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**OPENING COMMENTS ON FY06 BUDGET RESOLUTION
BUDGET COMMITTEE CHAIRMAN JUDD GREGG
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MR. PRESIDENT, TODAY WE BEGIN DISCUSSION OF THE FEDERAL BUDGET WHICH IS, OF COURSE, ONE OF PRIMARY THINGS THAT WE'RE SUPPOSED TO DO AS GOVERNING BODIES, THE SENATE AND THE HOUSE. INTERESTINGLY ENOUGH, UNDER THE RULES OF THE CONGRESS, SOMETHING WHICH I DON'T THINK MOST PEOPLE RECOGNIZE, THE PRESIDENT HAS NO OFFICIAL ROLE IN THE BUDGET. IT IS A DOCUMENT WHICH IS PRODUCED BY THE SENATE AND THE HOUSE. IT'S CALLED A RESOLUTION. THE PRESIDENT DOESN'T SIGN IT. THE PRESIDENT SENDS UP HIS BUDGET, BUT HIS BUDGET IS NOT OFFICIALLY PART OF PROCESS IN THE SENSE THAT HE SIGNS THE FINAL DOCUMENT. SO TOO IN A UNIQUE WAY, THE BUDGET ACT REALLY PUTS ON THE CONGRESS THE RESPONSIBILITY OF DOING A BUDGET.

NOW, THE PRESIDENT HAS SENT UP A BUDGET. OF COURSE, HE IS THE LEADER OF OUR PARTY AND THE LEADER OF THE COUNTRY, AND AS SUCH WE'VE GIVEN IT VERY SIGNIFICANT CREDIBILITY AND HAVE ACTUALLY TRACKED IT QUITE CLOSELY IN THE BUDGET WHICH WAS PRODUCED BY THE BUDGET COMMITTEE. BEFORE WE BEGIN THE SPECIFICS OF DISCUSSION ON THE BUDGET, I DO WANT TO THANK THE MEMBERS OF THE BUDGET COMMITTEE FOR PURSUING A VERY EFFICIENT AND PROFESSIONAL MARKUP LAST THURSDAY. I ESPECIALLY WANT TO THANK MEMBERS ON MY SIDE WHO WERE THERE FOR ALL THE VOTES. IT IS THE ONLY COMMITTEE IN THE SENATE WHICH REQUIRES THAT YOU ACTUALLY BE THERE AND PHYSICALLY VOTE AS VERSUS USING A PROXY AND ALL OF THE MEMBERS WERE THERE. THEY PARTICIPATED AGGRESSIVELY IN THE DEBATE. I WANT TO THANK, ALSO THE RANKING DEMOCRATIC MEMBER AND THE MEMBERS OF HIS PARTY FOR EXPEDITING THE PROCESS. THEY HAD A LOT OF AMENDMENTS THEY WANTED TO PUT FORWARD. THEY PUT IT FORWARD IN EXTRAORDINARILY PROFESSIONAL AND EFFECTIVE WAY AND WE WERE

ABLE TO MOVE THROUGH THE PROCESS AND DEBATE THESE ISSUES WHICH ARE CRITICAL TO THE NATION.

A LOT OF ISSUES ARE RAISED BY THE BUDGET BECAUSE OF COURSE IT TOUCHES EVERYTHING. BUT THERE ARE CORE BASIC ISSUES WHICH I THINK OUR BUDGET ATTEMPTS TO ADDRESS. THE FIRST, OF COURSE, IS HOW YOU CONTROL SPENDING, HOW YOU MAKE SURE THAT YOU DO THE MOST WITH THE DOLLARS YOU HAVE. BUT WE CANNOT DEMAND FROM AMERICANS MORE DOLLARS THAN THEY CAN AFFORD TO PAY THROUGH TAXES SO THAT WE DO NOT END UP PASSING ON TO OUR CHILDREN AND OUR CHILDREN'S CHILDREN SIGNIFICANT DEFICITS, AND WE CANNOT BORROW EXCESSIVELY IN ORDER TO FUND THE GOVERNMENT.

THE SHORT-TERM ISSUE THAT THAT INVOLVES IS THE FACT THAT WE HAVE FOR THE LAST FEW YEARS BEEN RUNNING VERY SIGNIFICANT DEFICITS. THOSE ARE A FUSION OF TWO OF BASIC EVENTS. THE FIRST IS THAT IN THE LATE 1990'S WE SAW THE LARGEST ECONOMIC BUBBLE IN THE HISTORY OF THE WORLD. A BUBBLE IS AN INFLATION OF THE MARKET. A PERVERSION, REALLY, OF THE MARKET IN A PERIOD WHERE YOU ESSENTIALLY FIND THAT THE ECONOMICS OF THE TIME SPECIFICALLY DRIVE THE ABILITY TO ISSUE STOCK THROUGH I.P.O.'S, THROUGH CREATION OF ARTIFICIAL VALUE WHERE THE STOCK ISN'T SUPPORTED BY REAL VALUE. IT'S ACTUALLY A FORM OF PRINTING MONEY FOR ALL INTENTS AND PURPOSES WITHOUT ANYTHING BEHIND IT.

IN THE HISTORY OF THE WORLD THERE HAVE BEEN A LOT OF BUBBLES. THE TWO MOST SIGNIFICANT PRIOR TO THE INTERNET BUBBLE OF THE LATE 1990S WERE THE TULIP BUBBLE IN HOLLAND AND THE SOUTH SEAS BUBBLE INVOLVING THE ENGLISH INVESTMENT OF THE SOUTH SEAS COMPANY. THEY WERE HUGE BUBBLES AND THEY LED TO SIGNIFICANT ECONOMIC DISRUPTION AND NEGATIVE EVENTS, BUT THEY WERE NOTHING, NOTHING COMPARED TO THE SIZE OF THE INTERNET BUBBLE. WHEN THE INTERNET BUBBLE BURST AS ALL BUBBLES DO, ESPECIALLY ECONOMIC BUBBLES, THERE WAS A SIGNIFICANT DOWNTURN IN THE ECONOMY AND A HUGE RECESSIONARY EVENT WAS GENERATED. THE EXPLOSION OF THAT BUBBLE WAS ALSO FOLLOWED BY, OBVIOUSLY, THE ATTACKS OF 9/11. AND THE ATTACKS OF 9/11 HAD A MASSIVE IMPACT ON US. OBVIOUSLY WE LOST MANY LIVES AND IT CHANGED THE WHOLE CULTURE OF OUR COUNTRY, BUT THE ECONOMIC IMPACT WAS ALSO DRAMATIC. THE ECONOMY SLOWED DRAMATICALLY AS A RESULT OF THE ATTACK. WE HAD TO REORIENT THE FEDERAL GOVERNMENT ACTIVITY. WE HAD TO SIGNIFICANTLY, DRAMATICALLY RAMP UP OUR COMMITMENT TO NATIONAL DEFENSE, HOMELAND DEFENSE, MAKE MASSIVE CAPITAL EXPENDITURES WHICH WE HADN'T ANTICIPATED MAKING IN THE AREA OF DEFENSE. NOT ONLY DID THE

ECONOMY SLOW WHICH MEANT REVENUES SLOWED BUT SPENDING HAD TO GO UP DRAMATICALLY AS A RESULT OF THE EVENT. THE EFFECT OF THAT WAS THAT WE HEADED TOWARDS A RECESSION, WENT INTO A RECESSION, AND AS REVENUES OF THE FEDERAL GOVERNMENT DROPPED PRECIPITOUSLY, SPENDING WENT UP IN ORDER TO FIGHT THE WAR ON TERRORISM AND THE DEFICITS RESULTED.

SOME WOULD ARGUE THAT THE DEFICITS WERE PART OF PRESIDENT BUSH'S DECISION TO REDUCE TAXES DURING THIS PERIOD. I WOULD ARGUE JUST THE OPPOSITE IN FACT. I WOULD SAY THAT THE DECISION TO REDUCE TAXES, ESPECIALLY TAXES ON PEOPLE'S INCOME, WAS ONE OF BEST ECONOMIC DECISIONS OF THE PERIOD BECAUSE IT MEANT THAT MORE MONEY WAS LEFT WITH CONSUMERS AND AS A RESULT, THE ECONOMY HAD MORE MONEY IT IN AND PEOPLE WERE ABLE TO GO OUT AND SPEND MORE MONEY, AND AS A RESULT THE RECESSION WAS SHALLOWED OUT. IT WOULD HAVE BEEN A MUCH MORE SEVERE, DRAMATIC AND DAMAGING RECESSION HAD THOSE TAX CUTS NOT GONE INTO PLACE. NOW WE ARE SEEING AS A RESULT THOSE TAX CUTS THE BENEFIT OF THESE TAX CUTS WHICH IS THAT THE ECONOMY IS COMING BACK, IT'S COMING BACK IN AN EXTREMELY STRONG WAY AND REVENUES ARE STARTING TO GROW WITH EQUAL STRENGTH. LAST YEAR THEY GREW BY 9.5 PERCENT. FOR THE FORESEEABLE FUTURE FEDERAL REVENUES ARE GOING TO GROW OVER 6 PERCENT. AND IT'S A FUNCTION OF FACT THAT WE HAVE CHANGED THE WAY TAXES ARE COLLECTED IN THIS COUNTRY BECAUSE WE ARE INCENTIVIZING PEOPLE TO GO OUT AND BE PRODUCTIVE, GENERATE MONEY TO CREATE JOBS, AND AS A RESULT WE'RE SEEING MORE ECONOMIC ACTIVITY AND MORE REVENUES COMING IN.

TWO OF THE MOST SUCCESSFUL TAX CUTS WERE IN MY OPINION THE DIVIDEND CUT OF THE RATES AND THE CAPITAL GAIN CUT OF RATES BOTH OF WHICH HAVE LED SPECIFICALLY TO DRAMATIC INCREASES IN FEDERAL REVENUES. THE CAPITAL GAIN RATES HAVE CAUSED HUGE JUMPS IN REVENUES AT THE FEDERAL LEVEL, JUMPS THAT ARE A FUNCTION OF THE FACT THAT PEOPLE WHO HAD BEEN SITTING ON ECONOMIC GROWTH AND ASSETS IN CAPITAL GAINS HAD JUST BEEN SITTING THERE. THEY DIDN'T WANT TO PAY THE TAXES WHEN THEY SOLD THAT ASSET SO THEY WERE JUST SITTING ON THOSE ASSETS. WITH THE CAPITAL GAINS CUT, PEOPLE SAY HEY, I CAN SELL THIS ASSET AND REINVEST IT.

THAT HAS TWO VERY POSITIVE ECONOMIC EFFECTS. THE FIRST IS IT MEANS MORE REVENUE FOR THE FEDERAL TREASURY. THOSE GAINS WOULD NOT HAVE OCCURRED WITHOUT THAT RATE CUT BECAUSE THERE WOULD HAVE BEEN NO SALE AND NO TAXABLE EVENT. THE SECOND IS THAT THE MONEY THAT IS GENERATED FROM THOSE SALES IS BEING

REINVESTED MORE EFFICIENTLY IN THE ECONOMY BECAUSE PEOPLE ARE TAKING THE CASH AND REINVESTING IT. YOU ARE CREATING MORE JOBS AS A RESULT OF PUTTING MORE CAPITAL MORE EFFICIENTLY IN THE MARKETPLACE. THE SAME COULD BE SAID FOR THE DIVIDEND CUT. FOR YEARS CORPORATIONS IN AMERICA HAD BASICALLY PILED UP DIVIDENDS, PILED UP RESOURCES, AND NOT PAID THEM OUT TO THEIR STOCKHOLDERS BECAUSE IT WAS A DOUBLE TAX. FIRST THEY ARE TAXED ON THEIR PROFIT AT THE CORPORATE LEVEL AT 32%, 35%, AND THEN WHEN THEY PAY THE PROFITS OUT THE INDIVIDUAL TAXPAYER WHO HAPPENS TO BE AN OWNER OF THAT COMPANY, WORKING AMERICANS WHO HAVE THAT OWNERSHIP THROUGH THEIR PENSION PLANS, TRUCK DRIVERS, PEOPLE WHO WORK IN RESTAURANTS, PEOPLE WHO WORK IN MANUFACTURING FACILITIES, THESE PEOPLE PAY ANOTHER TAX BECAUSE THEY GET HIT WITH THE TAX AS THE MONEY IS PAID OUT IN THE FORM OF TAX ON DIVIDEND INCOME. DOUBLE TAXATION, RATE VARYING FROM ANYWHERE TO 50%, 60%, 70% AS A RESULT OF DOUBLE TAX ISSUE. SO WE CUT THE DIVIDEND RATE AND THE PRACTICAL EFFECT OF THAT WAS TO SAY TO CORPORATE AMERICA, YOU CAN NOW PAY YOUR STOCKHOLDERS MOST OF WHOM ARE WORKING AMERICANS WHO HAVE A 401 (K) OR A PENSION PLAN, YOU CAN PAY THE AMERICANS WHO HAVE INVESTED IN AMERICA THROUGH THE STOCK MARKET, YOU CAN PAY THEM A DIVIDEND AND YOU ARE NOT GOING TO HAVE TO PAY A PUNITIVE DOUBLE TAX ON THE DIVIDEND. YOU ARE STILL GOING TO PAY DOUBLE TAXES BUT IT'S NOT GOING TO BE AS PUNITIVE AS IT WAS BEFORE.

THE EFFECT WAS THAT MAJOR CORPORATIONS DID PAY DIVIDENDS. MICROSOFT ALONE, I THINK, PAID OUT \$32 BILLION ON A ONE-TIME MASSIVE DIVIDEND PAYOUT. THE EFFECT OF THAT WAS TO, I THINK IN AND OF ITSELF, CREATE A 1% GROWTH IN THE NET WORTH OF AMERICANS IN THE TERM. BUT A HUGE BENEFIT THAT WAS TO AMERICANS ACROSS THE BOARD WHO ARE INVESTED IN MICROSOFT. LITERALLY MILLIONS AND MILLIONS OF AMERICANS WORKING IN TECHNOLOGY JOBS, WORKING IN RESTAURANTS, WORKING IN THE MILITARY WHO HAD STOCK THROUGH THEIR 401 (K), WHO HAD STOCK THROUGH THEIR VARIOUS OTHER INVESTMENTS HAD SUDDENLY GOT SIGNIFICANT RETURNS WHICH THEY COULD THEN USE TO REINVEST, WHICH THEY HAVE AND AS A RESULT OUR ECONOMY IS GROWING FASTER THAN IT HAS GROWN AT ANY TIME SINCE THE MID 1990S.

LARGEST RATE OF GROWTH IN THE LAST QUARTER. LOWEST UNEMPLOYMENT IN YEARS-- ALL OF THIS NEWS IS A FUNCTION OF HAVING MADE THE RIGHT DECISIONS AT THE RIGHT TIME ON THE ISSUE OF CUTTING TAXES, WHICH BRINGS ME BACK TO THE ISSUE OF THE DEFICIT. SO NOW THE ONE CLOUD ON OUR HORIZON, TWO OF THEM, ARE BOTH TIED TO THE FACT THAT THE FEDERAL GOVERNMENT IS SPENDING

MORE THAN IT IS TAKING IN IN THE SHORT TERM AND THE LONG TERM. IN THE SHORT TERM THE DEFICIT IS LARGE. IT'S NOT THE LARGEST BUT IT IS A LARGE DEFICIT. IT'S ONE THAT MUST BE REDUCED IN THE SHORT TERM.

IN THE LONG TERM, WE HAVE A MUCH MORE SIGNIFICANT PROBLEM. WE KNOW THAT THERE ARE ALREADY ON THE BOOKS FEDERAL PROGRAMS SPECIFICALLY IN THE AREA OF RETIREMENT WHICH ARE GOING TO RADICALLY EXPAND THE COST OF GOVERNMENT IN THE NEXT GENERATION. THOSE PROGRAMS, WHICH ARE SOCIAL SECURITY, MEDICAID AND MEDICARE, ARE TARGETED ON BENEFITTING RETIRED PEOPLE. AND WE HAVE, IN THIS COUNTRY TODAY, A DEMOGRAPHIC FACT WHICH SIMPLY CAN'T BE DENIED AND THAT IS THIS: THERE ARE A LOT MORE PEOPLE HEADED TOWARDS RETIREMENT THAN HAS EVER OCCURRED IN THE HISTORY OF AMERICA. THE BABY BOOM GENERATION, THE LARGEST GENERATION IN AMERICA'S HISTORY IS NOW HEADED TOWARDS RETIREMENT AND WILL BEGIN TO RETIRE IN JUST FOUR YEARS. AND WHEN IT BEGINS TO RETIRE, THAT GENERATION IS GOING TO OVERWHELM THE RETIREMENT SYSTEM. THIS GENERATION IS SO LARGE THAT IT HAS OVERWHELMED EVERY SYSTEM IT HAS EVER HIT. IN THE EARLY 1950S IT OVERWHELMED THE ABILITY OF OUR COUNTRY TO MAKE BABY CARDS AND CRIBS. IN THE LATE 1950S IT OVERWHELMED THE SYSTEM'S ABILITY TO EDUCATE THROUGH ELEMENTARY SCHOOLS HAVING TO BE BUILT. IN THE 1960S IT CHANGED THE CULTURE OF THE COUNTRY BY MOVING FORWARD IN THE AREAS OF WOMEN'S RIGHTS AND CIVIL RIGHTS AND THE WAR IN VIETNAM. IN THE 1970S, 1980S AND 1990S IT'S BEEN THE MOST PRODUCTIVE GENERATION IN AMERICAN HISTORY AND AS A RESULT HAS CAUSED REAL INCREASES IN THE AREAS OF PERSONAL WEALTH AND ECONOMIC OPPORTUNITY.

AND NOW THIS GENERATION HEADS FOR RETIREMENT. IT'S GOING TO TAKE ON THE RETIREMENT SYSTEMS - MEDICARE, MEDICAID AND SOCIAL SECURITY - WHICH WERE NEVER STRUCTURED TO DEAL WITH THIS SIZE OF A GENERATION. ALL OF THESE MAJOR RETIREMENT SYSTEMS WERE DESIGNED WITH THE CONCEPTS OF THE 1940S AND THE 1950S. THE FRANKLIN ROOSEVELT APPROACH. THE GENIUS OF ROOSEVELT IN THE AREA OF RETIREMENT SYSTEMS WAS THAT HE UNDERSTOOD THAT YOU COULD SUPPORT A PRETTY DECENT RETIREMENT SYSTEM AS LONG AS THERE WERE A LOT MORE PEOPLE WORKING THAN RETIRED, A PYRAMID, ESSENTIALLY. IN 1960 THERE WERE 16 PEOPLE WORKING FOR EVERY ONE PERSON RETIRED. THOSE 16 PEOPLE COULD PAY A LITTLE BIT OF THEIR INCOME TO MAKE SURE THE ONE RETIRED PERSON HAD A DECENT LIFESTYLE AND THAT WAS THE RIGHT APPROACH. THAT PYRAMID APPROACH HAS CARRIED US FORWARD WHERE TODAY WE CAN STILL SUPPORT THE SYSTEM, BUT BY THE LATE 2020 PERIOD OR THE MID-2020 PERIOD WHEN THE BABY BOOM GENERATION IS FULLY RETIRED, WE GO FROM A PYRAMID TO A RECTANGLE WHERE WE ESSENTIALLY HAVE

TWO PEOPLE WORKING FOR EVERY ONE PERSON RETIRED. THE PRACTICAL EFFECT OF THAT IS THAT THOSE PEOPLE WORKING ARE GOING TO HAVE TO BEAR A MASSIVE INCREASE IN TAXES IN ORDER TO SUPPORT THAT ONE PERSON WHO IS RETIRED.

IT'S A SIMPLE FACT OF STATISTICS. IF YOU HAD 16 PEOPLE SUPPORTING ONE PERSON RETIRED, 16 PEOPLE WORKING FOR ONE PERSON RETIRED, AND YOU GO DOWN TO TWO PEOPLE WORKING FOR EVERY ONE PERSON RETIRED, OBVIOUSLY THOSE TWO PEOPLE ARE GOING TO HAVE TO BEAR A MUCH HIGHER BURDEN THAN THE 16 HAD TO. AND WE HAVE AT THE SAME TIME SIGNIFICANTLY INCREASED THE BENEFIT STRUCTURE FOR RETIRED PEOPLE. THE PRACTICAL EFFECT OF THIS IS THE YOUNG PEOPLE SITTING HERE WHO ARE PAGES, WHEN THEY GO OUT AND GET JOBS THEY ARE GOING TO FIND THAT THEIR PAYROLL TAX IN ORDER TO SUPPORT MY GENERATION WILL HAVE TO DOUBLE -- **DOUBLE** -- IN ORDER TO SUPPORT MY GENERATION. AND THEIR QUALITY OF LIFE WILL BE RADICALLY REDUCED BECAUSE THEY WON'T HAVE THE EXTRA SPENDING POWER TO SEND THEIR KIDS TO COLLEGE. THEY WON'T HAVE THE EXTRA SPENDING POWER TO BUY A NICER HOME OR A HOUSE. THEY WON'T HAVE THE EXTRA SPENDING POWER TO TAKE A VACATION. THEY'LL HAVE TO GIVE THAT ALL UP TO PAY TAXES TO SUPPORT MY GENERATION AND ITS RETIREMENT.

IN FACT, THERE IS TODAY ON THE BOOKS ACCORDING TO THE COMPTROLLER GENERAL OF THE UNITED STATES, MR. WALKER, \$44 TRILLION -- THAT'S TRILLION DOLLARS-- HARD TO CONCEIVE WHAT A TRILLION DOLLARS IS BUT IT'S A LOT OF MONEY. \$44 TRILLION OF UNFUNDED LIABILITY WHICH THE NEXT GENERATION HAS ALREADY BEEN TOLD THEY ARE GOING TO HAVE TO PAY FOR BECAUSE OUR GENERATION PUT THE LAWS IN PLACE TO REQUIRE IT. OF THAT \$44 TRILLION, \$26 TRILLION, OVER HALF OF IT, 60% OF IT IS DIRECTLY TIED TO HEALTH CARE COSTS MEDICARE AND MEDICAID. HUGE NUMBERS. MASSIVE NUMBERS.

TRY TO PUT THEM IN CONTEXT-- THE ENTIRE NET WORTH OF AMERICA, IF YOU TOOK EVERYTHING AMERICA OWNS TODAY, THERE'S ONLY \$47 TRILLION. YET, WE'VE GOT \$44 TRILLION OF DEBT ON THE BOOKS. PUT IT IN ANOTHER CONTEXT, IF YOU TAKE ALL THE TAXES PAID IN AMERICAN HISTORY SINCE GEORGE WASHINGTON CROSSED THE POTOMAC, CAME OVER HERE AND STARTED THIS CAPITOL, \$38 TRILLION. AND YET, WE HAVE \$44 TRILLION ON THE BOOKS OF DEBTS, AND ALMOST THE VAST MAJORITY OF IT IS HEALTH CARE DEBT REQUIRED TO PAY FOR SENIOR RETIREMENT. HUGE NUMBERS WHICH WE'RE PLACING ON OUR CHILDREN. TO PUT IT IN ANOTHER CONTEXT, TODAY THE FEDERAL GOVERNMENT CONSUMES ABOUT 20% OF THE GROSS NATIONAL PRODUCT OF THE UNITED STATES. ALL THE FEDERAL GOVERNMENT.

THAT'S NATIONAL DEFENSE, THAT'S EDUCATION, THAT'S ENVIRONMENTAL PROTECTION, THAT'S SOCIAL SECURITY, EVERYTHING. YOU PUT IT TOGETHER, HISTORICALLY IT'S BEEN ABOUT 20% OF GROSS NATIONAL PRODUCT. BY THE YEAR 2025, IF YOU JUST TAKE SOCIAL SECURITY, MEDICARE AND MEDICAID -- THOSE THREE PROGRAMS ALONE -- THEY WILL ABSORB OVER 20% OF THE GROSS NATIONAL PRODUCT AND CONTINUE TO GO UP. IT WILL MEAN THAT IF WE'RE GOING TO PUT THE FEDERAL GOVERNMENT IN A HISTORIC POSITION, YOU CAN'T SPEND ANY MONEY ON DEFENSE, EDUCATION, ENVIRONMENTAL PROTECTION OR ROADS OR ANYTHING ELSE, BECAUSE THEY'LL ALL HAVE TO BE SPENT ON THIS RETIRED CLASS IN ORDER TO SUPPORT IT.

SO WHAT'S THE POINT OF ALL OF THIS? WELL, THE POINT OF THIS IS THIS: THE SHORT-TERM DEFICIT IS A PROBLEM. WE HAVE TO ADDRESS IT. BUT THE LONG-TERM THREAT TO OUR ECONOMY CREATED BY THESE ENTITLEMENT PROGRAMS KNOWN AS SOCIAL SECURITY, MEDICARE, AND MEDICAID, IS EVEN MORE DRAMATIC. AND WE NEED TO DO SOMETHING ABOUT IT. WE HAVE AN OBLIGATION TO DO SOMETHING ABOUT IT. THAT'S OUR JOB AS PEOPLE WHO HAVE BEEN SENT HERE BY OUR STATES TO LOOK AT AN ISSUE WHICH WE KNOW IS COMING AT US, AN ISSUE OF PUBLIC POLICY OF SUCH SIGNIFICANCE, AND TRY TO REDUCE ITS IMPACT, TRY TO MAKE IT A MORE POSITIVE EVENT, TRY TO MAKE IT AN AFFORDABLE EVENT FOR OUR CHILDREN AND CHILDREN'S CHILDREN.

SO THE PRESIDENT'S BUDGET IS SENT UP AS AN ATTEMPT TO TRY TO ADDRESS BOTH OF THESE ISSUES. HE HAS ATTEMPTED TO ADDRESS THE SHORT-TERM DEFICIT AND HE HAS ATTEMPTED TO ADDRESS THIS OUTYEAR PROBLEM OF ENTITLEMENT SPENDING. HE HAS ALSO TAKEN ON ONE OF THE MAJOR ENTITLEMENT ISSUES, WHICH IS SOCIAL SECURITY. HOW TO MAKE THAT SYSTEM SOLVENT SO THAT IT GIVES DECENT BENEFITS TO THOSE WHO ARE RETIRED, BUT ALSO AFFORDABLE SO THAT YOUNG PEOPLE, WHEN THEY PAY INTO THE SYSTEM, WHICH THEY HAVE TO, WILL GET SOMETHING BACK ON THEIR INVESTMENT. YOU'VE GOT TO GIVE HIM CREDIT. HE STEPPED IN DANGEROUS POLITICAL WATERS. BUT IT'S APPROPRIATE THAT WE DO THIS, THAT WE ADDRESS THE SOCIAL SECURITY ISSUE. I CONGRATULATE HIM FOR THAT.

BUT THE BUDGET ISN'T ABOUT SOCIAL SECURITY BECAUSE THE LAW DOESN'T ALLOW THE BUDGET TO ADDRESS SOCIAL SECURITY. THE BUDGET IS ABOUT OTHER ELEMENTS OF FEDERAL SPENDING. SO THE FEDERAL BUDGET AS BROUGHT FORWARD HERE TODAY TRACKS VERY CLOSELY THE PRESIDENT'S PROPOSALS. IT DOESN'T RECONCILE TAXES AS MUCH AS THE PRESIDENT ASKS OR MIGHT HAVE WANTED. AND IT DOESN'T REDUCE THE RATE OF GROWTH OF ENTITLEMENTS AS MUCH AS HE MAY HAVE WANTED, BUT GENERALLY IT TRACKS PROPOSALS THE PRESIDENT HAS PUT FORWARD. IN THE SHORT TERM, THE BUDGET THAT'S

BROUGHT FORWARD WILL REDUCE THE DEFICIT BY HALF. THAT'S OVER THE NEXT FIVE YEARS. IN THE LONG TERM THIS BUDGET BEGINS TO ADDRESS ONE OF THE THREE KEY ELEMENTS OF THE QUESTION OF HOW WE TRY TO MAKE THE RETIREMENT BENEFITS FOR MY GENERATION MORE AFFORDABLE TO OUR CHILDREN.

SPECIFICALLY, IN THE AREA OF MEDICAID. LET ME GO BACK AND GO THROUGH A FEW SPECIFICS. ON THE SPENDING SIDE IN ORDER TO TRY TO GET THE DEFICIT UNDER CONTROL, WHAT THIS BUDGET DOES IS ESSENTIALLY SET UP A NUMBER. THE BUDGET COMMITTEE DOES NOT HAVE THE AUTHORITY TO DEVELOP PROGRAMS. WE ARE SPECIFICALLY EXCLUDEED FROM THAT AUTHORITY. WE CAN MAKE SUGGESTIONS, BUT BOTH THE APPROPRIATIONS COMMITTEES AND THE AUTHORIZING COMMITTEES, WHO ARE SEPARATE FROM US, IGNORE OUR SUGGESTIONS ALMOST AS A MATTER OF COURSE. THE ONLY PLACE THEY CAN'T IGNORE US IS THE UPPER-LINE NUMBER. AND SO WE HAVE SET WHAT'S KNOWN AS A HARD NUMBER AT THE TOP.

ON THE DISCRETIONARY SIDE, DISCRETIONARY SPENDING MAKING UP ABOUT 30% OF FEDERAL SPENDING, OF ABOUT HALF IS DEFENSE SPENDING, WE HAVE SET UP A TOP NUMBER OF \$843 BILLION. THIS NUMBER REPRESENTS ABOUT A 4.5 PERCENT INCREASE IN DEFENSE SPENDING AND IT REPRESENTS BASICALLY A HARD FREEZE ON DISCRETIONARY NONDEFENSE SPENDING. THE DEFENSE NUMBER MAY SEEM LARGE, BUT ACTUALLY IT'S SIGNIFICANTLY LESS THAN WHAT THE DEFENSE DEPARTMENT HAD ORIGINALLY PLANNED FOR AS PART OF THEIR SPENDING PROGRAM. THEIR OX HAS BEEN GORED. IF YOU DON'T BELIEVE THAT, ALL YOU HAVE TO DO IS WALK OUTSIDE THIS ROOM AND YOU'LL WALK INTO DEFENSE LOBBYISTS WHO TELL YOU THEY NEED MORE MONEY TO DEAL WITH THE DEFENSE DEPARTMENT. ON THE NONDEFENSE DISCRETIONARY SIDE, IT IS OBVIOUSLY A HARD NUMBER. A FIRM NUMBER WHICH WE ARE FREEZING. WE RAISED THAT NUMBER A LITTLE BIT IN THE NEXT TWO YEARS, BUT NOT MUCH. MORE THAN WHAT THE PRESIDENT ASKED FOR, BUT NOT A GREAT DEAL. AND WE CAP THESE NUMBERS WITH SOMETHING CALLED A BUDGETARY CAP. AND THAT'S THE KEY TO THIS. WE ESSENTIALLY SAY THAT ANY MEMBER OF THIS CONGRESS, ANY MEMBER OF THE SENATE WHO FEELS THAT A COMMITTEE HAS EXCEEDED THE ALLOCATION WHICH IT WILL GET IN THE AREA OF DISCRETIONARY SPENDING IS SPENDING MORE, IN OTHER WORDS, THAN THIS TOP-LINE NUMBER, AS IT'S DISTRIBUTED AMONGST COMMITTEES, THAT MEMBER MAY COME TO THE FLOOR OF THE SENATE, OBJECT TO THAT SPENDING AND GET 60 VOTES -- A SUPERMAJORITY MUST BE VOTED IN ORDER TO GO FORWARD WITH THAT SPENDING. IT'S A PRETTY STRONG PIECE OF BUDGETARY TOOLS FOR ENFORCEMENT. AND THAT'S IN THERE.

SO WE HAVE PUT IN PLACE STRINGENT DISCRETIONARY CONTROLS. ON THE ENTITLEMENT SIDE, YOU CAN'T CONTROL ENTITLEMENTS WITH ANYTHING OTHER THAN CHANGES IN ENTITLEMENTS. YOU KNOW, THERE'S THIS PHILOSOPHY OF SOMETHING CALLED PAY-GO. IT HAS NO IMPACT ON ENTITLEMENTS UNLESS YOU CREATE A NEW ENTITLEMENT. THE EXISTING ENTITLEMENTS ARE THE PROBLEM. THEY REPRESENT ABOUT 57 PERCENT OF FEDERAL SPENDING AND NOTHING CAN CONTROL THAT. THEY CAN GROW AS MUCH AS THEY WANT, AND THERE IS NO BUDGETARY WAY TO AFFECT IT. UNLESS YOU GO BACK TO THOSE ENTITLEMENTS AND SAY TO THE COMMITTEES THAT HAVE JURISDICTION OVER THOSE ENTITLEMENTS, TAKE ANOTHER LOOK. SEE IF THERE ISN'T SOME WAY WE CAN SAVE SOME MONEY. AND THAT'S WHAT WE HAVE DONE HERE.

IT'S NOT AS MUCH AS THE PRESIDENT ASKED. HE ASKED THAT WE DO \$62 BILLION. WE'VE DONE ABOUT \$32 BILLION OF ENTITLEMENT CONTROL. IT'S CALLED RECONCILIATION. AND ESSENTIALLY THE KEY ELEMENTS OF THIS RECONCILIATION BILL INVOLVE THE PBGC, WHICH IS A PENSION BENEFIT GUARANTEE CORPORATION WHICH NEEDS TO BE REFORMED. IT IS A HUGE OUTYEAR LIABILITY FOR US AS A NATION. IT IS MASSIVE BECAUSE SO MANY OF THESE COMPANIES THAT HAVE GOTTEN IN TROUBLE HAVE PENSION FUNDS WHICH ARE UNDERFUNDED, AND THIS BILL TRIES TO BEGIN THE PROCESS OF REFORMING THEM. AND THAT IS A MAJOR POSITIVE PUBLIC POLICY STEP OF THIS PIECE OF LEGISLATION. NOT MENTIONED MUCH BY ANYBODY, BUT IT IS A BIG ONE.

AND SECONDLY, MEDICAID REFORM. AND THIS NEEDS TO BE PUT IN CONTEXT, BECAUSE THERE ARE A LOT OF PEOPLE RUNNING AROUND HERE TODAY WHO SAY, OH, WE CAN'T CUT MEDICAID, WE CAN'T CUT MEDICAID. WELL, TO BEGIN WITH, WE'RE NOT CUTTING ANYTHING IN THE ENTITLEMENT ACCOUNTS. THAT'S THE NATURE OF THE BEAST. MEDICAID SPENDING IN THE NEXT FIVE YEARS WILL BE APPROXIMATELY \$1.12 TRILLION WITHOUT ANY ACTION. WITH THIS ACTION, MEDICAID SPENDING WILL BE ABOUT \$1.11 TRILLION. WE'RE SUGGESTING A \$14 BILLION REDUCTION IN THE GROWTH OF MEDICAID SPENDING OVER THE NEXT FIVE YEARS OFF A \$1.1 TRILLION BASE, WHICH MEANS WE'RE SUGGESTING ABOUT A 1-PERCENT REDUCTION IN THE RATE OF GROWTH IN MEDICAID. MEDICAID AT THAT PERIOD WILL GROW AT ABOUT 39% INSTEAD OF 41%. SO WE'LL STILL HAVE A 39% RATE OF GROWTH IN MEDICAID INSTEAD OF 41%. AND REMEMBER, LARGE FUNCTIONS OF MEDICAID TODAY NEED REFORM AND THAT REFORM WILL NOT IMPACT THE QUALITY OF CARE GIVEN TO PEOPLE.

A SIGNIFICANT AMOUNT OF DOLLARS IN MEDICAID TODAY ARE USED FOR GENERAL FUNDS OPERATIONS OF STATES. WE HAVE SERIOUS PROBLEMS WITH THE WAY PHARMACEUTICALS ARE DISTRIBUTED UNDER

MEDICAID. WE HAVE SERIOUS PROBLEMS WITH THE WAY INSURANCE IS HANDLED UNDER MEDICAID. THERE ARE A WHOLE SERIES OF ITEMS WHERE YOU CAN SAVE MONEY IN MEDICAID – AND THIS IS A MINUSCULE AMOUNT OF REDUCED, RESTRAINT IN GROWTH THAT WE'RE PROPOSING HERE -- AND NOT IMPACT AT ALL. IN FACT, PROBABLY IMPROVE THE DELIVERY OF SERVICE BY GIVING GOVERNORS MORE FLEXIBILITY TO DO MORE CREATIVE THINGS. AND THAT'S OUR PLAN, TO WORK WITH THE GOVERNORS, TO REACH AN AGREEMENT, TAKE THAT AGREEMENT TO THE FINANCE COMMITTEE, AND HAVE A CONCEPT PUT FORWARD WHERE THE GOVERNORS ARE COMFORTABLE. MANY OF THE GOVERNORS ARE COMFORTABLE WITH THE CHANGE WHICH WILL SIGNIFICANTLY GIVE THEM MORE FLEXIBILITY WITH A LITTLE LESS RATE OF GROWTH IN THE DOLLARS. AND IT'S A VERY DOABLE EVENT. AND THE IDEA THAT IT ISN'T DOABLE, THE IDEA THAT ANYBODY WOULD STAND UP HERE AND SAY YOU CAN'T CUT MEDICAID'S RATE OF GROWTH BY \$14 BILLION OFF OF \$1.12 TRILLION BASE IMPLIES TO ME THAT THAT INDIVIDUAL DOESN'T HAVE ANY INTEREST IN OUR CHILDREN OR OUR CHILDREN'S CHILDREN'S FUTURE. BECAUSE IF WE DON'T GET A HANDLE ON THE HEALTH CARE ACCOUNTS IN THIS COUNTRY -- AND THIS IS JUST A MINUSCULE ATTEMPT TO DO THAT -- YOU ARE ESSENTIALLY PASSING ON TO OUR CHILDREN A NO-WIN SITUATION, WHERE THEY WILL NEVER BE ABLE -- NEVER BE ABLE -- TO PAY THE COST OF THE RETIRED POPULATION BECAUSE WE'RE GOING TO GROW AND THERE ARE GOING TO BE SO MANY OF US. SO IF YOU DENY THIS CHANGE, YOU ARE BASICALLY DENYING THAT YOU'RE WILLING TO TAKE ON YOUR RESPONSIBILITY TO GOVERN. AND YOU'RE GOING TO KICK THAT CAN DOWN THE ROAD. AND AT SOME POINT WE' SIMPLY NOT GOING TO BE ABLE TO KICK ANY FARTHER. IT'S GOING TO END UP BEING A BILL PASSED ON TO OUR KIDS. SO THIS IS NOT A BIG CHANGE. IN FACT, IT'S A MARGINAL CHANGE, AT THE BEST. TO DESCRIBE IT AS MARGINAL IS EVEN PROBABLY AN EXAGGERATION. BUT IT HAS CERTAINLY ENGENDERED ENOUGH RUN-AND-HIDE POLICIES AROUND HERE SO THAT YOU'D THINK IT WAS. THAT'S THE ENTITLEMENT SIDE. \$32 BILLION OF RECONCILIATION INSTRUCTIONS OVER THE NEXT FIVE YEARS ON THE BASE OF SOMETHING LIKE \$1.12 TRILLION.

THE LAST ITEM OF THE BUDGET IS TAX RECONCILIATION. THAT IS A POINT OF LEGITIMATE CONTEST BETWEEN THE TWO PARTIES. THERE IS ONE PARTY THAT LIKES TO RAISE TAXES AND ONE PARTY THAT BELIEVES THE PEOPLE SHOULD KEEP THEIR OWN MONEY AND SPEND IT THEMSELVES. THE SIMPLE FACT IS WE DON'T BELIEVE WE SHOULD RAISE THE TAXES THAT HAVE ALREADY BEEN PUT IN PLACE AT CERTAIN RATES. FOR EXAMPLE, WE BELIEVE WE SHOULD EXTEND THE R & D TAX CREDIT, THE TUITION TAX CREDIT, THE DIVIDEND RATE, THE CAPITAL RATE AND THE SMALL BUSINESS TAX EXPENSE. THAT'S WHAT THIS PACKAGE OF RECONCILIATION NUMBERS INVOLVES, EXTENDING ALL OF THOSE. THERE IS AN IRONY TO THIS INSTITUTION TO THE CONGRESS. THE IRONY IS THIS:

SPENDING PROGRAMS NEVER DIE. THEY NEVER DIE. THEY JUST GO ON AND ON AND ON. AND THE ALLEGED PAY-GO CONCEPT DOESN'T HAVE ANY IMPACT AT ALL ON IT. IF IT'S ON THE BOOKS, IT JUST KEEPS GOING, BUT IF YOU HAVE A TAX RATE OR TAX PROPOSALS THAT BEEN PUT IN PLACE, THEY DO LAPSE. AND SO YOU HAVE TO REAUTHORIZE THEM. AND SO IT SUDDENLY BECOMES INAPPROPRIATE TO DO THAT. IT'S CALLED FISCALLY RESPONSIBLE TO HAVE TO PAY FOR THEM. AND YET THERE'S NO ATTEMPT TO PAY FOR THE EXTENSION OF THE ENTITLEMENT PROGRAMS, NO ATTEMPT TO JUSTIFY THOSE AT ALL. INCONSISTENT, IRONIC AND TO SAY THE LEAST, IT TAKES THE ATTITUDE THAT THE PEOPLE'S MONEY ISN'T THEIR OWN. "THE PEOPLE'S MONEY IS WASHINGTON'S, IT'S OUR MONEY. YOU SHOULDN'T HAVE IT ANYWAY. LET US HAVE IT AND WE'LL SPEND IT FOR YOU"-- THAT'S THE PHILOSOPHY BEHIND THIS APPROACH TO GOVERNMENT.

MYSELF, I BELIEVE WE SHOULD MAINTAIN A LOW TAX BURDEN ON PEOPLE OR AS LOW AS WE CAN AFFORD, AND LET'S REMEMBER THAT THE TAX REVENUES ARE GOING UP ALL THROUGH THIS. GOING UP DRAMATICALLY-- 9.5 PERCENT LAST YEAR, 7 PERCENT THIS YEAR, 6.5 PERCENT NEXT YEAR. TAX REVENUES ARE GOING UP. THE TRADITIONAL LEVEL OF TAXES IN THIS COUNTRY IS 17.9 PERCENT OF G.D.P. WE'RE GOING TO HIT THAT NUMBER. SURE WE'RE STARTING AT A LOW BASE BECAUSE WE WENT THROUGH A RECESSION AND AN ATTACK AND NOW WE'RE HEADING BACK UP AND REVENUES ARE HEADING UP BECAUSE PEOPLE ARE PRODUCTIVE. THEY ARE GOING OUT THERE TO TAKE THE RISKS NECESSARY TO CREATE JOBS BECAUSE THEY KNOW THEIR RETURN WILL BE HIGHER AS A RESULT OF THE TAX RATES BEING REASONABLE. THE CONCEPT THAT WE SHOULDN'T BE RECONCILING TAXES, WELL, IT'S A PHILOSOPHICAL DIFFERENCE.

THAT'S ALL IS IN THE BUDGET IN THE ESSENCE OF WHAT WE PREPARED. IT'S A BUDGET THAT REDUCES THE DEFICIT OVER THE NEXT FIVE YEARS, PUTS IN PLACE STINGENT ENFORCEMENT ON THE DISCRETIONARY SIDE, ADDRESSES THE ENTITLEMENT SIDE THROUGH MINOR RECONCILIATION EFFORTS, ADDRESSES THE TAXES WHICH MAY EXPIRE IN THIS WINDOW. I WOULD NOTE JUST AS AN ASIDE HERE, THAT THE BIG FIGHT ON TAXES OCCURRED LAST YEAR. AND THE BIG FIGHT ON TAXES IS GOING TO OCCUR NEXT YEAR. BECAUSE LAST YEAR WE HAD SOME MAJOR TAXES EXPIRE, SPECIFICALLY THE MARRIAGE TAX PENALTY AND THE CHILD CREDIT, AND NEXT YEAR THE WINDOW OF THE BUDGET WILL PULL IN THE RATE REDUCTION WHICH WILL EXPIRE AND THE DEATH TAX WHICH WILL GO BACK UP IF WE DON'T DO SOMETHING. SO NEXT YEAR WE'LL HAVE A BIG TAX FIGHT, I'M SURE. THIS YEAR IS A LULL PERIOD. EVERY TAX THAT IS BEING CONSIDERED HERE UNDER RECONCILIATION IS A TAX PROPOSAL THAT HAS A FAIR AMOUNT OF SUPPORT. WHETHER IT'S THE R & D TAX CREDIT, THE DIVIDEND RATE CUT,

THE CAPITAL GAINS RATE CUT. THESE ARE NOT THE BIGGIES. THOSE ARE GOOD POLICY ITEMS THAT SHOULD BE EXTENDED. AND SO THE TAX FIGHT IS A LOT MORE SMOKE THAN FIRE IN THIS BUDGET BUT IT'S TAKING ON A PERSONALITY OF ITS OWN AND SO I PRESUME WE'LL PURSUE IT AGAIN. IN ANY EVENT, THE BUDGET, AS I MENTIONED, CONTROLS DISCRETIONARY SPENDING WITH A HARD CAP, TRIES TO ADDRESS THE HEALTH CARE ACCOUNTS THAT WE'RE ABLE TO ADDRESS WHICH IS MEDICAID, MEDICARE BEING OFF THE TABLE THIS YEAR AS A RESULT OF PASSAGE OF THE DRUG BILL LAST YEAR, AND ADDRESSES TAX RECONCILIATION. THREE ELEMENTS TO IT. IT WILL LEAD IF IT IS PASSED, TO THE FIRST BUDGET SINCE 1997 WHICH FIRES WITH REAL BULLETS ON THE ISSUE OF CONTROLLING SPENDING AT THE FEDERAL LEVEL.

THAT'S THE MOST IMPORTANT POINT I WANT TO END ON. THIS IS A REAL BUDGET IN THE AREA OF PUSHING FORWARD SOME FISCAL RESPONSIBILITY BY HAVING RECONCILIATION INSTRUCTION ON THE ENTITLEMENT ACCOUNTS. THE DISCRETIONARY CAPS ARE ALSO ESSENTIAL. THEY HAVE LAPSED BECAUSE WE DIDN'T HAVE A BUDGET LAST YEAR, AND IF WE'RE GOING TO GET CONTROL OVER DISCRETIONARY SPENDING WE NEED THEM. FOR THE FIRST TIME WE HAVE A BUDGET THAT IS SERIOUS ABOUT DISCIPLINING SPENDING FOR THE FIRST TIME IN A LONG TIME. I PRESUME THAT THERE ARE GOING TO BE A LOT OF AMENDMENTS BROUGHT FORWARD ON THIS FLOOR TO TRY TO GET AROUND IT BECAUSE PEOPLE JUST DON'T LIKE TO ADDRESS THE SPENDING SIDE OF LEDGER. THEY WOULD RATHER SPEND MONEY. IT'S MUCH EASIER. THE PEOPLE WHO GET THE MONEY ARE THE MOST ACTIVE IN TELLING YOU YOU HAVE TO SPEND THE MONEY. THE PEOPLE WHO SUPPORT THE SPENDING RESTRAINT TEND TO BE LESS VOCAL. IT'S HUMAN NATURE TO WANT TO ACCOMMODATE THE PEOPLE WHO COME TO YOUR OFFICE SAYING I WANT THIS MONEY FOR THIS PROGRAM. SPENDING TENDS TO GO UP AROUND HERE. IT NEVER GOES DOWN. THIS BUDGET ATTEMPTS TO RESTRAIN IT SO IT IS AFFORDABLE. THAT'S CRITICAL, PUTTING FORWARD A BUDGET WHICH ATTEMPTS TO RESTRAIN SPENDING SO THAT WE CAN BEGIN THE PROCESS OF PASSING ON TO OUR CHILDREN A FISCALLY HEALTHY NATION.