraction of Social Security
18 is paid for by income taxes because I think it is \$48
19 billion in interest this year and about \$15 billion on
20 taxation on benefits or something to that effect, and
21 \$408 billion worth of benefits and \$538 billion worth of
22 income.

23 I mean, we are crediting the trust with a Treasury
24 bond. I have heard some people say it is worthless
25 paper. I would love to have it. You can give it to me

1 if you think it is worthless. It is \$800 billion worth
2 of Treasury bonds paying out an average of 6 percent a
3 year. It will be \$1 trillion at the end of the year.

4 If we applied this rule that payroll tax can only be
5 used for debt reduction in 1990, we would have salvaged
6 discretionary spending. Suddenly, I can only use it for
7 debt reduction. That is all it is good for and partly
8 because, as Senator Graham so correctly stated, we have
9 not solved this problem of either Social Security or
10 Medicare.

11 So I am going to make it clear. Again, I have not
12 made a final decision whether or not I am going to vote
13 for the Republican package, but to me cutting taxes when
14 you got \$3 trillion more coming in than we have forecast
15 in the neighborhood of \$800 billion is hardly what I
16 would call an outrageous, irresponsible move.

17 But, Mr. Chairman and members of the committee, I
18 would also like to say that I have for the last 7 or 8
19 years to the consternation of most audiences talked about
20 a problem with our budget that we are not addressing.
21 That is why what Senator Graham is saying that we need to
22 fix Social Security and Medicare first is so right.

23 This year, 56 percent of our budget is going to
24 mandatory programs: Social Security, Medicare, Medicaid,
25 other means and non-means tested mandatory programs, 56

1 percent. And 12 percent goes to net interest. And 31
2 percent goes for discretionary accounts. That is the
3 composition of this year's budget.

4 I will not drag out what it was in 1970, but it was a
5 much higher amount in 1970 for discretionary spending.
6 We are celebrating the 30th anniversary of putting a man
7 on the moon. That occurred at a time when 70 percent of
8 the budget was discretionary and 30 percent was
9 mandatory.

10 Well, we are going to from 56 percent mandatory,
11 those entitlement programs to 69 percent in 2009. If we
12 do nothing, it is going to go to 69 percent. As I said,
13 we are not solving that problem. We are leaving it
14 alone.

15 And this is not rocket science. You just look at the
16 choices and you decide which way you want to go. And
17 none of them are easy because you either favor increasing
18 taxes or you have to decrease the liability or some
19 combination of the two.

20 We have suggested decreasing the liability, but it
21 goes to 69 percent, those discretionary programs.
22 Interest goes to 3.4. I mean, the argument that we need
23 to reduce the national debt is compelling from that
24 standpoint, although I certainly would not want to run my
25 household saying I am not going to have any debt or run

1 my business saying I am not going to have any debt.

2 Suddenly, in a flash not having any debt is an
3 admirable goal. It is an admirable goal because it
4 reduces the interest expenditures, but we still are going
5 to be reducing discretionary spending another 4 points.
6 I mean, that is the problem that we have.

7 The tax cut is being argued as the reason that we are
8 not going to have enough money for veterans programs.
9 But the reason we are not going to have enough veterans
10 programs and education and research and NASA and all the
11 rest of it is that Social Security, Medicare, Medicaid,
12 and means and non-means tested entitlement programs will
13 grow from 56 to 69 percent of the budget, \$7 out of \$10.

14 And it does not stop there. I say to the members of
15 the committee, it does not stop there because that is
16 when the world famous baby boom generation begins to
17 retire and are going to double it up.

18 So Mr. Chairman, I intend to vote for a tax cut and
19 then vote for the Democratic package. I intend to offer
20 an amendment that will have us cutting \$900 billion of
21 payroll tax that still in my view would leave \$100
22 million that you could cut in income taxes. It still
23 leaves \$300 billion to Medicare and \$300 billion to
24 discretionary spending.

25 I regret it does not solve the problem of Medicare

1 which I think is an urgent need. And it does not solve
2 the underlying problem that we have of a larger and
3 larger share of our budget going for these mandatory
4 programs.

5 I have a difficult time making the case that with \$3
6 trillion more coming in than we have got committed in
7 expenditures that if I fail with the Democratic amendment
8 and I fail with my own attempt to cut the payroll taxes
9 that I should not consider seriously your well thought
10 out and reasoned proposal to cut \$100 billion out of the
11 income tax.

12 The Chairman. And I would point out that we will
13 have \$204 billion for Medicare. And as I stated earlier,
14 upon our return after the August recess, Medicare reform
15 will be on top of the list.

16 Senator Kerrey. Did I hear correctly, didn't the
17 leader say that he wants to pass this tax cut and try to
18 get it to the President before August?

19 The Chairman. Correct.

20 Senator Kerrey. Why? I would say to the deputy
21 Republican leader, why?

22 Senator Mack. We have to do something.

23 Senator Nickles. Mr. Chairman?

24 The Chairman. Yes, Senator Nickles.

25 Senator Nickles. Am I called upon to answer or may

1 comments?

2 The Chairman. I thought you wanted to make a
3 comment.

4 Senator Nickles. Well, it is our intention, our
5 objective to try and get the bill through by August the
6 7th.

7 Can I make some comments or are we still --

8 The Chairman. Well, we have been following the
9 early bird rule.

10 Senator Nickles. I am the late bird, not an early
11 bird.

12 The Chairman. Next in line is Senator Conrad.

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1 OPENING STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR
2 FROM NORTH DAKOTA

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4 Senator Conrad. Thank you, Mr. Chairman and
5 colleagues. I believe that those who do not learn from
6 history are condemned to repeat it. And I sincerely
7 believe that the proposal that the chairman has put
8 before us has the potential to return us to the policy of
9 debt, deficits, and decline that threatened our economy.

10 As I review the history, it seems to me that this
11 proposal takes us back, takes us back to a failed
12 economic policy of trickle down that I believe threatened
13 fundamentally the economic security of this country.

14 If I go back and kind of review history, this chart
15 shows what happened to the budge deficits in three
16 different administrations: first, the Reagan
17 administration, then the Bush administration, and finally
18 the Clinton administration.

19 And the record is abundantly clear for anybody that
20 wants to review it. The Reagan administration, we
21 pursued a policy of trickle down economics, a massive tax
22 cut that was not paid for, and the deficits exploded. In
23 the Bush administration, we had a continuation, a
24 weakening economy, and the deficit soared out of sight.

25 Only in 1993 did we change course and decide to cut

1 spending and to raise income taxes on the wealthiest 1
2 percent that finally put us on a course of fiscal
3 discipline. And each and every year after the 5-year
4 plan was passed in 1993, the deficit came down, pressure
5 was taken off of interest rates, economic growth soared,
6 and the position of the United States was strengthened.

7 It seems to me the record is abundantly clear. And
8 the results are also clear. Not only did we see an
9 elimination of the budget deficits moving to surpluses,
10 but we also saw an economic resurgence, the lowest
11 unemployment in 41 years, the lowest inflation in 33
12 years, private sector GDP growth that has been strongest
13 in over 20 years, the longest economic expansion in our
14 history.

15 That is what has happened as a result of the economic
16 plan that was put in place in 1993 to reduce deficits, to
17 reduce interest rates, and to get this debt and deficit
18 burden off our backs. And this proposal threatens to
19 turn back the clock.

20 We also saw a dramatic decline in welfare case loads.
21 We now have the lowest welfare case load in 29 years.

22 I do not think we should threaten this prosperity. I
23 do not think we should threaten these economic
24 accomplishments with a risky tax cut scheme that explodes
25 at the very time the baby boom generation starts to move

1 into their retirement years. That strikes me as a
2 profound mistake.

3 Mr. Chairman and members of the committee, we have
4 choices before us. And the choices I think are quite
5 clear. We have a projected surplus of \$2.9 trillion,
6 \$1.9 trillion of that is from Social Security. And we
7 have now all agreed that we should not touch the Social
8 Security surplus.

9 That leaves us with \$996 billion to divide up. We
10 have choices to make. On our side, we have said to first
11 set aside every penny of Social Security surplus for
12 Social Security, to use that money to pay down debt
13 because every economist that has come before the budget
14 committee has told us that is the highest and best use of
15 these funds. That will strengthen our economy for the
16 future.

17 And then, we suggest to use of the non-Social
18 Security surplus one-third to strengthen Medicare and to
19 provide a prescription drug benefit, one-third for tax
20 relief, and one-third for high priority domestic needs
21 like education and agriculture which is crisis as Senator
22 Grassley indicated, and one-third for, as I indicated,
23 domestic needs, education, agriculture, and defense.

24 On the Republican side, of the \$996 billion that we
25 have, you are suggesting that other than the interest

1 cost which is \$141 billion that virtually all of the
2 money, nearly \$800 billion go for a tax cut. There is
3 nothing for Medicare and there is nothing for domestic
4 needs.

5 And the result of that will be this with respect to
6 domestic spending. For domestic needs, the blue line is
7 the base. That is 1999 spending plus inflation. That's
8 the base. In the Democrat's one-third option, we will be
9 cutting below inflation because it takes \$580 billion
10 just to stay whole. We only provide half of that. So we
11 are going to be cutting below inflation in terms of
12 spending for domestic needs.

13 The Republican budget resolution is the bottom one
14 which shows as the budget resolution. That's \$191
15 billion below baseline. That is not going to happen.
16 That is totally impractical. And yet, under this
17 Republican scheme, there is no money for education, for
18 defense. Instead, we are dramatically cutting what we
19 are currently doing now. I think that just does not make
20 sense.

21 Even under our proposal, under the Democratic
22 proposal, we are not keeping pace with inflation for
23 domestic needs. And I repeat, that is education, that is
24 agriculture, that is defense.

25 So I believe that the choices that are laid out in

1 this tax cut scheme are the wrong choices. They are not
2 the priorities of the American people. And they are
3 especially dangerous since the tax cuts proposed here in
4 the chairman's mark explode in the second 10 years at the
5 very time the baby boom generation starts to retire.

6 And Mr. Chairman, I think that would be a profound
7 mistake and that there is a better course. And that
8 better course is to reserve every penny of Social
9 Security surplus for Social Security, to use that money
10 to dramatically pay down the national debt. And with the
11 non-Social Security surplus to use one-third to
12 strengthen and protect Medicare and to provide a
13 prescription drug benefit, to use one-third for tax
14 relief about \$290 billion, and to use one-third for high
15 priority domestic needs, like agriculture, education, and
16 defense. That to me, is a plan that can stand the test
17 of time.

18 I hope that we avoid the mistakes of the past. I
19 think what happened in the 1980s was a disaster for this
20 country. And we had to take 15 years to dig our way out.
21 I hope we do not repeat that process by getting in a
22 bidding war on tax cuts when we are faced with surpluses
23 that are merely a projection. They may or may not come
24 true.

25 So Mr. Chairman, I hope that we use really

1 conservative judgment here, conservative judgment and
2 stay on an economic course that has proved so good for
3 the national economy. I thank the Chairman.

4 The Chairman. Next Senator Nickles.

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1 OPENING STATEMENT OF HON. DON NICKLES, A U.S. SENATOR
2 FROM OKLAHOMA

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4 Senator Nickles. Mr. Chairman, thank you very much.
5 And I want to thank Senator Bryan who I think
6 accommodated me with time demands. And I appreciate that
7 very much.

8 Mr. Chairman, I would just like to make a couple of
9 comments. I am a little disappointed in Senator Conrad's
10 comments and pulling up these charts and saying, well,
11 Reagan caused deficits and Bush caused deficits and now
12 Clinton has brought fiscal responsibility.

13 I can spend a lot of time responding to that, but I
14 just disagree with it very strongly. I think the main
15 reason why we have had deficit reduction is because we
16 have had economic growth. And I happen to think that the
17 Reagan tax cuts reducing rates, the maximum rate from 70
18 percent to 28 percent had a lot to do with causing
19 economic growth. I think President Bush helped that.

20 President Clinton, frankly I do not really think
21 helped it. I know that chart says, well, he gets great
22 credit for it. I might mention we had a Republican
23 change and basically a takeover or control of the
24 Congress. And I think that had a lot more to do with
25 deficit reduction than frankly President Clinton.

1 But I want us to move forward. If you look at that,
2 then maybe we should not have had a tax cut in 1997.
3 Frankly, we passed a tax cut in 1997 and we had
4 bipartisan support for that tax cut in 1997. And I think
5 that has helped to spur economic growth.

6 We reduced the capital gains rate from 28 to 20
7 percent. I think that has raised a lot more money than
8 the Treasury Department ever said that it would. And as
9 a result, we have more revenues coming in than
10 anticipated. A lot of us, Senator Mack, probably
11 foremost of any our colleagues, said that is going to
12 help to stimulate the economy.

13 Reducing the capital gains rate from 28 to 20 percent
14 raised money for the Federal Government. Many people
15 said that it would not. Frankly, I think the facts have
16 shown that it has.

17 Well, what should we do now? We have a \$3 trillion
18 surplus over the next 10 years. What many of us have
19 said, well, let us not spend Social Security. So we are
20 saying that we will take two-thirds of that money and use
21 it to pay down the national debt.

22 Senator Kerrey has a different idea. I may well
23 support that. And so I just mention that and have a real
24 tax cut on payroll tax. If we are not going to do
25 something more substantive, it will be on Social

1 Security. I would like to do something and make sure
2 that everybody has a personal savings account. Maybe, we
3 could take a giant step towards accomplishing that.

4 So I also urge Senator Conrad who said, well, we do
5 not need a tax cut, but then the concluding comments were
6 let us spend more money. Let us spend more money in lots
7 and lots of area.

8 Frankly, I would rather allow American taxpayers to
9 spend the money than Washington, D.C. I think they can
10 spend the money better than we can.

11 And I think, Mr. Chairman, in some areas, the Federal
12 Government is taking too much money. And let me just
13 touch on a couple. The Federal Government right now is
14 taking 20.8 percent of gross domestic product. And that
15 is the highest since World War II.

16 So if we are ever going to have a tax cut, now is the
17 time to have a tax cut. And I will mention a couple of
18 cases that I think taxes are exceedingly high and we need
19 to make tax cuts. Everybody has different favorites.
20 And let me throw out a couple of my favorites.

21 And I am looking at middle income taxpayers. And I
22 am talking about people who are paying 28 percent tax
23 bracket and they are not exceptionally high taxpayers.
24 And I think they are deserving a tax relief because they
25 pay not only 28 percent Federal income tax, but they also

1 pay Social Security taxes and Medicare taxes.

2 Let me just give you an example. An individual who
3 is self employed that makes \$25,750 moves into a 28
4 percent Federal income tax. In addition to that, they
5 pay Social Security and Medicare taxes of 15.3 percent.
6 You add the two together. That is 43.3 percent. And the
7 individual has taxable income of \$25,000 and he pays to
8 the Federal Government 43.3 percent and pays State income
9 tax, usually 6, 7 or 8 percent. So any additional dollar
10 the individual makes, the government is taking half. I
11 think that is too high.

12 The same thing would apply for a married couple with
13 taxable income exceeding \$42,350. Uncle Sam or the
14 government is taking 43.3 percent plus State income tax 6
15 or 7 percent, any additional dollar they make, half of
16 which goes to the government. I think that is too high.

17 So I want to decrease. Maybe a different way to say
18 it, I want a lot of those individuals that are paying 28
19 percent to be paying a lower rate, preferably 15 percent,
20 maybe 20 percent, but let us give them a break.

21 Why in the world should the government take half of
22 what an individual makes if they make \$30,000, if they
23 make \$40,000? Why in the world should the government
24 take half of what a couple makes if they make \$45,000 or
25 \$50,000 or \$60,000? The government should not take half

1 of it. Those people need tax relief.

2 I am not talking about the wealthiest of the wealthy.
3 I am talking about people making \$40,000, \$50,000,
4 \$60,000. The government should not take half of it. We
5 should give them relief. And we should do it this year.

6 And maybe, we could do it in the forum that Senator
7 Kerrey referred to in payroll tax relief. That helps
8 these same people. Or maybe, we could do it in relief
9 and moving their 28 percent rate to 15 percent or maybe
10 to 20 percent or maybe increase the 15 percent bracket up
11 to the Social Security base. Maybe, we could do that
12 over a few years.

13 And so I would urge our colleagues to make that a
14 focal point of significant tax relief.

15 And the other, Mr. Chairman, and you have taken a
16 giant in this direction and that is the State tax relief.
17 We increased last year the exemption for farms and
18 family-held businesses. That is great.

19 But why in the world should the Federal Government be
20 entitled to take over half of what anybody makes if they
21 pass on? The triggering event being death. I think that
22 is wrong.

23 State tax rates right now, if you have a taxable
24 estate of \$1 million, Uncle Sam wants 39 percent. That
25 is too high. And if you have a taxable estate of \$3

1 million, Uncle Sam or the Federal Government demands 55
2 percent. I think that is absolutely wrong.

3 I compliment the chairman for taking a giant step in
4 the right direction. We need really to move away from
5 taxing death and tax it when the property sold. When the
6 property is sold, tax it as a capital gain. The
7 government can tax it when they have a triggering event.
8 The triggering event should not be death.

9 And so again, Mr. Chairman, I compliment you for
10 beginning this process. I hope that maybe we can make
11 some further improvements in the bill and hopefully
12 garner support from Democrats as well.

13 I might mention, Mr. Chairman, a closing comment.
14 Many of our Democratic colleagues opposed the 1995 tax
15 bill. They opposed the 1997 tax bill. Many on this
16 committee supported the 1997 tax bill. And I think it
17 was positive for the American taxpayers.

18 We did pass the \$400, eventually \$500 per child tax
19 relief. We did pass capital gains reduction from 28 to
20 20 percent. We did establish the Roth IRA raise. And I
21 think all of those were very, very helpful to American
22 taxpayers and to our economy as well. Thank you, Mr.
23 Chairman.

24 The Chairman. Thank you, Senator Nickles.

25 I see the majority leader here. Does he desire to

1 proceed?

2 Senator Lott. Just briefly, Mr. Chairman, if I
3 could. I know others have been waiting patiently.

4 The Chairman. We thank you again, Senator Bryan.

5 Senator Lott. Thank you very much.

6 Senator Bryan. You are quite welcome.

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1 OPENING STATEMENT OF HON. TRENT LOTT, A U.S. SENATOR FROM
2 MISSISSIPPI

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4 Senator Lott. And I will just be brief to say that
5 I am pleased to say that we are going forward with
6 reviewing the chairman's mark and we will go through the
7 mark-up process Wednesday and maybe even Thursday.

8 I congratulate you on moving forward with this bill
9 in compliance with the budget resolution we passed
10 earlier this year. And I am also pleased that you
11 brought in a resolution at the full amount of what is
12 available, \$792 billion.

13 I am anxiously awaiting the ability to call this up
14 on the 28th of July as we have been planning throughout
15 the year. And that is in compliance with the budget
16 resolution. So we are planning on, I guess that would
17 be, one week from Wednesday having it on the floor of the
18 Senate.

19 And I think that a number of the provisions that you
20 have in this bill are really where we need to be.
21 Certainly, what you have on the marriage is good. I
22 think you are almost where we need to be on the death
23 taxes, but we might want to move that a little bit more.
24 And also, I think we have a missing piece here with the
25 capital gains area.

1 So there will be some amendments offered I am sure.
2 I am very anxious for us to include the farm savings
3 account. I know Senator Grassley and others are
4 interested in that. But that is the way the process
5 works. The chairman brings a good mark on schedule. And
6 then, we have a mark-up. And there will be amendments
7 offered and voted on.

8 And I hope that I can feel at the end of the process
9 like I have in the past about this committee. I have
10 said that this is probably the most bipartisan committee
11 in the entire Congress, that we try to find a way to come
12 together and produce good legislation that is in the best
13 interest of the country.

14 We have done that previously on budget issues, tax
15 issues, especially on Medicare, and other issues. So I
16 hope that is what we will accomplish here. And I thank
17 you for the opportunity to work with you on this bill.

18 The Chairman. I thank the majority leader.

19 Now, it is my pleasure to call on my good friend
20 Senator Bryan.

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1 OPENING STATEMENT OF HON. RICHARD H. BRYAN, A U.S.
2 SENATOR FROM NEVADA

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4 Senator Bryan. Thank you very much, Mr. Chairman.
5 Let me preface my comments by acknowledging all of the
6 work that you and your staff have done in putting
7 together this piece of legislation.

8 Having said that, I fear that we are missing a golden
9 opportunity. For those of us who labored in the State
10 vineyards during the 1980s and were responsible for our
11 own State budgets, we struggled to balance those budgets
12 in good times and bad times, in recession and times of
13 prosperity.

14 And when we looked at what was occurring at the
15 Federal level in the 1980s, we were not only appalled but
16 horrified. In a decade, the national debt tripled from
17 less than \$1 trillion to \$3 trillion. Let's put that in
18 some context.

19 From 1789 to 1980, assuming a Revolutionary War debt,
20 the enormous cost of the tragic American Civil War, the
21 Spanish American War, World War I, World War II, Korea,
22 Vietnam, and the Great Depression, we amassed a national
23 debt of less than \$1 trillion. In the 1980s, we were
24 annually increasing the national debt in triple deficit
25 numbers.

1 As far as the eye could see, when I came to
2 Washington as a member of the Senate in 1989, there was a
3 sea of red ink. No one dared think that there was ever
4 an opportunity to reduce the debt. Then, our expectation
5 and hope was that maybe if we exercise more fiscal
6 restraint than we saw in the 1980s, we could narrow the
7 margin of the deficit.

8 Today, we stand at a threshold where we have the
9 opportunity to reduce the national debt. And so it is in
10 that context that I view the mark before us as a high-
11 risk proposition. It projects a surplus of \$1 trillion
12 over the next decade.

13 The reality as we all know it, no individual, no
14 Republican economist, no Democrat economist, no
15 Independent economist can predict with certainty what the
16 economy is going to be like next year much less what it
17 is going to be like in a decade. And our recent
18 experiences indicate how wildly those projections can
19 vary.

20 In recent months, they have moved to our advantage.
21 Those numbers have increased in the amount of revenue
22 that we are taking in is substantially greater than has
23 been projected. And those have been in six-month
24 increments.

25 But just as easily as those numbers can come in above

1 our numbers, so too can the tide turn in the other
2 direction. Nearly all of the surplus in this proposal,
3 approximately \$800 billion would be used for tax cuts.
4 The issues has been framed. And I think it is a false
5 choice, more tax cuts or more spending. What is wrong
6 with paying down on the national debt?

7 Currently, we are spending about \$230 billion each
8 year on the interest alone. That does nothing to enhance
9 military readiness. It does nothing for education. It
10 does nothing to meet the current shortfall for veterans
11 health benefits.

12 If we reduce the national debt, we have additional
13 revenues that we can use to address those and other
14 priorities.

15 Mr. Chairman, my priorities would be, let us save
16 Social Security. And I think in that respect, we do have
17 an agreement not to touch the Social Security surplus
18 which is projected to come in at about \$1.9 trillion.

19 So the debate centers on one \$1 trillion that is a
20 shaky foundation in my judgment of what the economy is
21 going to be like a decade from now.

22 I am old enough, Mr. Chairman, to have gone to school
23 under the old math. I do not fully understand the new
24 math. But I would respectfully submit that whether one
25 subscribes to the old math or the new math, the numbers

1 simply do not add up.

2 The mark assumes that we will reduce discretionary
3 spending next year and the year thereout. Those are the
4 caps that we are talking about.

5 Now, what is the reality? The Wall Street Journal
6 today, July 20th, indicates, and I quote, Republicans are
7 beginning to retreat from the strict budget caps set two
8 years ago by drafting appropriation bills that will
9 require billions of dollars more in spending. End quote.
10 That is this year. Next year, the cap is tighter. And
11 the cap thereafter in the next year is tighter still.

12 If we do not increase any discretionary spending,
13 only factor in the present level of spending adjusted for
14 inflation, that would require \$600 billion of the \$1
15 trillion.

16 A couple of other assumptions that are somewhat
17 dubious. And I know my time is running out. Last year,
18 we approved a \$20 billion emergency appropriation. I
19 suspect based upon a decade of experience that we will
20 this year and in the out years have other emergency
21 appropriations because of national disasters or other
22 unforeseen occurrences. That is not factored in.

23 Currently, the Congress is being bombarded by
24 virtually every medical provider in American that
25 provides services to Medicare to adjust the Balanced

1 Budget Agreement reimbursement rates. And some of those
2 concerns I think have some legitimacy. And I believe it
3 does not take a Nostradamus to predict that we are going
4 to make some adjustments this year. That is not factored
5 into the equation either.

6 So I would urge my colleagues to exercise some
7 restraint and some caution because I do not believe that
8 the numbers that are included in the mark represent
9 reality. We ought to save Social Security, protect
10 Medicare, reduce the national debt, and then take a look
11 to see what we can do of providing some modest tax cuts.
12 And I thank the chair.

13 The Chairman. Thank you.

14 And now, I call upon Senator Robb.

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1 OPENING STATEMENT OF HON. CHARLES S. ROBB, A U.S. SENATOR
2 FROM VIRGINIA

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4 Senator Robb. Thank you, Mr. Chairman. It is
5 reluctantly that I once again claim the wet blanket
6 award. I refer to my approach to this question earlier
7 as a member of the branch of the flatter's society, but I
8 joined particularly my fellow former Governors. We have
9 one who has temporarily left the reservation, but the
10 rest of us are maintaining a kind of fiscal discipline
11 that we felt served our respective states well during the
12 period in the early 1980s where all five of us on this
13 side served together and our friend, Senator Conrad, who
14 was very much involved in the fiscal management of his
15 State served.

16 I would only echo the comments that were just made by
17 Senator Bryan, Senator Graham, Senator Rockefeller in a
18 different context, and the figures that were just
19 presented by Senator Conrad. We have a situation where
20 we have acknowledged that we have serious challenges
21 facing us with respect to the long-term solvency and
22 credibility of both Social Security and Medicare.

23 One of the reasons that I joined this committee, Mr.
24 Chairman, was to work on those problems. Frankly, we do
25 virtually nothing to address those particular objectives.

1 We do put some money that we sequester, but we make no
2 structural changes.

3 And we are now prepared to address the tax cut before
4 we ever actually even make those changes that will
5 preserve those dollars that are generated by Social
6 Security for Social Security and some out of the general
7 revenue funds that we need to preserve the long-term
8 viability of our Medicare Trust Fund.

9 If we were going to make tax cuts at all, it seems to
10 me that we would ought to concentrate on a very small
11 targeted number. One of those that is not included I
12 regret, Mr. Chairman, is the permanent extension, for
13 instance, of R&E.

14 We extend it every year, but we do it in a way that
15 does not allow those who depend on that credit to make
16 long-term decisions that advances our research and our
17 development to make the decisions in a timely fashion to
18 contribute to our long-term productivity. So it is
19 counter productive if we wait until the year in question.
20 And we have this long debate.

21 I am very much concerned, Mr. Chairman, by the fact
22 that we are talking about discretionary spending that
23 makes assumptions that we locked in by the Balanced
24 Budget Agreement that assume that we are going to
25 continue to make significant reductions. As some of my

1 colleagues have already pointed out, that is not going to
2 happen.

3 Mr. Chairman, we have an acknowledged need to
4 increase defense spending. And yet, this goes in
5 precisely the opposite direction. So we have a very
6 serious challenge that is facing us in terms of our
7 credibility. And anything that we do now that comes in
8 the form of a tax cut with very exceptions is going to be
9 increasingly difficult to reverse when the time comes.
10 And we know that there is a virtual explosion waiting for
11 us at the end of the time period that we are considering
12 right now.

13 So although, Mr. Chairman, I personally commend you
14 and thank you for your personal kindness to you, your
15 spirit of cooperation, I reluctantly conclude that we are
16 moving way too far in the wrong direction before we have
17 actually demonstrated that we have realized those
18 savings.

19 And we are missing an opportunity that we have not
20 seen in the lifetime of most of those who served on this
21 committee or in this Congress to bring about meaningful
22 debt reduction.

23 And we are still continuing to obfuscate when we talk
24 about the difference between publicly-held debt and
25 private debt so that we feel good about more projected

1 surpluses than in my judgement we really have if we think
2 in terms of the long-term obligations that we are
3 assuming.

4 So Mr. Chairman, I again thank you for the way you
5 have led this committee, the way you have handled the
6 committee. Some of the things that are in the chairman's
7 mark frankly if we are going to do tax cuts, I am not
8 opposed to the direction that they move.

9 I am simply very much opposed to the magnitude of the
10 total tax cut. And I am very much opposed to the timing
11 of the tax cut.

12 And I regret to say that because I enjoy this
13 committee. I look forward to being a part of this
14 committee to work through some of these challenges, but I
15 fear that we are missing a real opportunity to do
16 something that would be truly constructive and preserve
17 Social Security in the real sense, preserve Medicare in
18 the real sense, and make provisions for the kind of
19 additional spending that we know we are going to have to
20 make in defense and other areas, as well as making some
21 unrealistic expectations with respect to our
22 discretionary spending.

23 I have individual provisions that relate to
24 government employees and others that I am going to try to
25 address. I am also going to be a co-sponsor of the



1 amendment that will make permanent the extension of the
2 R&D tax credit when the time comes.

3 But again, I do thank you for the spirit, if not for
4 the result. Thank you, Mr. Chairman.

5 The Chairman. Thank you, Senator Robb.

6 And next we have Senator Jeffords.

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1 OPENING STATEMENT OF HON. JAMES M. JEFFORDS, A U.S.
2 SENATOR FROM VERMONT

3

4 Senator Jeffords. Mr. Chairman, I want to commend
5 you for the approach that you have taken in preparing
6 this bill. There are many things in the chairman's mark
7 that I think represent sound policy. And I plan to
8 support the bill.

9 Aimed primarily at individuals, the chairman's mark
10 provides for the same amount of broad-based tax relief
11 for taxpayers across income levels. This approach would
12 mean that most taxpayers will share equally in the
13 dividend resulting from a flourishing economy and a
14 budget surplus.

15 The chairman's mark also supports families. It will
16 take the marriage penalty out of the tax code. This
17 penalty has taken increasing importance as family
18 finances now are often dependent on two earners. Being
19 an original co-sponsor to remove this provision many
20 years, too many years ago with Congresswoman Fenwick, it
21 is especially awarding.

22 At the same time, the mark provides relief for the
23 neediest among us. I am pleased that the mark eliminates
24 at least part of the marriage penalty, relief built into
25 the earned income tax credit.

1 It provides for a larger child care tax credit for
2 low and moderate income parents while also encouraging
3 more employer provided child care. And it clears up some
4 confusing rules about foster care.

5 I am particularly pleased that the pension
6 portability provisions are included in the mark as
7 workers increasingly are moving between jobs. It is
8 becoming increasingly important that we eliminate the
9 leakage that occurs when workers change jobs and cash out
10 benefits.

11 Increasing retirement savings, improving education,
12 and making health insurance more widely available are all
13 worthy and national goals that this bill supports. They
14 are among my highest priorities. And I support the use
15 of the bill's more targeted incentives to serve these
16 important interests.

17 Despite all the positive aspects of the bill, I must
18 confess that I am somewhat nervous about the prospect of
19 tax cuts that approach \$800 billion. That number is so
20 high I cannot even enter it on my calculator.

21 I favor a tax cut. And in the end, I will vote in
22 favor of the chairman's mark, but I am very worried about
23 the overall size of the tax cut and will support an
24 alternative approach that would pare the tax cut back to
25 around \$500 billion.

1 I am concerned that using 80 percent of the expected
2 surplus for tax cuts leaves us with no cushion if things
3 do not turn out exactly as projected. If the surplus CBO
4 has forecast does not materialize, we could find
5 ourselves again digging ourselves out of a deficit ditch.

6 I am proud that we have reached this point in our
7 fiscal history, but it is history. And I do not want to
8 see it repeated. Congressional Budget Office forecasts
9 are not ironclad. They often are off the mark.
10 Hindsight may always be 20/20, but CBO's forecast history
11 shows us that foresight is reality.

12 In addition, the CBO forecast is dependent upon
13 spending assumptions that would probably mean cuts in
14 important educational programs. I do not want to see any
15 more cuts in education spending.

16 In the end, the surplus could be significantly
17 smaller than \$1 trillion projected. And I think we need
18 to leave room for that possibility. Even if the CBO
19 projections turn out to be correct, I am not sure it wise
20 to commit 80 percent of the on-budget surplus to tax
21 cuts.

22 Let me say, we were a family discussing our finances
23 around a kitchen table. And let us say we found
24 ourselves with more money than we planned for. Frankly,
25 this is not something that has ever happened to my

1 family, but if it did, I think the first thing we would
2 do with our new-found cash would be to pay off our credit
3 cards. That is what the financial planners would tell us
4 to do.

5 And in the same way, I think we should use a
6 significant chunk of our budget surplus to reduce the
7 national debt. Tax cuts are not the only way to help our
8 constituents out. Taxpayers, both individuals and
9 businesses, will see benefits if we reduce the debt. A
10 lower national debt will translate into lower interest
11 rate for credit cards, business loans, home mortgages,
12 and car loans.

13 So while I want this process to move forward, in the
14 end, I favor a more cautious, more frugal approach. With
15 a lower level of tax cuts, that leaves us with some room
16 to maneuver if the surpluses do not prove to be as large
17 as projected.

18 Maybe, this is my Yankee thriftiness coming out.
19 Some might even describe it as the conservative approach.
20 Thank you, Mr. Chairman.

21 The Chairman. Thank you, Senator Jeffords.

22 And next is Senator Chafee.

23

24

25

1 OPENING STATEMENT OF HON. JOHN H. CHAFEE, A U.S. SENATOR
2 FROM RHODE ISLAND

3

4 Senator Chafee. Mr. Chairman, thank you. I
5 congratulate you and your staff on the chairman's mark
6 before us and compliment you on the broad, bipartisan
7 themes you addressed in this mark.

8 The across-the-board tax cut which reduces the 15
9 percent bracket to 14 percent is a substantial tax cut
10 for millions of Americans in the lowest tax rate by also
11 providing a tax cut to Americans who are more well off.

12 The AMT relief provided in your mark is of great help
13 to families who never should have been caught in this
14 alternative tax system in the first place. I feel
15 strongly about that.

16 I salute you on your innovative approach to reforming
17 the estate tax rather than simply repealing it. I
18 applaud your efforts to provide retirement security to
19 Americans through private savings and through making the
20 private pension system more workable. The measures in
21 your chairman's mark will go a long way to bolster two of
22 three components of secure retirement system.

23 This committee has a special responsibility to reform
24 Social Security which is a third component of the
25 retirement system. And I hope we can do that before the

1 end of this Congress. I thank you for including a number
2 of proposals that I and others have long supported,
3 especially the historic Home Ownership Act.

4 Although there is much to commend in this bill, I am
5 nevertheless concerned that a \$800 billion tax cut is too
6 big. The largest tax cuts in this bill are a few years
7 down the road because that is when the greatest budget
8 surpluses are projected.

9 My fear is that these huge surpluses may never appear
10 and that these tax cuts may end up plunging this Nation
11 further into debt.

12 I have a few concerns about the projected surplus.
13 One cause for concern is that the CBO baseline assumes
14 that the budget caps will never be lifted and that there
15 will not be any "emergency spending" whether for real
16 emergencies or not.

17 Disasters, international crises, unexpected needs
18 will arise in the next 10 years. The American people
19 know that Congress will respond with spending. I think
20 we ought to build room into the budget for these
21 emergencies rather than to pretend they will not happen.

22 Federal discretionary spending is severely
23 constrained. Discretionary spending is at the statutory
24 caps and will see real cuts in the fiscal year 2000
25 budget. Yes, we can shift priorities for some spending

1 and eliminate some, but in the end I think the caps will
2 have to be adjusted upward in the next 10 years. And the
3 projected surplus will shrink as a result.

4 Another cause for concern is that the CBO numbers
5 assume that the economy will not see a downturn in the
6 next 10 years. I would like to think that this will
7 happen, but I am not so sure that we should be rebating
8 taxes until we see the surplus cash.

9 Mr. Chairman, I would like to see a tax cut of more
10 modest means, perhaps \$500 billion or so. I plan to
11 speak in favor of an amendment about his tomorrow.
12 Politically, I do think this President will sign into law
13 a tax cut of the size we are considering here. Even the
14 House is starting to show signs that it may approve the
15 tax cuts reported out of the Ways and Means Committee.

16 In the end, to get a bill enacted, I think we will
17 need fewer tax cuts and more debt reduction. We should
18 lock in more debt reduction as part of a budget
19 reconciliation bill that gets enacted. Debt reduction
20 will result in paying less interest on our outstanding \$5
21 trillion debt. And that has been discussed several times
22 here.

23 We are spending more than \$220 billion just to pay
24 interest on the debt. The sooner we reduce our debt, the
25 less we will spend on interest to service that debt.

1 With all that said, Mr. Chairman, these arguments are
2 more appropriately aimed at the annual budget resolution
3 process we went through earlier this year.

4 I voted for this year's budget resolution which
5 called for tax cuts of the size you have included in your
6 chairman's mark. If this committee were to report a tax
7 cut of a smaller size, floor amendments would be
8 permitted to increase tax cuts to the authorized level.

9 This committee has the responsibility to write a tax
10 bill. You have demonstrated the leadership to write a
11 sound bill. It is my intention to join you in voting for
12 it. In the end, however, I do believe that a smaller tax
13 cut and more debt reduction will be necessary in order to
14 get a bill enacted into law.

15 That is down the road. We are not there yet, Mr.
16 Chairman. As you well know, this is a long process which
17 we will be going through. And I want to do what I can to
18 be supportive of your efforts. Thank you, Mr. Chairman.

19 The Chairman. I appreciate that very much, Senator
20 Chafee. I look forward to continuing to work with you.

21 Now, it is my pleasure to call on my good friend,
22 Senator Gramm.

23

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1 OPENING STATEMENT OF HON. PHIL GRAMM, A U.S. SENATOR FROM
2 TEXAS

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4 Senator Gramm. Well, Mr. Chairman, thank you very
5 much. I think, first of all, Mr. Chairman, knowing where
6 we are today and where we are likely to be at the end, I
7 guess that a good place to start is if you had an ideal
8 world, I think I would just simply say stick with the
9 spending caps, do not do a tax cut, and let us wait until
10 we have a Republican President to do it right.

11 The problem with that is we are not sticking to the
12 caps. We have had as I have listened about 60 percent of
13 the members of this committee talk about the cost of your
14 tax cut as if they are unaware of the fact that already
15 this year we are \$21 billion in spending over the budget
16 cap that we set out in a bipartisan budget agreed to by
17 Democrats, by Republicans, and by the President.

18 Your tax cut would use \$4 billion of funds in the
19 year 2000. So we have already spent 5 times as much on
20 spending programs as you are talking about using for your
21 tax cut.

22 My guess is by the time we are through with the
23 process, we would have busted the budget by another \$20
24 billion and we will have \$10 new spending for every
25 dollar of tax cuts in fiscal year 2000. I do not think

1 that is a good bargain, but the point is the spending
2 goes on no matter what we do about taxes.

3 A second point I would like to make is that when
4 people are talking about how big this tax cut is, it is
5 important to remember that the day Bill Clinton became
6 President, the Federal Government was taking 17.8 cents
7 out of every dollar earned in the American economy.
8 Today, the government is taking 20.6 cents out of every
9 dollar earned in the American economy. And if we took
10 every penny of the non-Social Security surplus and used
11 it for a tax cut, we would still be at 18.8 cents out of
12 every dollar earned in the economy coming to government.

13 So the tax burden, if we took every penny of the non-
14 Social Security surplus and used it for a tax cut would
15 still leave us with a higher tax burden that we had the
16 day Bill Clinton became President.

17 So my dispute, Mr. Chairman, with you and with other
18 members of the committee is not about the size of the tax
19 cut. Under our rules, the biggest tax cut we could do,
20 we need to do it because every penny of the surplus is
21 going to be spent on government programs that are not
22 going to go away. They are going to grow and grow and
23 grow.

24 My problem is with the makeup of the tax cut. I do
25 not understand a tax package that has 56 different

1 retirement components. I think tax reduction ought to be
2 simple. I am going to offer a substitute that has only
3 four provisions in it. And the first provision is to cut
4 taxes across the board by 10 percent.

5 Now, immediately, many of our Democrat colleagues are
6 going to jump up and say, well, your poor people will get
7 no tax cut under the 10 percent across-the-board tax cut.
8 Everybody who pays taxes will get a 10 percent tax cut
9 under that provision. If you do not pay taxes, you do
10 not get a tax cut.

11 Now, some people feel defensive about that. I do
12 not. Tax cuts are for taxpayers. If you do not pay, you
13 do not expect to get a tax cut. I do not get food
14 stamps. I do not get Medicaid. I do not qualify for
15 those programs. If you do not pay taxes, you do not
16 qualify to get a tax cut.

17 I think we ought to eliminate marriage penalty. And
18 my substitute does that. We ought to eliminate death
19 taxes. Most of death taxes represent a dual taxation. I
20 think that is something we ought to do.

21 And I think from an equity point of view, we have to
22 do something to treat everybody the same in the
23 deductibility of health insurance. Now, I do not suffer
24 any illusion about whether or not this substitute is
25 going to be adopted. I hope that we get a good vote on

1 it.

2 I think it does represent what the vision of the
3 Republican Party is. It certainly represents what the
4 people in my State would like to see us do. My problem
5 is trying to decide what to do when we get down to the
6 final vote on the package. I hope we can move to more of
7 an across-the-board cut.

8 If we adopt the package as it is currently before the
9 committee, the following things are going to happen.
10 One, the tax code is going to get progressive. If we
11 keep moving in this direction, we are going to have a
12 country where only 5 percent of the taxpayers pay any
13 income taxes.

14 I do not think that is a country we want. I think we
15 are making the tax code more progressive. And I think we
16 are using tax policy to allocate resources which is just
17 an indirect way of spending money. So I know a lot of
18 effort went into this, Mr. Chairman.

19 And you have an obligation I do not have. And that
20 is you as chairman tried to put together something that
21 can pass. But in the spirit of what I believe that most
22 of the people who voted for me believe, I think we ought
23 to have an across-the-board tax cut.

24 And I understand that when we cut taxes by 10
25 percent, Senator Rockefeller is going to get 10 times a

1 big tax cut as I get, but Senator Rockefeller pays 10
2 times as much taxes as I pay. So I do not have any
3 problem with that.

4 The Chairman. Maybe larger.

5 Senator Gramm. Maybe larger. And I hope he does.
6 [Laughter.] It makes me feel better knowing a lot of the
7 money he is squandering is his own. [Laughter.]

8 But the point is I do not have any problem with the
9 idea that since high income people pay a lot of taxes, if
10 we are going to cut taxes they ought to share
11 proportionally in the tax cut. And I think it is very
12 important provision I think, Mr. Chairman.

13 The Chairman. Well, thank you, Senator Gramm.

14 I would point out a majority of those changes are in
15 the pension and savings area. I think Senator Grassley
16 and Senator Gramm have special interest in it.

17 As far as an across-the-board tax cut is concerned,
18 as I said in my opening statement, as co-author of the
19 Kemp-Roth tax cut I find the concept to be an excellent
20 one. At the same time, as chairman, I am interested in
21 seeing that we do get legislation out of this committee
22 because I am interested in giving the American people tax
23 relief as quickly as possible.

24 Now, in calling this session today, I indicated at
25 the completion of opening statements if anyone cared to

1 ask any questions of the panel before us, this was their
2 opportunity.

3 Any questions? Senator Grassley?

4 Senator Grassley. I want to ask a question probably
5 about a very obscure portion of this bill. At least, it
6 is very obscure to me. It would deal with the
7 international tax relief provisions, the allocation of
8 interest expense on a worldwide basis, and the look-
9 through rules to apply to dividends from non-controlled
10 section 902 corporations.

11 And the problems appear to be this. And I would use
12 S&P 500 type businesses. About 75 percent of these
13 businesses have a calendar year tax year. And about the
14 other 25 have some other year based upon different months
15 of starting their fiscal year.

16 The extent to which the current date for both of
17 these is taxable years beginning after December 31st,
18 2001. It would be more fair to the 25 percent of the
19 companies if instead of saying the beginning of December
20 31st, 2001, it would say ending that year.

21 And this becomes an equity issue from this
22 standpoint, that those companies that have a fiscal year
23 before that, their competition could be into use of this.
24 And other companies 11 months or up to one month that
25 they would be at an economic disadvantage not being able

1 to take advantage of this.

2 And so I guess my question is, is my analysis of this
3 right? And if it is wrong, you do not to feel guilty
4 about telling me because it is complicated.

5 Secondly, is there a possibility of changing it and
6 to be fair and equitable in the process from instead of
7 beginning after December 31st, 2001, ending December
8 31st, 2001?

9 Ms. Paull. Senator Grassley, our typical effective
10 dates for changes to corporations uses the tax years
11 beginning after whatever date. In this case, it is
12 December 31st, 2002.

13 On occasion, if there is a provision that is
14 concerned about taxpayers maybe stuffing a lot of
15 activity into a particular year, you may go to the ending
16 after date. But this is way, for example, all the
17 research and development tax credit has been every
18 extension is done on the basis of taxable years beginning
19 after.

20 Now, what you said is you have some taxpayers,
21 especially if they might have a November 30th year end,
22 fiscal year end, I think is the one you were mentioning,
23 would have to wait 11 months in essence to get the
24 benefits of these rules. And then, once they do, they
25 are getting the benefit year after year the way everybody

1 else.

2 If you were to change the effective date, there would
3 be revenue consequences. And I would have to go back to
4 our estimators to see what those consequences would be
5 because it would in effect put these provisions earlier
6 than the mark does. So I mean, that is the tradeoff you
7 have.

8 Senator Grassley. Would it be possible that the
9 reason it is put the way that it is is because it is just
10 easier to estimate revenues for the purposes of your
11 office and the work of this committee?

12 Or is there some -- in other words, it seems to me,
13 why would we have a public policy that would do one thing
14 for 75 percent of the companies in Americas and 25
15 percent of the other companies and put them at an
16 economic disadvantage? It seems to me that this is a
17 glitch. It is unequitable. It is wrong. And it ought
18 to be fixed. So what is the rationale, maybe I should
19 ask?

20 Ms. Paull. Well, these companies have chosen a
21 fiscal year that is different than a calendar year. I
22 mean, and they chose that on their own free will. And as
23 I said, the convention for legislation has typically been
24 you pick a date. And it affects, especially in the case
25 of corporations, all taxable years beginning after that

1 date.

2 I think it is easy to administer and to get all the
3 law all in effect at the same time. And there is only
4 this one period of time. Somebody -- the corporations
5 may have a fiscal of January, February, March. It could
6 be one month, two months, three months. And it is just
7 this one period of time.

8 Now, they get those. If in the case of the extenders
9 with the research credit, they would get that extra time
10 at the end of their period rather than at the beginning.

11 It is these permanent changes in law. You are right.
12 These fiscal year taxpayers will have to wait until their
13 fiscal year begins. And that is always the way we --

14 Senator Grassley. Can I follow up? I would follow
15 up with an assumption. Let us just assume that you are
16 right and I accept that and that is our policy in
17 Congress. That is just an assumption I want to make.

18 Does it not run a little bit contrary? Is not the
19 IRS in a process of getting different corporations to
20 have different fiscal years so that all of the tax work
21 of the IRS and also with the tax preparers does not come
22 all at the same time? So it is kind of calendarized over
23 a 12-month period of time, the work load that we have.

24 And from that standpoint, is not that policy, this
25 policy that you justified in conflict with what the IRS

1 is trying to do from a work load standpoint and also what
2 lawyers and accountants are trying to do from a work load
3 standpoint by having people have something other than a
4 calendar as a fiscal year and hopefully have it staggered
5 out on an equal basis over 12 months?

6 Ms. Paull. I do not think they are necessarily on
7 conflict. You just pointed out that there is a period of
8 time for an effective date for the beginning point of
9 these provisions. Some people may actually come out
10 better than others.

11 These provisions though are significant changes in
12 the law, especially the one dealing with interest
13 allocation. And it has really just been the tradition of
14 Congress to change it. It would be very difficult for us
15 to do estimating on a different basis, I would have to
16 say, but we could go back and tell you what that little
17 transition is for these provisions.

18 Senator Grassley. This will be my last question.

19 Ms. Paull. All right.

20 Senator Grassley. Is what you have enunciated here,
21 are you kind of saying that every time over the last
22 several years that we have done a tax bill that we have
23 always done it this way?

24 Ms. Paull. Yes, for a long time, we have done it
25 this way.

1 Senator Grassley. Like?

2 Ms. Paull. Except, well, for as long as I have been
3 here, we have done it this way.

4 Senator Grassley. And that has been a very long
5 time.

6 Ms. Paull. It has been 13 years.

7 Senator Grassley. All right.

8 Ms. Paull. Except there have been occasional
9 exceptions. As I said, in the case of perhaps you are
10 tightening up on a tax provision, there is one, a couple,
11 one or two in this bill where we use taxable years ending
12 after so there would not be a window of opportunity to do
13 a lot of activity on a provision that you were
14 restricting under the bill.

15 Senator Grassley. All right. I thank you for the
16 exchange. Thank you Mr. Chairman.

17 Senator Jeffords. Mr. Chairman, I have a question I
18 would like to ask of Mr. Lubick.

19 The Chairman. We never greeted you, Mr. Secretary.
20 Go ahead.

21 Senator Jeffords. Thank you. I understood in
22 fairness of taxation and especially the AMT as it applies
23 to foreign operations of domestic corporations, and I
24 wonder if the Treasury supports the repeal of that 90
25 percent limitation of foreign tax credits under the AMT?

1 That is sort of double taxation to me. I wonder what the
2 Treasury's position is on that.

3 Mr. Lubick. We would think that would be an
4 appropriate policy, Senator Jeffords. The foreign tax
5 credit is intended to eliminate double taxation. So it
6 would be appropriate to allow it in full under the AMT.

7 Senator Jeffords. Thank you, Mr. Chairman.

8 The Chairman. Thank you.

9 Senator Baucus?

10 Senator Baucus. Thank you very much, Mr. Chairman.

11 I am just curious when the Joint Tax is going to come up
12 with distribution tables. I think it is helpful if we
13 have them some time before we have the mark-up.

14 Ms. Paull. We will have them available either later
15 today or the first thing in the morning. There were some
16 last-minute changes to this package. And I just needed
17 to recheck them.

18 Senator Baucus. All right. And that would be for
19 the chairman's mark?

20 Ms. Paull. That is correct.

21 Senator Baucus. And would you have them also for
22 the Archer bill?

23 Ms. Paull. Yes. They are actually on our web site
24 right now for the Archer bill.

25 Senator Baucus. They are now?

1 Ms. Paull. Yes.

2 Senator Baucus. All right. But if you could get
3 those tonight?

4 Ms. Paull. Sure.

5 Senator Baucus. Because the more opportunity we
6 have to know what the distribution of the mark is, the
7 better it is going to be.

8 Ms. Paull. All right.

9 Senator Baucus. Second, has the Joint Tax done a
10 complexity analysis of this bill? And it is required
11 under the IRS Restructured and Reform Act.

12 Ms. Paull. Well, our complexity analysis is very
13 preliminary right now. We have identified 8 items in the
14 bill that would have the kind of widespread applicability
15 that a complexity analysis would be done on it.

16 We are in the process of preparing the complexity
17 analysis. Of course, it goes in writing in the committee
18 report for this bill. So I can give you some indication
19 of what we are working on.

20 Senator Baucus. If you could refresh my memory? I
21 mean, the law requires the analysis at what point?

22 Ms. Paull. The law requires the analysis to be
23 filed with the report if available or by the time the
24 bill goes to the floor, so the committee report.
25 Obviously, we are prepared to give you some informal

1 guidance.

2 Senator Baucus. If you could because it would help
3 us here in the committee obviously if we had the basic
4 suggestions of the Joint Tax.

5 Ms. Paull. All right.

6 Senator Baucus. What we might otherwise have in a
7 committee report and have that in advance, that would
8 help us to know what we are doing here hopefully.

9 Ms. Paull. All right. Once again, we would be
10 happy to provide you our preliminary facts on the 8 items
11 that we have identified under the bill tomorrow morning.

12 Senator Baucus. Does Joint Tax have any specific
13 concerns about this bill?

14 Ms. Paull. Specific concerns about the bill?

15 Senator Baucus. Yes, in some way. Or maybe, just
16 from a Joint Tax perspective?

17 Ms. Paull. I mean, the bill has an awfully lot of
18 provisions in it. I am not sure what you might be asking
19 us about.

20 Senator Baucus. Well, I am just asking you as the
21 top person.

22 Ms. Paull. Yes.

23 Senator Baucus. You run that outfit.

24 Ms. Paull. Well --

25 Senator Baucus. Because you are constituted to give

1 us advice generally.

2 Ms. Paull. No. I understand that it is just that a
3 bill that has hundreds of provisions in it, I certainly
4 would be willing to discuss any particular provision with
5 you. And I had not flagged anything that I wanted to
6 call to your attention.

7 Senator Baucus. Could you indicate to us, too, how
8 expensive the mark would be if the tax cuts were all made
9 effective January 1 in the year 2000 instead of back
10 loaded as many of them are?

11 Ms. Paull. Well, once again, I mean, we do not have
12 the ability to re-estimate the entire mark kind of
13 overnight here.

14 Senator Baucus. Do you have that capability, Mr.
15 Secretary?

16 Ms. Paull. I mean, it would take some time. You
17 can look at the last year. Everything is fully in effect
18 in this bill in the last year for what you expected the
19 annual cost of this bill to be.

20 Senator Baucus. Mr. Secretary?

21 Mr. Lubick. Well, I cannot do it off the top of my
22 head. Obviously, it is possible to do. And I think as
23 Lindy suggested, if you look at the last year's total and
24 you could probably roughly estimate.

25 Senator Baucus. The 10 years.

1 Mr. Lubick. The growth percentage.

2 Senator Baucus. Yes.

3 Mr. Lubick. What that might be at the beginning.

4 Ms. Paull. But I have gone back through. And this
5 bill is fully effective. The full cost of the bill is
6 2009 is the full cost.

7 Senator Baucus. Right. Some groups, and I do not
8 know about the veracity, have suggested that the second
9 10 years cost could be as high as \$2 to \$3 trillion in
10 deficits. And I am just curious if that would
11 necessarily or somewhat apply if they were all phased in
12 for the first 10 years rather than the bulk of them near
13 the end effective as I have just outlined for the next 10
14 years. Would that be a fair statement?

15 Ms. Paull. Well, it would be a big undertaking for
16 us to re-estimate the entire bill for that purpose. I
17 mean, we have given our estimate on what you think --
18 what the budget effects of the bill are in the 10-year
19 period.

20 And as I have said, you can look at the last year to
21 get an idea since the bill is fully in effect in that
22 year, but we have no baseline outside of this 10-year
23 period. So we have no capability of estimating outside
24 of the 10-year period, our staff does not.

25 It is my understanding the Treasury Department has

1 been estimating the second 10 years.

2 Senator Baucus. It would be helpful to me if you
3 could just rough out what the cost would be if all the
4 provisions were phased in January 1, 2000. I am not
5 asking to have the Is dotted and the Ts and crossed and
6 the decimal point in exactly the right spot, but it would
7 be helpful. Do the best you can.

8 Ms. Paull. We can do our best, but there were 89
9 amendments filed yesterday.

10 Senator Baucus. I know.

11 Ms. Paull. And we are expected to estimate all of
12 those amendments today for tomorrow.

13 Senator Baucus. I have full confidence in your
14 abilities.

15 The Chairman. Just let me point out, we also do not
16 have any dynamic scoring as to what these tax cuts would
17 do to the economy. And one of my concerns is, for
18 example, you go back to the Reagan tax cut. It resulted
19 in a very significant increase in revenue as I recall,
20 but spending was fashionable at the time. And that is
21 what caused the problem.

22 But I think it is important to understand that these
23 estimates are dynamic scoring. And if we are going to
24 start moving down that direction, then I am going to have
25 to ask that we move in that direction so that we have a

1 more complete and comprehensive picture.

2 Ms. Paull. Well, Mr. Chairman, as you know, we have
3 been working with CBO to develop the capability to be
4 able to do microeconomic type feedback, scoring. And we
5 have an ongoing project that we are working on that I
6 think in conjunction with the Congressional Budget
7 Office. We do not have our capabilities up yet, but we
8 are spending quite a bit of resources in that direction.

9 The Chairman. I appreciate that.

10 Well, the time is 12:30. And unless there is more
11 questions, the committee is in recess until 10:00 o'clock
12 tomorrow morning at R-216. The committee is in recess.

13 [Whereupon, at 12:35 p.m., the meeting was
14 concluded.]

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18
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21
22
23
24
25

I N D E X

PAGE

STATEMENT OF:

R. Harris
 112 pp.
 7-~~16~~-99
 20

THE HONORABLE WILLIAM V. ROTH, JR. A United States Senator from the State of Delaware	2
THE HONORABLE DANIEL PATRICK MOYNIHAN A United States Senator from the State of New York	6
THE HONORABLE CHARLES E. GRASSLEY A United States Senator from the State of Iowa	9
THE HONORABLE MAX BAUCUS A United States Senator from the State of Montana	14
THE HONORABLE ORRIN G. HATCH A United States Senator from the State of Utah	20
THE HONORABLE BOB GRAHAM A United States Senator from the State of Florida	25
THE HONORABLE FRED THOMPSON A United States Senator from the State of Tennessee	28
THE HONORABLE CONNIE MACK A United States Senator from the State of Florida	32
THE HONORABLE FRANK H. MURKOWSKI A United States Senator from the State of Alaska	36
THE HONORABLE JOHN D. ROCKEFELLER, IV A United States Senator from the State of West Virginia	40
THE HONORABLE JOHN BREAUX A United States Senator from the State of Louisiana	47
THE HONORABLE J. ROBERT KERREY A United States Senator from the State of Nebraska	52

I N D E X

PAGE

THE HONORABLE KENT CONRAD A United States Senator from the State of North Dakota	60
THE HONORABLE DON NICKLES A United States Senator from the State of Oklahoma	66
THE HONORABLE TRENT LOTT A United States Senator from the State of Mississippi	73
THE HONORABLE RICHARD H. BRYAN A United States Senator from the State of Nevada	75
THE HONORABLE CHARLES S. ROBB A United States Senator from the State of Virginia	80
THE HONORABLE JAMES M. JEFFORDS A United States Senator from the State of Vermont	85
THE HONORABLE JOHN H. CHAFEE A United States Senator from the State of Rhode Island	89
THE HONORABLE PHIL GRAMM A United States Senator from the State of Texas	93

United States Senate

WASHINGTON, DC 20510-0904

July 22, 1999

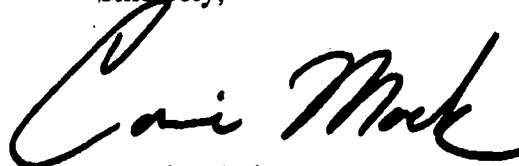
The Honorable William V. Roth, Jr.
Committee on Finance
104 Hart Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing to submit the attached statement for the record regarding the research and development (R&D) tax credit provision included in the Finance Committee's tax bill passed on July 21.

Thank you for accommodating our amendment to the R&D credit extension which will make permanent this important incentive for business research investment.

Sincerely,

A handwritten signature in cursive script that reads "Connie Mack". The signature is written in black ink and is positioned above the printed name.

Connie Mack

**STATEMENT OF SENATOR MACK ON THE R&D TAX CREDIT
FINANCE COMMITTEE MARK-UP OF THE TAXPAYER REFUND
ACT OF 1999**

I have long supported the R&D tax credit because of the central importance of industrial research to economic growth and a high standard of living. Economic studies have found that up to half of U.S. economic growth stems from technological innovations, and industrial R&D is a primary driver of these innovations.

Making the R&D credit permanent will end the uncertainty regarding the credit that has been very troublesome for many of America's leading-edge companies. During the Joint Economic Committee's recent High-Tech Summit, industry leaders were unanimous in noting that the best way to improve the R&D credit – and to spur additional research investment – would be to make it permanent. A permanent R&D tax credit will generate more private sector R&D than repeated credit extensions. As a result, U.S. economic growth will be maximized, and U.S. companies will have freedom to invest in the technologies that will allow them to retain their competitive edge in world markets.

A recent report by the Organisation for Economic Co-operation and Development (OECD) indicates that many major trading partners of the United States have substantial and effective incentives for business R&D investment. For example, the OECD finds that Canada, Japan, and France have larger business R&D incentives than does the United States. Making permanent the U.S. R&D tax credit will help put U.S. firms on an equal footing with their foreign competitors.

It should also be noted that a permanent R&D credit extension may even bring in revenue for the federal budget. A thorough 1998 study by Coopers and Lybrand found that a permanent credit extension will spur enough additional R&D and economic growth that the Treasury will actually gain more revenue over the long-term than it would directly lose under a purely "static" estimate of the proposal.

I believe that a permanent extension of the R&D credit is good tax policy, good economic policy, and will be an important accomplishment of this Congress.

Opening Statement of Senator Connie Mack (R-FL)
Mark-Up of the Taxpayer Refund Act of 1999
July 20, 1999

Mr. Chairman, thank you for giving me the opportunity to talk about tax cuts, one of my favorite topics. We are about to embark on what should be a very easy task: reducing the tax burden on our citizens by \$792 billion over the next ten years. After all, over the next decade, the federal government is on track to collect nearly \$3 trillion dollars more than we have budgeted for spending in that same period of time.

In other words, we will be overcharging the taxpayers by almost \$3 trillion. You would think that the suggestion to return to the taxpayers a mere 27% of these overpayments would not be controversial. But we have heard, over the past few months, the defenders of the status quo, the advocates of big government, raise their voices in criticism of our tax relief goal.

These critics say that tax cuts are not needed, that taxpayers do not deserve to keep more of their money. It has even been suggested that the tax burden on our families has been falling. Well, the facts could not be any clearer: the federal government will tax away 20.6% of our nation's Gross Domestic Product this year. That is an all-time, peacetime record, a level that was only exceeded when we mobilized to win World War II.

But even though the tax burden is a record high, even though we will be overcharging the taxpayers by \$3 trillion over the next decade, every excuse under the sun is being raised against tax cuts. Some of these arguments are inconsistent, and all are wrong.

Some argue, from a Keynesian demand-side perspective, that tax cuts will overstimulate the economy. But even after a \$792 billion tax cut, the federal government will run up over \$2 trillion in surpluses over the next ten years--from a Keynesian viewpoint, \$2 trillion in surpluses is *not* considered a stimulus. And with all of the lags, the delays, and the phase-ins, the bulk of the tax cuts will not arrive until years 2007, 2008, and 2009.

Clearly, the facts do not support the argument that our tax cuts will overheat the economy. Indeed, from the demand-side perspective, if we do *not* cut taxes by \$792 billion, it is safe to say that spending *will* increase by \$792 billion over the next decade--spending by the government, that is.

The rest of the arguments against our tax cut goal are similarly specious. Some people argue that the money is needed to retire publicly-held debt--even though, after the tax cut, the remaining 73% of the surpluses could be used for that purpose. Some people argue that a large tax cut would somehow overstimulate Alan Greenspan and the Federal Reserve Board, who would overreact by tightening the money supply. But a tax cut that removes government barriers to savings and investment is not an "artificial stimulus" that should worry the Fed one bit. Inflation, after all, is caused by too many dollars chasing too few goods, not by too many investors creating too much wealth and opportunity. An even stronger economy, fueled by the freedom and enthusiasm of our entrepreneurs, is not something to fear.

It is even argued that a sizable tax cut passed now makes a future economic downturn more hazardous, as if the tax cuts needed for an economic rebound will have already been wasted by our efforts this year. Of course, that argument makes the case *for* tax cuts, as any tax cuts that would succeed in getting us out of a recession should keep us out of one in the first place. That is why former Fed Governor Lawrence Lindsey considers a tax cut a good insurance policy against an economic downturn.

Finally, it is argued that a \$792 billion tax cut leaves no money to meet some other important government goals. But we still have \$1.9 trillion in social security surpluses that will be in a "lock-box" to retire debt and shore up our citizens' retirement security, and another \$200 billion in non-social security surpluses that can be used for Medicare, National Defense, and our other priorities.

When you consider all of the arguments, there really is no case *against* cutting taxes by at least \$792 billion. Chairman Roth, I commend you for sticking to your guns and producing a Mark that cuts taxes by that full amount, despite all of the pressure exerted by all of the advocates of big government, who would rather spend the money.

With federal taxes depleting a greater portion of our economy's resources than ever before, the question is not whether we need a tax cut. The only question is *what taxes do we cut?*

My tax plan focuses on three goals: lowering government barriers to economic growth, ensuring the technological supremacy of American businesses, and providing tax relief for the broadest number of taxpayers.

My plan knocks down some of the highest barriers to economic growth in the tax code--beginning with the double taxation of savings and investment. I would cut capital gains taxes by 25 percent across-the-board. The capital gains tax is counterproductive, as it locks in capital that would efficiently be reinvested elsewhere if the free choice of investors were not discouraged by this tax. I would also begin indexing capital gains for inflation, to end the unfair practice of taxing phantom gains.

My plan also ends the tax code's discrimination against dividends. Under current law, dividends are taxed as ordinary income, at rates as high as 39.6%--and this is on top of the corporate income tax of 35%--leading many companies to retain earnings that could more efficiently be invested by their shareholders. Taxing capital gains and dividends at uniform, 7.5 and 15 percent rates will unlock retained earnings and unleash a wave of investment that will provide our country's innovators and entrepreneurs with the capital they need to keep the economy flourishing.

The highest tax rates on the books are the punitive estate taxes, possibly the most unfair tax of them all. Death and taxes may both be inevitable, but they shouldn't be simultaneous. My plan kills the death tax, so its confiscatory rates that reach 55 percent will no longer deter

business expansion and exterminate family businesses.

My plan recognizes the importance of the technology industries to the continued growth of the U.S. economy. I would make permanent the Research and Experimentation tax credit, so that the uncertainty of its short-term extensions will no longer undercut our innovators. My plan also increases the amount of capital equipment that businesses can fully write-off in the year purchased. Certain businesses may currently expense up to \$19,000. I would raise this amount to \$500,000 and allow all businesses to take this deduction, to help companies keep pace with ever-changing technology and reduce the fiscal harm that our system of depreciation does to users of rapidly-obsolete equipment.

My tax plan cuts taxes for the vast majority of taxpayers by doubling the standard deduction for joint filers and raising it for single filers. This cuts taxes for the nearly three-quarters of all taxpayers who already use the standard deduction, and for the many more who will prefer this more generous deduction to the headache of itemizing. Just as important, this tax cut helps families by significantly reducing the unfair marriage penalty.

My plan also repeals the 1993 Clinton tax increase on social security benefits, since it was rationalized by a deficit that no longer exists. I would also index for inflation the Alternative Minimum Tax personal exemptions, to prevent millions of middle class taxpayers from being subject to this extra tax that was never intended for them.

Mr. Chairman, that is how I would cut taxes by \$792 billion. I believe that my tax cut plan would make the economic climate in the United States the most hospitable in the world, and we would have a tax system that is fit for the 21st Century. Tax cuts are not about numbers, they are about people. My plan gets the government out of the way to give people the freedom to pursue their own dream--not Washington's.

Thank you, Mr. Chairman.