



BUDGET COMMITTEE



Judd Gregg, Ranking Member
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**Senator Gregg's Statement at Budget Committee Hearing
on the President's Fiscal Year 2009 Budget
February 5, 2008
(unofficial transcript of Gregg excerpts)**

Senator Gregg: I don't think the other side of the aisle necessarily comes at this with clean hands on the issue of fair and accurate budgeting.

Last year, we saw a Democratic budget which claimed it was going to use Pay-Go as the method for disciplining spending. Well, they spent \$146 billion by adjusting, evading, going around, and basically playing games with the Pay-Go rules. So that didn't work. Then they brought forward an SCHIP proposal, which basically had a drop-off which represented a \$46 billion hole when you got outside of the five-year window. So that didn't make any sense.

The budget also assumed a huge amount of revenues from basically just doing a better job collecting revenues. None of those revenues were realized. In the supplemental, you added \$17 billion of domestic spending which were basically earmarks. In the general budget, you increased spending by \$22 billion, which if the President hadn't insisted on maintaining some fiscal discipline on the discretionary side, would have been spent. And instead we ended up with about half of that being spent, if you factored out all the emergencies.

So I wish there was some realistic effort around here to control spending but it certainly isn't coming from the other side of the aisle. And I think yes, you can point fingers at this budget. I've pointed a few fingers at this budget. Because this budget has some serious flaws from the standpoint of accuracy and even more serious flaws from the standpoint of policy. But it's not just one side of the aisle that's been playing games around here.

The war cost issue is a legitimate issue. I wasn't here for the exchange, but I understand it was enjoyable and good theatre between the Chairman and the Director. But the simple fact is, you can't put a \$70 billion figure in this budget and claim that you're funding the war. Unless you're going to say that's all it's going to cost and we know it's not all it's going to cost. There should be full transparency on the war costs. And last year the Administration sent up a real number and I regret they didn't do it this year.

There are also other issues in this budget which bother me, but let me go to the more philosophical question here. This budget is driving us towards -- not necessarily this budget, but the economy, coupled with the stimulus package coupled with the war costs - - a \$400 billion deficit in the year 2009 and a potentially bigger deficit in 2010.

I guess my question to you, Mr. Director, is, here we are, on the cusp of how we're going to deal with the tax policy question of maintaining capital gains and dividend rates. Is it in the better interest of the long-term strength of this economy that we maintain the present rates on capital gains and dividends which the Administration put into place at the beginning of this Administration, or is it better that we have the stimulus package?

Now I recognize it's not, in your view, an either-or issue, but from your standpoint of just fiscal policy, which would have a stronger impact on the long-term structure of our economy?

[Director Nussle...]

Senator Gregg: The stimulus package is going to cost us \$150 billion. When you compound it with interest, it's around \$200 billion over five years. That means we're going to be heading towards a deficit probably in the \$400 billion range in the year 2010. It will be very hard.

That makes the argument for maintaining the capital gains and dividend rates much more difficult when you're dealing with those size deficits. I happen to think that they generate revenue. But there aren't a lot of people around here who necessarily subscribe to that view. And I'm perfectly willing to argue that until I lose, which I will.

But the point is, if we do the stimulus package, what do we get for it other than aggravating the deficit by \$150 to \$200 billion and creating a disincentive or an atmosphere where it's going to be much harder to maintain those good fiscal policies, which are a lower rate on capital formation and dividends. I mean what are we getting for the stimulus package? Most of the money is going to be sent out in individual rebates, and it's going to be spent on consumable items made in China. So we're going to stimulate the economy of China.

And we'll get the one-time accelerated depreciation which will assist, but as a practical matter it will probably all occur after we've moved into some transition out of this slowdown hopefully, and other than being a wonderful political statement that the Congress can join with the Administration in a kumbaya event and make everybody feel good? What substantively do we get from this, that we're going to be digging such a deeper hole on the deficit that will make it so much harder for us to deal with the tax policy which is really important to us coming down the pike.

[Director Nussle...]

Senator Gregg: That works out to \$300,000 per job. They're going to pay a lot in taxes, I'll tell you that much. I think I've made my point, it was almost rhetorical. My time is up.

Additional Comments on Tax Policy:

Senator Gregg: Under the tax policy which we presently have today, we are generating more in revenues, we're up to about 18.7% now coming in revenues, that's compared to 18.2% of GDP. And, the highest 20% of taxpayers in this country today are paying more in taxes as a percentage of the total burden than they were under the Clinton Administration.

In other words, high-income people are paying more in taxes as a percentage of our total federal tax burden than they were under the Clinton Administration. And, presently today, the bottom 40% of earners in this country are getting more back. Most of them don't pay individual income taxes; they get an earned income tax credit. They're getting more back in tax benefits with EITC, almost twice as much as they got under the Clinton period.

So, we now have a tax law which first, generates more revenue than has historically been generated for the federal government. Second, it taxes people at the high-income level and generates more revenue from high-income individuals and third, it gives back more income to people in the lower income brackets.

That's called progressivity. It's also called a tax policy that works. Why does it work? Human nature. You give people a reasonable tax rate, which is what we've done, give people a reason to go out and be productive, to take that risk, to be the entrepreneur, to create that new job, and they create economic activity. Economic activity does one very big thing. It creates jobs for Americans. It does a second very big thing. It creates revenue for the federal government. And that's what our tax policy has done under this Administration.

So I happen to disagree with the Senator from Vermont. We do disagree, that's why he lives in Vermont and I live in New Hampshire. We have the lowest tax burden per capita in the country while they have one of the highest. That's just a fundamental difference. That was my interlude. People have come over from Vermont occasionally to buy a bottle of liquor and we appreciate it.

~~Pay-Go~~ Swiss-Cheese-Go

Real pay-go violations

Gimmicks to get around pay-go offset requirements



\$143 Bil

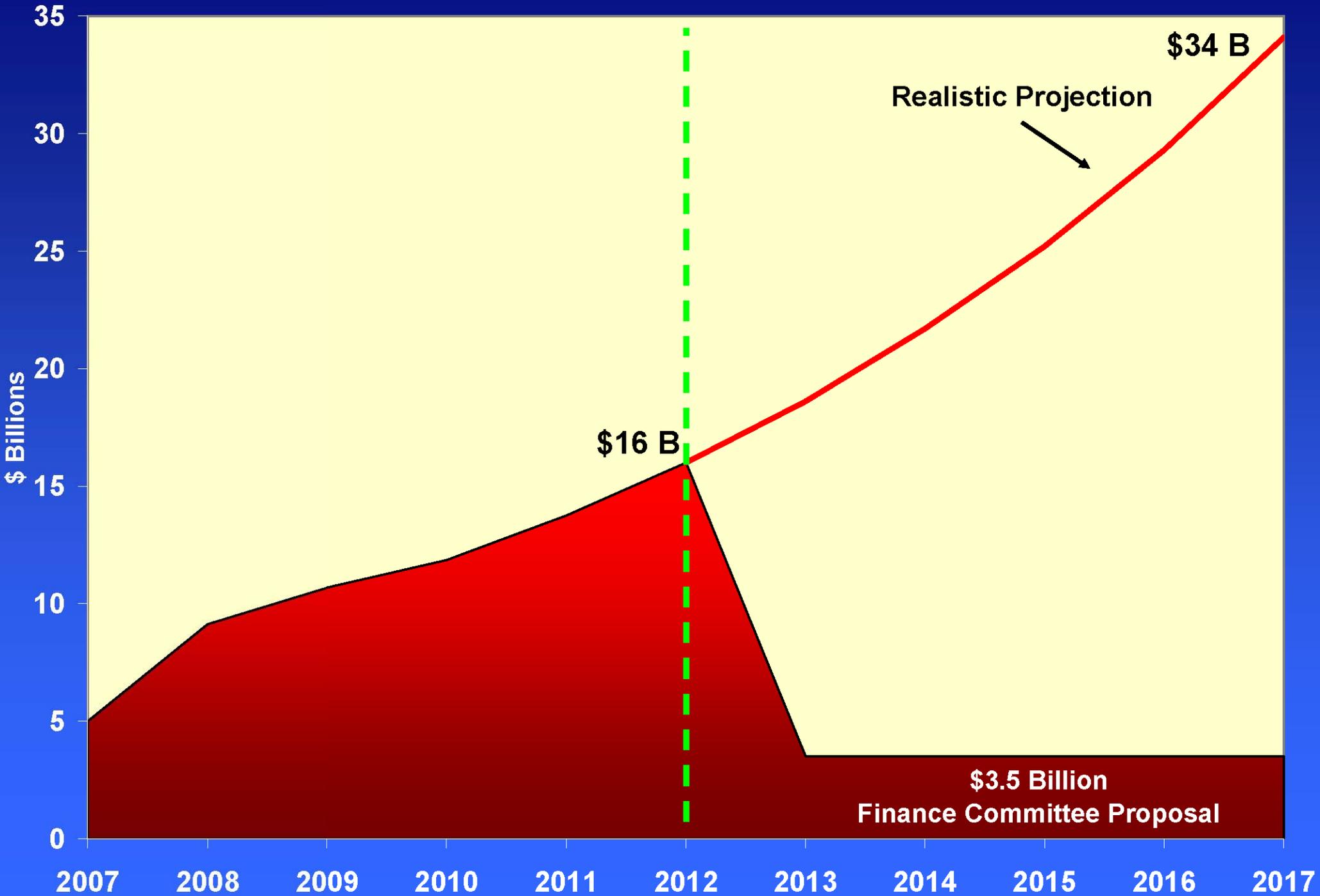
\$38 bil

\$105 bil

- Minimum Wage Increase **\$50 mil**
- Water Resources Development Act **\$4 mil**
- PDUFA **\$171 mil**
- Immigration Reform **\$30.3 bil**
- Energy Bill **\$4.2 bil**
- Mental Health Parity **\$2.8 bil**

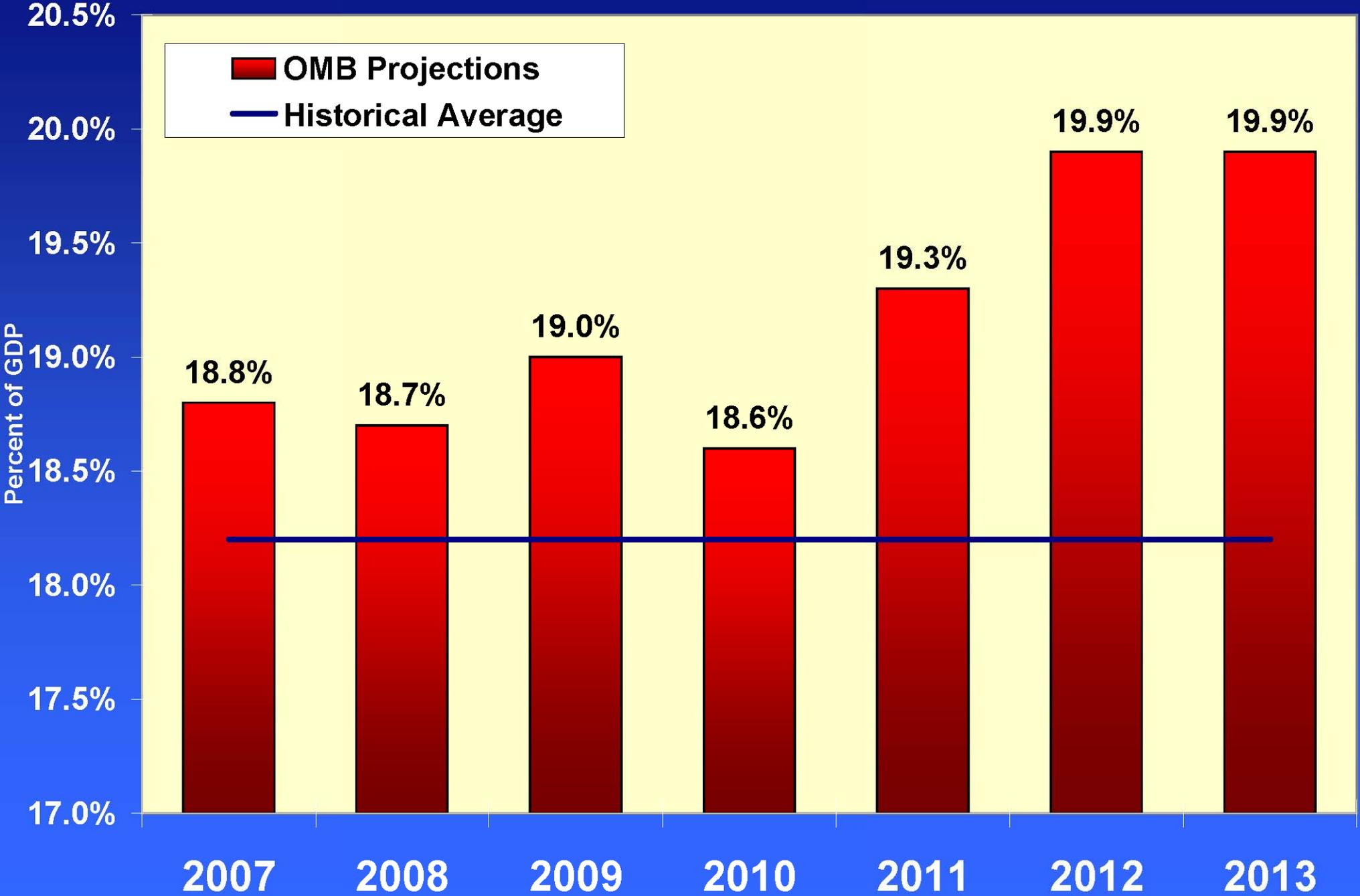
- Spending for MLC **\$2.4 bil**
- Farm Bill Hidden Future Costs **\$17.7 bil**
- Farm Bill Spending after 2017 **\$9.8 bil**
- County Payments/PILT **\$4.1 bil**
- SCHIP Reauthorization **\$45 bil**
- New Mandatory Pell Grant Spending **\$9 bil**
- Student Loan Interest Rate Switch-a-roo **\$17 bil**

SCHIP FUNDING SKYROCKETS

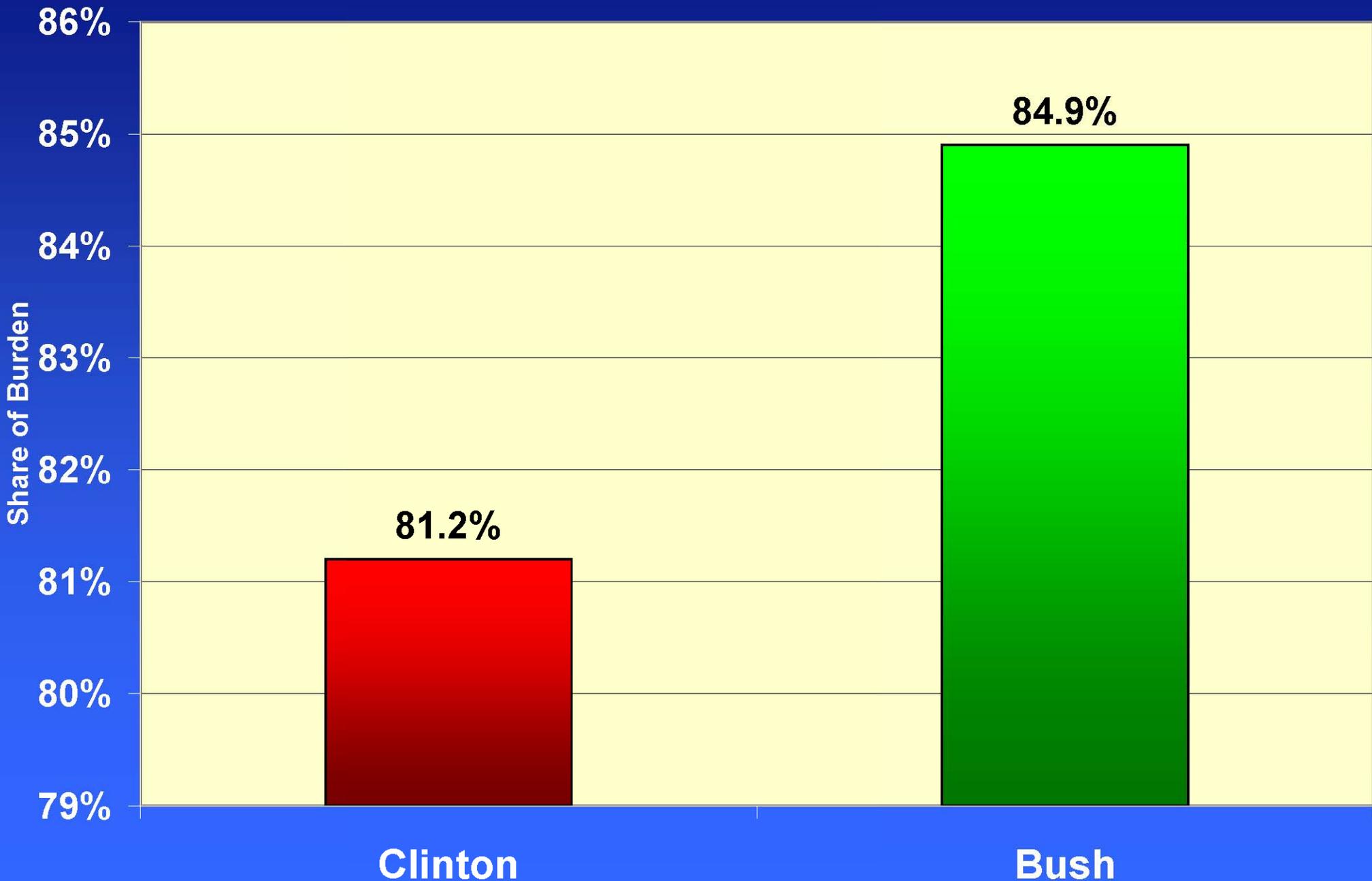


Source: SBC Republican Staff; CBO projection using 2011-2012 program growth rate.

Projected Revenues Exceed Historical Average

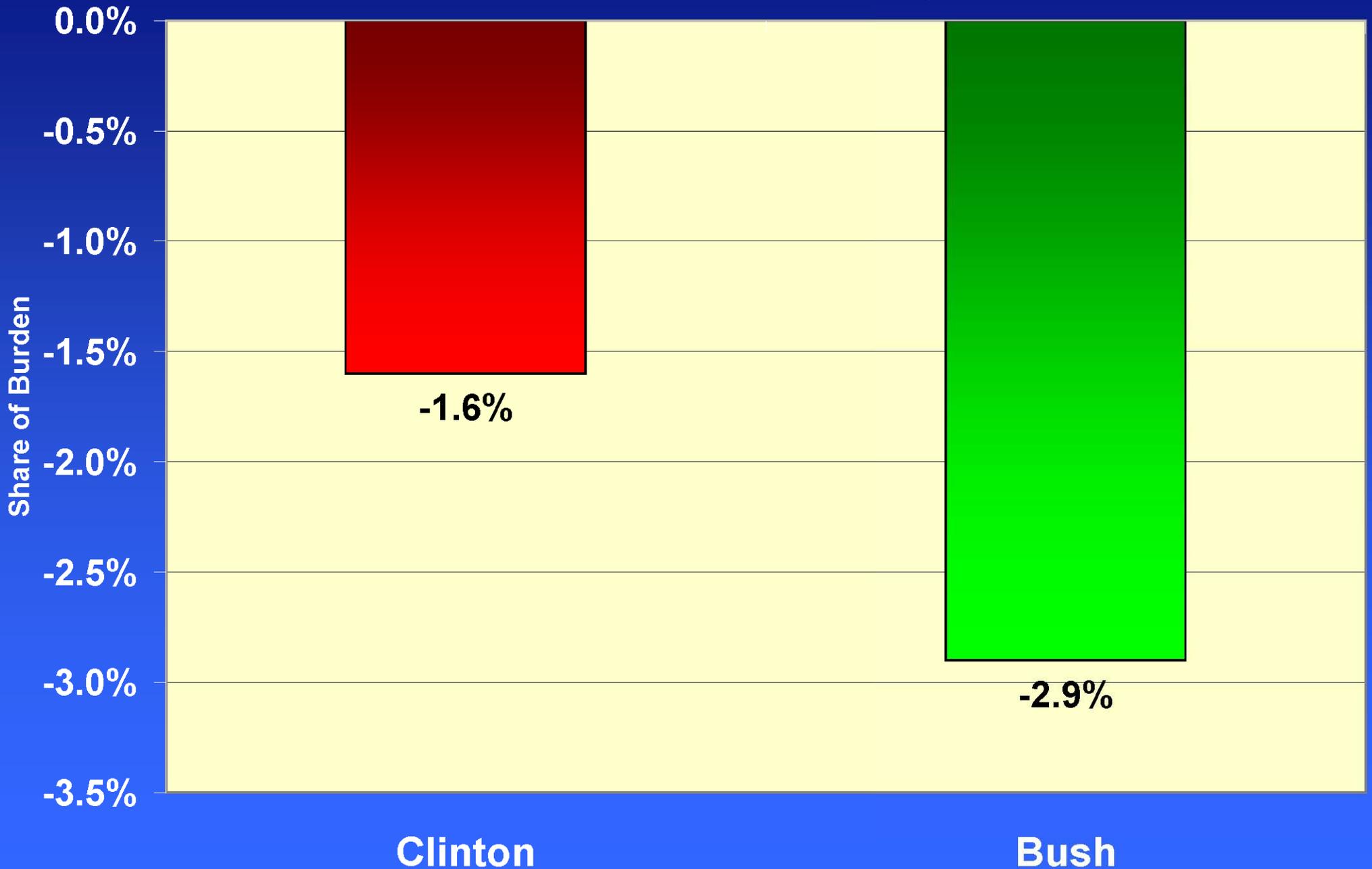


High-Income Tax Payers Bear a Greater Burden Under Bush



Source: Senate Budget Committee Republican Staff Analysis of CBO Data

Low-Income Receive Money Through Individual Income Tax System



Source: Senate Budget Committee Republican Staff Analysis of CBO Data